

# News Release



## **SAFARICOM LIMITED ANNOUNCES UN-AUDITED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2015.**

### **KEY HIGHLIGHTS**

#### **Delivering on strategy continues to grow our revenues with continued significance in non-voice revenues**

- Service revenue growth of 12.3% to Kshs 84.9bn.
- 14.9% increase in total customer base to 25.1m.
- Voice service revenue grew by 3.5% to Kshs 45.2bn.
- Messaging revenue grew by 11.3% to Kshs 8.0bn.
- M-PESA revenue increased by 24.1% to Kshs 19.4bn.
- 22.7% increase in 30 day active M-PESA customers to 15.7m.
- 40.9% growth in mobile data revenue to Kshs 9.2bn.
- 25% increase in 30 day active mobile data customers to 13.1m.
- Fixed service revenue growth of 24.9% to Kshs 1.9bn.

#### **Strong financial and commercial performance**

- 15.8% growth in EBITDA to Kshs 38.8bn with an EBITDA margin of 43.7%<sup>1</sup> - up 1.8ppt.
- Net Income increased by 22.9% to Kshs 18.1bn.
- Free Cash Flow down 38.5% to Kshs 9.5bn due to supplier payments for construction of the National Police Security Network.

#### **Bob Collymore, Safaricom Limited CEO commented:**

"We continue to deliver our strategy, by putting our customers first, providing relevant products and enhancing our operational excellence. During the period under review, we restructured our sales and operations teams into regions, enabling us take our services closer to the customer and enhance their experience. This has not only rewarded us with a growth in loyal customers but also strong financial and commercial performance.

In the period under review, our service revenue grew by 12.3% to Kshs 84.9bn driven predominantly by growth in our customer base. Voice service revenue which now stands at 53.2% of service revenue grew at 3.5% to Kshs 45.2bn while non-voice service revenue which accounts for 46.8% of service revenue, recorded a growth of 24.4% to Kshs 39.7bn.

Mobile penetration in Kenya stood at 83.9% as at 30 June 2015 with Safaricom recording a subscriber share of 67%<sup>2</sup>. Our customer base grew by 14.8% to 25.1m while churn dropped to 14.3%. Our voice traffic represents 68.8% of the total voice traffic in the market.

Messaging revenue grew by 11.3% to Kshs 8.0bn which represents 9.4% of our service revenue. This was driven by an increase in the number of SMS users enjoying affordable SMS bundles.

M-PESA revenue grew by 24.1% to Kshs 19.4bn driven mostly by a 22.7% increase in 30 day active M-PESA customers to 15.7m. Our M-PESA agent foot print grew to 91,249 bringing the M-PESA services even closer to our customers.

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Lipa na M-PESA, now has 36,400 merchants who were active on a 30 day basis. These merchants received payments worth Kshs 15bn for goods and services in the month of September 2015.

Mobile data revenue, which accounts for 10.8% of our service revenue, grew at 40.9% driven by an increased uptake of data bundles, now available in daily, 7 day, 30 day and 90 day bundles. There was a 25% growth in 30 day active mobile data customers to 13.1m. By 30 September 2015 we had 4.8m customers on 3G enabled devices of which 4.1m were smartphones.

We continue to focus on improving our network quality by increasing coverage and capacity to ensure excellent performance and superior customer experience. In the six months to 30<sup>th</sup> September 2015, we accelerated our capital expenditure and invested Kshs 20bn which was 61.7% higher than the same period last year. This accelerated investment helps us to realize the benefits of the additional network in this financial year.

We continue to focus on achieving cost efficiency by improving our processes and striving to achieve operational excellence. In the period, our operating expense as a percentage of total revenue<sup>3</sup> was 22.5% compared to 22.0% last year, due to an increase in costs attributable to the depreciation of the Kenya shilling. The shilling depreciated by 17.9% against the US dollar as at 30<sup>th</sup> September 2015 compared to 30<sup>th</sup> September 2014. Without the forex loss the operating expense as a percentage of total revenue would have been 21.6%.

Once again the business has delivered encouraging results and has continued to create value for our shareholders, supported by growth across all our revenue streams and focus on cost efficiency resulting in an EBITDA margin<sup>3</sup> of 43.7%, a 1.8ppt improvement.

