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SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2014.

KEY HIGHLIGHTS

Growth in all revenue streams with continued significance of non-voice in revenue generation

- Total revenue increased by 14.6% to Kshs 79.3bn.
- Service revenue growth of 14.1% to Kshs 75.6bn – Voice service revenue grew by 6.4% to Kshs 43.7bn and Non-voice service revenue increased by 26.6% to Kshs 31.9bn.
- Messaging revenue grew by 12.9% to Kshs 7.2bn.
- M-PESA revenue increased by 24.7% to Kshs 15.6bn.
- 10.8% increase in 30 day active M-PESA customers to 12.80m – 58.5% of our total customer base.
- 52.94% growth in Mobile data revenue to Kshs 6.5bn.
- 23.9% increase in 30 day active mobile data customers to 10.51m – 48% of our total customer base.
- Fixed service revenue growth of 22.1% to Kshs 1.49bn.

Strong financial and commercial performance

- 16.2% growth in EBITDA to Kshs 33.5bn with an EBITDA margin of 41.97% - up 0.27ppt.
- Profit before tax increased by 32.7% to Kshs 21.1bn.
- Net Income increased by 30.6% to Kshs 14.7bn.
- Free Cash flow has improved by 12.7% to Kshs 15.5bn.

Upgraded guidance for the full financial year

- We upgrade the guidance of Free Cash Flow for our underlying business in this financial year, but we then offset this with the cash impact of building part of the national security network for the Kenyan Police which was not included in our previous guidance.
- Our Free Cash flow guidance for this financial year including the impact of the national security network therefore, is in the range of Kshs 25bn to Kshs 26.5bn.

Bob Collymore, Safaricom Limited CEO commented:

“Our financial results continue to demonstrate our resolve to grow the business and returns to our shareholders while at the same time providing our customers with quality products and services. This has been through strong and sustained commercial and financial performance across our entire product portfolio.

Our promise is to transform lives. We continue to focus on delivering this promise through our key strategic pillars by investing time and resources that enable us to provide superior customer experience through our innovative products and services to both our customers and the society in which we live in.

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In the last six months under review, our total revenue grew by 14.6% to Kshs 79.3bn. Voice revenue grew by 6.4%, now accounting for 55% of the total revenue while non-voice service revenue which includes M-PESA, Data and Messaging grew by 26.6% accounting for 40% of our total revenue. Devices and other revenues contributed the balance of 5% of the total revenue.

Our customer base has grown by 4.9% to 21.85m attributed to continuous network quality improvement, retention programs and superior product and services offerings. This according to the latest statistics from the Communications Authority(CA) of Kenya June 2014 statistics report represents 68.0%* of the total customer base.

Voice remains the group's core business, commanding a respectable 78.1% market share of voice traffic as per the CA June 2014 statistics report. Voice service revenue grew by 6.4% to Kshs 43.7bn driven by the growing loyal customer base, superior network experience, robust and convenient airtime distribution and attractive consumer propositions and promotions.

Messaging revenue continue to post good growth of 12.9% to Kshs 7.2bn driven by increased usage per user and a 5.5% increase in 30 day active SMS customers.

M-PESA revenue grew by 24.7% to Kshs 15.6bn and now represents 19.6% of our total revenue in the period under review. This growth is as a result of 10.8% increase in 30 day active M-PESA customers to 12.8m and an increase in the average number of chargeable transactions per 30 day active M-PESA customers. The M-PESA distribution channel now at 80,330 agent outlets continue to provide accessibility and convenience to our customers.

Lipa Na M-PESA continues to grow with 139,600 merchants recruited to date of which 32,300(23%) were active on 30 day basis. This service is a key driver in ease of doing business, enabling cashless payments between businesses and their customers and improving efficiency in their service delivery.

To further support our strategy of deepening financial inclusion, we launched the Lock Box service in the M-shwari platform which enables M-Shwari customers to save their money as a fixed deposit and earn higher rates of interest. This is in addition to the existing M-Shwari product which has seen a 96% growth of 30 day active customers to 4.5m, with net deposits of Kshs 4.1bn and borrowings of Kshs 1.6bn, while maintaining the Non-Performing Loans at 2.2%.

