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SAFARICOM LIMITED ANNOUNCES UN-AUDITED RESULTS FOR THE HALF YEAR ENDED 30 SEPTEMBER 2017.

KEY HIGHLIGHTS

Delivering on our purpose and strategy continue to achieve good results

- Service revenue growth of 12.0% to Kshs 109.73bn.
- Total customer base increased by 10.8% to 29.5m.
- Voice service (incoming and outgoing) revenue grew by 3.6% to Kshs 47.35bn.
- Messaging (SMS) revenue increased by 3.4% to Kshs 8.92bn.
- M-PESA revenue increased by 16.2% to Kshs 30.05bn.
- 30 day active M-PESA customers increased by 9.5% to 19.3m.
- Mobile data revenue grew by 31.0% to Kshs 17.55bn.
- 30 day active mobile data customers increased by 13.5% increase to 16.9m.
- Fixed service revenue growth to 34.7% to Kshs 3.23bn.

Strong financial and commercial performance

- 8.9% growth in EBIT to Kshs 37.53bn with an EBIT margin of 32.8%¹, down 0.3ppts YoY. Excluding a one off adjustment of Kshs 3.4bn in H1 FY17, underlying EBIT grew 20.6% and EBIT margin was up 2.3ppts YoY
- Net Income increased by 9.5% to Kshs 26.20bn. Excluding the one off adjustment and its tax impact, net income growth was 21.4%
- Free Cash Flow up 60.8% to Kshs 32.40bn

Bob Collymore, Safaricom Limited CEO commented:

“Kenya has gone through a period of uncertainty that has seen its second quarter GDP growth slow down to 5% from last year’s 6.3%, being impacted by events like the elections, drought and interest rate capping. Despite this Safaricom has performed exceptionally well for the period and ensured sustained returns to our shareholders. We believe this was possible due to the resilience of our business and our people.

Aside from the numbers we are sharing today, we would also like you to consider the significant indirect value contribution of Safaricom to the economy, society and environment using the “True Value” methodology which was developed by an independent audit firm. In 2016/2017 financial year Safaricom created Kshs.486 billion total value for Kenya Society, 17% growth Year on Year and 10 times greater than the financial profit the company made in the same year. Safaricom has also successfully completed the first phase of integrating the UN Sustainable Development Goals (SDGs) into its business and corporate strategy. The integration of SDGs has helped us appreciate that lasting solutions need to be commercially viable and based on feasible economic models if they are to be scalable and sustainable.

¹ 1 Margin is calculated on total revenue (excluding construction revenue) plus other income

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Safaricom is more than your traditional TELCO – our hope is that our brand will become the tool, for all Kenyans who want to use technology to realize their dreams."

Operating review

We continued to make good progress during the first half of the year in our strategic growth areas: M-PESA and data, while the traditional telco business continued to defy global trends recording single digit growth.

Strategic progress

In line with Safaricom's purpose of transforming lives and guided by our strategic pillars of Customer first, Relevant Products and Services and Operational Excellence, Safaricom continued to invest in the business. Some key initiatives in HY18 include: enhancing the quality and coverage of our network currently at 96% population coverage with 4G at 32% and 3G at 85%; launching an innovation lab; trialing our E-commerce platform to prepare for launch; accelerating our FTTH roll out; upgrading our M-PESA platform; and extending M-PESA 1 Tap. As part of our two year customer experience strategy Safaricom started the process of creating an additional 300 customer care jobs and opening a new call centre in Eldoret. Lastly, Safaricom refreshed its brand giving it a more forward looking perspective through the vision of "Twaweza" which is captured in the brand belief that when we come together great things happen.

Results

Service revenue grew by 12.0% to Kshs 109.73bn driven predominantly by growth in active users and increased usage of non-voice services mainly M-PESA and mobile data. Non-voice service revenue accounted for 56.8% of service revenue, recording a growth of 19.3% to Kshs 62.38bn. Overall voice service revenue now stands at 43.2% of service revenue and remained resilient in the year growing by 3.6% to Kshs 47.35bn.

Mobile penetration in Kenya stood at 88.7%² as at 30 June 2017, with Safaricom recording a leading subscriber share of 72.6%. The total customer base grew by 10.8% to 29.5m as at 30th September 2017 as we continue to focus on customer acquisition and retention.

M-PESA revenue recorded a growth of 16.2% to Kshs 30.05bn driven by 9.5% increase in 30 day active M-PESA customers to 19.3m.

Our cashless platform, Lipa na M-PESA, continues to be adopted by enterprises as a preferred payment platform. We now have over 70k merchants who are active on a 30 day basis.

Mobile data revenue, which accounts for 16.0% of our service revenue, grew at 31.0% to Kshs 17.55bn. This was driven by 13.5% growth in 30 day active mobile data customers to 16.9m, increased bundle users and increased smartphone penetration during the period. Our Fixed data revenue increased by 34.7% to Kshs 3.23bn attributed to 24.9% growth in fixed service customers.

² Communications Authority of Kenya (CA) June - September 2017 Sector Statistics Report

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Improving our network quality remains key and we continue with our efforts to increase network coverage, capacity and quality to ensure excellent performance and superior customer experience. In the half year under review we invested Kshs 17.4bn on capital expenditure. The business generated excellent results and has continued to create value for our shareholders, supported by growth in service revenue and focus on cost efficiency.

FY18 Guidance

Guidance for FY18 has not changed, with EBIT in the range of Kshs 71-75bn and capital expenditure has not changed at Kshs 35-38bn.