During the six months under review, Free Cash Flow decreased by 38.5% to Kshs 9.5bn mainly due to the early spend of capex as well as significant supplier payments for the National Police Security Network.

As per international accounting standards, we have reported Construction revenue which relates to the ongoing construction of the National Police Security Network (NPS). This revenue is a provision based on percentage completed, and has not been through the customer acceptance process nor been billed to the customer. Similar costs have been reported under direct costs and therefore there is no impact to profit. We anticipate that the network build will be completed by 25 November 2015, at which point a customer acceptance process will be followed.

## **FY16 Guidance**

Our first half performance has driven an upgrade in our guidance for the full year. We currently expect our Net Income to be in the range of Kshs 35.5bn to Kshs 36.5bn (from Kshs 32 – 34bn) and our Free Cash Flow to be in the range of Kshs 27.5bn to Kshs 28.5bn (from Kshs 25 – 26bn).

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## Strategic Priorities

We will continue to execute our strategy by putting our customers first, providing relevant products and enhancing excellence in our operations. Core to this is to continue to build the best network for our customers including 2G, 3G, 4G, Wimax and fibre.

Mobile data is our fastest growing revenue stream, and we will focus on increasing the numbers of 3G and 4G smartphones on our network. We will complete the deployment of the U900 3G spectrum and launch 4G (LTE) commercially in 16 counties.

Lipa na M-PESA continues to be a major driver in delivering our financial inclusion agenda, as well as leveraging on the new G2 M-PESA system to roll out new products and services.

Becoming the partner of choice for business continues to be a major priority, with plans to complete fibre to 1,000 buildings and 8,000 homes as well as enhance fixed calling, cloud services and managed services."

## Note:

1. EBITDA margin is calculated on total revenue **excluding** construction revenue
2. CA JUNE 2015 Sector Statistics Report
3. For year on year comparative purposes: all Margins are calculated on total revenue **excluding** construction revenue

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## Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ended 30 September 2014:

Key Performance Indicators	30-Sep-15	30-Sep-14	% Increase/ (Decrease)
Total customers (m)	25.10	21.85	14.87
Total customer ARPU	585.16	577.70	1.29
30 day active customers (m)	20.68	18.30	13.01
30 day active customer ARPU	706.67	695.2	1.65
Churn (%)	14.26	20.47	(6.21)
<b>Voice</b>			
30 day active voice customers (m)	19.65	17.54	12.03
30 day active voice customer ARPU	397.93	414.31	(3.95)
Voice ARPU (based on total customers)	311.42	342.72	(9.13)
<b>M-PESA</b>			
M-PESA registered customers (m)	22.13	19.95	10.93
Number of M-PESA agents	91,249	80,330	13.59
M-PESA - 30 day active customers (m)	15.71	12.80	22.73
M-PESA - 30 day active customer ARPU	216.14	206.48	4.68
<b>Mobile Data</b>			
Mobile data 30 day active customers (m)	13.13	10.51	24.93
Mobile data - 30 day active customer ARPU	118.8	103.18	15.14
<b>SMS</b>			
30 day active SMS customers (m)	14.71	12.37	18.92%
30 day active SMS customer ARPU	95.29	95.37	(0.08)
SMS ARPU (based on total customers)	55.01	54.81	0.36
<b>Fixed Service</b>			
Fixed data customers	9,313	7,499	24.19
Fixed Service ARPU	33,238	34,027	(2.32)
<b>Base Stations</b>			
2G base stations	3,562	3,247	9.70
3G base stations	2,281	1,973	15.61
4G base stations	379	-	-
Wimax Sites	195	203	(3.94)

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## Condensed consolidated statement of comprehensive income