Mobile data which presents a huge opportunity for growth increased by an impressive 52.9% to Kshs 6.5bn. This has been driven by growth in 30 day active customers by 24.0% to 10.5m of which 3.1m are smartphone users, representing 104% growth in number of smartphones attached to our network. Customers' usage has also increased as they continue to enjoy better data experience through continuous improvement of our network capacity and quality and affordable data bundles.

We continue to invest in our 'Best Network in Kenya' program. In the period under review we have invested Kshs 12.4bn in building, modernizing and improving power stability and resiliency in our network. This is aimed at ensuring adequate capacity and extended coverage. We have significantly improved in reduction of dropped calls and maintained superior data speeds to our customers despite the steady growth in data usage.

To date we have 660 base stations connected to our fiber in Nairobi, Mombasa and Nakuru. This has provided capacity for the broadband data as well as stability of our sites. Due to the increasing demand for broadband data, we embarked on a new innovative solution where frequencies

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traditionally used for 2G are utilized for 3G. We started the project in parts of Nairobi and customers have started to enjoy better coverage as well as faster speeds.

Direct costs grew by 16.7% slightly higher than our revenue growth, due to reducing the price we sold handsets in July and August to 30% below cost. The additional smartphones our customers have is driving the mobile data growth of 52.9%. We reduced operating costs as a percentage of total revenue to 22.0% as we continue to deliver cost reduction initiatives.

Based on the impressive growth in all our revenue streams and cost efficiency, we realized an EBITDA margin of 41.97%, a 0.27ppt improvement.

Free Cash Flow increased by 12.7% to Kshs 15.5bn driven by the strong trading results.

Outlook

Based on this performance for the last six months, we upgrade guidance of the Free Cash flow for our underlying business in this financial year, but we then offset this with the cash impact of building part of the national security network for the Kenyan Police which was not included in our previous guidance.

Our Free Cash flow guidance for this financial year including the impact of the national security network therefore, is in the range of Kshs 25bn to Kshs 26.5bn.

Strategic Priorities

Following the strategic direction to grow payments via M-PESA we have seen the number of recruited and active merchants continue to grow. By end September 2014, retail payments had surpassed Kshs 6.6bn per month (from over 32,000 30 day active merchants and over 690 distributors). In addition, payments via M-PESA from customers to business also grew by 45% to close at Kshs 16bn per month. This translates to all Lipa Na M-PESA payments exceeding Kshs 23bn per month.

To further grow Lipa na M-PESA, we have embarked on a Retail Point of Sale Integration program (E-POS). We have identified 600 tier 1 & tier 2 supermarket outlets and it's at these outlets that we have started this program of value addition to enable faster check out at the till and seamless integration to their point of sale system/cash register. Today we have over 105 stores integrated with the rest on course to be completed by 31st March 2015. Of the 105 stores integrated 50% are tier 1 supermarkets. The integration is fully supported jointly with our partners to reduce barrier to entry.

Once completed on the Tier 1 and Tier 2 supermarkets, the E-POS program will be rolled out to our key merchants in other sectors such as hotels, restaurants and targeted SMEs.

We are focused on being the business partner of choice by empowering the growth of businesses through the provision of affordable and innovative business solutions. To support this, we will continue to grow fibre to the building, fixed calling, cloud services and managed services. In addition, the company has partnered with a major financial services provider to enable SMEs to obtain cheaper finance.

Mobile data continues to be a key pillar for future growth. The company will continue to increase smartphone and 3G device penetration. This is mainly through partnerships with vendors to offer quality and cost effective devices.

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We continue with our commitment to provide our customers with world class quality of service through our 'Best Network in Kenya' program. We shall continue making significant investments in fibre roll out, network modernization, network quality and capacity enhancement. We plan to complete the connection of our base stations to our own fiber in 5 key cities and continue to improve our 3G performance in more sites in Nairobi and commence roll out in other cities. We shall also address the increasing problem of poor coverage by deploying In-Building Solutions in commercial buildings.

The planned acquisition of additional spectrum together with the National Police Service project will enable enhanced improvement of our 3G capabilities, as well as enable us to roll out 4G (LTE)."

Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ended 30 September 2013:

Key Performance Indicators	30-Sep-14	30-Sep-13	% Increase/ (Decrease)
Total customers (m)	21.85	20.82	4.95
M-PESA registered customers (m)	19.95	18.15	9.92
M-PESA - 30 day active customers (m)	12.80	11.55	10.82
Mobile Data - 30 day active customers (m)	10.51	8.48	23.94
Fixed data customers	7,499	6,931	8.20
Churn (%)	20.47	18.37	2.10
Service revenue ARPU	577.70	547.93	5.43
Voice ARPU	342.72	346.65	(1.13)
SMS ARPU	54.81	52.54	4.32
M-PESA ARPU	206.48	186.28	10.84
Mobile Broadband ARPU	103.18	86.97	18.64
Fixed Service ARPU	34,027	29,680	14.65
Data (SMS/Broadband/M-PESA) % total revenue	38.76	35.14	3.62
Number of M-PESA agents	80,330	78,856	1.87
2G base stations	3,247	2,984	8.81
3G base stations	1,973	1,650	19.58
Wimax Sites	203	187	8.56

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Condensed consolidated statement of comprehensive income

Kshs Bn	30-Sep-14	30-Sep-13	% Increase/ (Decrease)
Voice revenue	43.67	41.04	6.41
Messaging revenue	7.17	6.35	12.91
Mobile data revenue	6.50	4.25	52.94
Fixed service revenue	1.49	1.22	22.13
M-PESA revenue	15.59	12.50	24.72
Other service revenue	1.18	0.90	31.11
Service Revenue	75.60	66.26	14.10
Handset revenue	3.10	2.22	39.64
Acquisition and other revenue	0.64	0.73	(12.33)
Total Revenue	79.34	69.20	14.60
Other Income	0.55	0.01	>100
Direct costs	(28.92)	(24.79)	16.66
Contribution margin	50.97	44.42	14.75
<i>Contribution margin %</i>	64.0%	64.1%	-0.1ppt
Operating costs	(17.44)	(15.56)	12.08
<i>Operating cost % total revenue</i>	21.99%	22.40%	-0.41ppt
EBITDA	33.53	28.86	16.18
<i>EBITDA margin %</i>	41.97%	41.70%	0.27ppt
Depreciation, impairment & amortisation	(12.59)	(12.70)	(0.87)
Financing cost	0.17	(0.25)	(168.00)
Taxation	(6.40)	(4.65)	37.63
Net Income	14.71	11.26	30.64
Earnings per share	0.37	0.28	32.14

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Condensed consolidated statement of financial position

Kshs Bn	As at 30-Sep-14	As at 30-Sep-13	% Increase/ (Decrease)
Equity and non-controlling interest	87.12	79.25	9.93
Borrowings	4.96	12.00	(58.67)
Capital employed	92.08	91.25	0.91
Non-current assets	108.69	102.33	6.22
Inventories	3.63	2.49	45.78
Receivables and prepayments	12.45	11.51	8.17
Cash and cash equivalents	30.49	19.81	53.91
Current assets	46.57	33.81	37.74
Payables and accrued expenses	55.67	44.89	24.01
Borrowings	7.51	-	-
Current liabilities	63.18	44.89	40.74
Net current liabilities	(16.61)	(11.08)	49.91
Net assets	92.08	91.25	0.91
Gross gearing (gross borrowing) % Capital Employed	13.54%	13.15%	0.39ppt

- Total borrowings are at Kshs 12.47bn with Kshs 7.50bn due for payment in November 2014 reclassified as current liability
- Increase in inventory to support smartphone penetration campaign
- Increase in cash and cash equivalents from improved trading results.

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Net Cash

Kshs Bn	As at 30-Sep-14	As at 30-Sep-13	% Increase/ (Decrease)
Cash and cash equivalents	30.49	19.81	53.91
Bank and other borrowings	(0.47)	-	-
Debt - corporate bond	(12.00)	(12.00)	-
Total net cash/(debt)	18.02	7.81	130.73

Free Cash flow

Kshs Bn	30-Sep-14	30-Sep-13	% Increase/ (Decrease)
EBITDA	33.53	28.86	16.18
Working capital movement	1.90	2.05	(7.32)
Capital Additions	(12.37)	(10.52)	17.59
Operating free cash flow	23.06	20.39	13.09
Interest received / (paid)	0.07	(0.38)	(118.42)
Taxation paid	(7.65)	(6.27)	22.01
Free cash flow	15.48	13.74	12.66

- Increase in free cash flow due to favourable trading results
- Increase in tax paid in line with the improved trading results.