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1. Key Performance Indicators

Key Performance Indicators	HY18	HY17	% Increase/ (Decrease)
Total customers (m)	29.49	26.61	10.8
Total customer ARPU*	628.45	629.02	(0.1)
30 day active customers (m)	24.17	23.00	5.1
30 day active customer ARPU*	749.18	731.50	2.4
Churn (%)	24.58	20.62	4.0
Voice			
30 day active voice customers (m)	22.23	21.00	5.8
30 day active voice customer ARPU*	351.54	365.23	(3.7)
Voice ARPU(based on total customers)	271.19	293.99	(7.8)
M-PESA			
M-PESA registered customers (m)	27.81	24.82	12.1
Number of M-PESA agents	148,107	114,282	29.6
30 day active M-PESA customers (m)	19.31	17.63	9.5
30 day active M-PESA ARPU*	257.88	247.69	4.1
Mobile Data			
30 day active mobile data customers (m)	16.95	14.93	13.5
30 day active mobile data ARPU*	169.77	143.77	18.1
SMS			
30 day active SMS customers (m)	16.76	15.66	7.0
30 day active SMS customer ARPU*	86.16	91.34	(5.7)
SMS ARPU (based on total customers)	51.11	55.12	(7.3)
Fixed Service**			
30 day active Fixed data customers	14,142	11,326	24.9
30 day active Fixed Service ARPU*	35,122	35,264	7.8
Base Stations			
2G base stations	4,435	4,061	9.2
3G base stations	3,913	3,221	21.5
4G base stations	1,454	635	>100

* ARPU is in Kshs

** Fixed Data customers and ARPU exclude FTTH

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2. Condensed consolidated statement of comprehensive income

Kshs. Billion		HY18	HY17	% Increase/ (Decrease)
Voice revenue		47.35	45.70	3.6
	Voice- Outgoing	44.25	42.31	4.6
	Voice- Incoming	3.10	3.39	(8.4)
M-PESA revenue		30.05	25.87	16.2
SMS revenue		8.92	8.63	3.4
Mobile data revenue		17.55	13.40	31.0
Fixed service revenue		3.23	2.40	34.7
Other service revenue		2.63	2.01	30.7
Service Revenue		109.73	98.01	12.0
Handset revenue and other revenue		4.49	4.01	11.9
Construction revenue		0.20	0.08	>100
Total Revenue		114.43	102.10	12.1
Other Income		0.32	2.28	(86.0)
Direct costs		(35.43)	(32.50)	9.0
Construction costs		(0.20)	(0.08)	>100
Contribution margin		79.11	71.80	10.2
Contribution margin %*		69.1%	68.8%	0.2ppts
Operating costs		(24.76)	(21.00)	17.9
Forex Loss on trading activities		(0.08)	0.01	(<100.0)
Opex & forex loss % total revenue		21.7%	20.1%	1.6
EBITDA		54.27	50.81	6.8
EBITDA margin %*		47.4%	48.7%	(1.3ppts)
Depreciation, impairment & amortization		(16.74)	(16.35)	2.4
EBIT		37.53	34.46	8.9
EBIT Margin %*		32.8%	33.0%	(0.3ppts)
Net Financing, Forex and Fair Value Losses		0.28	0.02	>100
Share of associate profit		0.01	0.01	(43.6)
Earnings Before taxation		37.82	34.49	9.6
Taxation		(11.61)	(10.56)	10.0
Net Income		26.20	23.93	9.5
Net Income %*		22.9%	22.9%	(0.1ppts)
Earnings per share (Kshs)		0.65	0.60	9.0

* All margins are calculated on total revenue (excluding construction revenue) plus other income

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3. Condensed consolidated statement of financial position

Kshs. Bn	HY18	FY17	% Increase/ (Decrease)
Share Capital (including share premium)	4.20	4.20	0.0
Retained earnings	90.62	64.42	40.7
Proposed Dividends	0.00	38.86	(100.0)
Capital Employed	94.82	107.49	(11.8)
Non-Current Assets	138.57	136.53	1.5
Current Assets			
Inventories	3.06	1.37	>100
Receivables and prepayments	16.44	17.83	(7.8)
Cash and cash equivalents	28.07	5.96	>100
	47.57	25.16	89.1
Current Liabilities			
Payables and accrued expenses	45.81	36.57	25.3
Dividends Payable	38.86	-	
Current income tax	0.11	1.09	(90.0)
Borrowings	6.53	16.54	(60.5)
	91.31	54.20	68.5
Net Current Liabilities	(43.74)	(29.04)	50.6
Net Assets	94.82	107.49	(11.8)
Gross gearing (gross borrowing) % Capital employed	6.9%	15.4%	(8.5)

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4. Net Cash

Kshs. Bn	HY18	FY17	% Increase/ (Decrease)
Cash and cash equivalents	28.07	5.96	>100
Bank and other borrowings	(6.53)	(16.54)	(60.5)
Total net cash	21.54	(10.58)	(<100)

5. Free cash flow

Kshs. Bn	HY18	HY17	% Increase/ (Decrease)
EBITDA	54.27	50.81	6.8
Working capital movement	8.90	(0.11)	(<100)
Capital Additions	(17.39)	(18.95)	(8.2)
Operating free cash flow	45.78	31.75	44.2
Net Interest received	0.33	0.67	(51.6)
Taxation paid	(13.70)	(12.27)	11.6
Free cash flow	32.40	20.15	60.8