Kshs Bn	30-Sep-15	30-Sep-14	% Increase/ (Decrease)
Voice revenue	45.19	43.67	3.48
Messaging revenue	7.98	7.17	11.29
Mobile data revenue	9.16	6.50	40.92
Fixed service revenue	1.86	1.49	24.83
M-PESA revenue	19.35	15.59	24.12
Other service revenue	1.37	1.18	16.10
<b>Service Revenue</b>	<b>84.91</b>	<b>75.60</b>	<b>12.31</b>
Handset and other revenue	3.87	3.74	3.48
Construction revenue	8.44	-	-
<b>Total Revenue</b>	<b>97.22</b>	<b>79.34</b>	<b>22.54</b>
Other Income	0.08	0.55	(85.45)
Direct costs	(30.02)	(28.92)	3.80
Construction costs	(8.44)	-	-
<b>Contribution margin</b>	<b>58.84</b>	<b>50.97</b>	<b>15.44</b>
<i>Contribution margin %*</i>	66.23%	63.80%	2.43ppt
Operating costs	(19.22)	(17.36)	10.71
Forex loss on trading activities	(0.78)	(0.08)	>100
<i>Operating cost &amp; Fx loss % total revenue*</i>	22.53%	21.98%	0.55ppt
<b>EBITDA</b>	<b>38.84</b>	<b>33.53</b>	<b>15.84</b>
<i>EBITDA margin %*</i>	43.75%	41.97%	1.78ppt
Depreciation, impairment & amortisation	(13.55)	(12.59)	7.63
Net financing income	0.33	0.07	>100
Forex gain on cash and cash equivalents	0.69	0.09	>100
Share of associate profit/(loss)	0.09	-	-
Taxation	(8.32)	(6.40)	30.00
<b>Net Income</b>	<b>18.08</b>	<b>14.71</b>	<b>22.91</b>
Earnings per share	0.45	0.37	<b>22.91</b>

\* For year on year comparative purposes: All margins are calculated on total revenue **excluding** construction revenue

- Contribution margin % including construction revenue is 60.52%
- Operating cost & Fx loss % total revenue including construction revenue is 20.57%
- EBITDA margin % including construction revenue is 39.95%

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## Condensed consolidated statement of financial position

Kshs Bn	As at 30-Sep-15	As at 30-Sep-14	% Increase/ (Decrease)
Equity and non-controlling interest	96.71	87.12	11.01
Borrowings	0.20	4.96	(95.97)
<b>Capital employed</b>	<b>96.91</b>	<b>92.08</b>	<b>5.25</b>
<b>Non-current assets</b>	<b>131.09</b>	<b>108.69</b>	<b>20.61</b>
<b>Current Assets</b>			
Inventories	2.20	3.63	(39.39)
Receivables and prepayments	21.12	12.45	69.72
Cash and cash equivalents	21.24	30.49	(30.34)
	<b>44.57</b>	<b>46.57</b>	<b>(4.29)</b>
<b>Current liabilities</b>			
Payables and accrued expenses	70.86	55.67	27.29
Borrowings	7.88	7.51	4.93
	<b>78.74</b>	<b>63.18</b>	<b>24.63</b>
Net current liabilities	(34.18)	(16.61)	>100
<b>Net assets</b>	<b>96.91</b>	<b>92.08</b>	<b>5.25</b>
Gross gearing (gross borrowing) % Capital employed	8.34%	13.54%	(5.20ppt)

- Receivables include Kshs 8.44bn unbilled costs for the construction of National Police Security Network.
- Included in payables is Kshs 25.64bn for dividends due for payment by December 2015 resulting in the increase in the net liability position.
- Lower gearing ratio after part repayment of short term borrowings.

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## Net Cash

Kshs Bn	As at 30-Sep-15	As at 30-Sep-14	% Increase/ (Decrease)
Cash and cash equivalents	21.24	30.49	(30.34)
Bank and other borrowings	(3.59)	(0.47)	<100
Debt - corporate bond	(4.49)	(12.00)	(62.58)
<b>Total net cash/(debt)</b>	<b>13.16</b>	<b>18.02</b>	<b>(26.97)</b>

## Free Cash flow

Kshs Bn	As at 30-Sep-15	As at 30-Sep-14	% Increase/ (Decrease)
<b>EBITDA</b>	<b>38.84</b>	<b>33.53</b>	<b>15.78</b>
Working capital movement	(1.41)	1.90	<100%
Capital Additions	(20.00)	(12.37)	61.52
<b>Operating free cash flow</b>	<b>17.43</b>	<b>23.06</b>	<b>(24.41)</b>
Net Interest received	0.33	0.07	>100%
Taxation paid	(8.24)	(7.65)	7.71
<b>Free cash flow</b>	<b>9.52</b>	<b>15.48</b>	<b>(38.50)</b>

- Decrease in cash due to payments for accelerated capital expenditure as well as significant supplier payments for the National Police Security Network, offset by favorable trading results.
- Increase in tax paid in line with the improved trading results.