News Release

SAFARICOM GROUP
SAFARICOM LIMITED ANNOUNCES AUDITED RESULTS FOR THE PERIOD ENDED 31st MARCH 2010

Opening Statement

Michael Joseph, Safaricom Group CEO commented;

"The group has once again delivered *strong results* for the period ended 31 March 2010. In the first half of the year, the company operated in an economic environment that was characterised by high inflation levels and the underlying effects of failed rains. However, the second half witnessed an improved economic and operating environment, with increased competitor activity in the market and further tariff reductions during the period.

The number of subscribers and our products portfolio went up significantly in line with our strategy. The revenue increase surpassed the subscriber growth mainly due to *significant growth in data revenue*. Our ongoing cost management initiatives contributed to strong *margins expansion* in the year."

Key Highlights

- Continued strong growth
  - The active subscribers increased by 18.2% to 15.79m
  - 19.1% growth in revenue to Kshs 83.96bn
  - 31.0% growth in EBITDA to Kshs 36.60bn as a result of growth in revenue and cost management
  - EBITDA margin increase to 43.6%
  - Net Profit up 43.8% and Earnings per Share increased to Kshs0.38
- Impressive growth in data revenue
  - 97.7% growth in mobile and fixed data revenue
  - Over 60% of our subscribers are M-PESA registered and M-PESA revenue grew by 158.1%
- 100% acquisition of PacketStream Data Networks
- Successful issue of Kshs 7.513bn Domestic Medium Term Note (First Tranche)
- 110.8% growth in operating free cash flow.
- Dividend growth of 100.0% to Kshs 8.00bn

Major initiatives in the year

One of the most significant developments in the period was the landing of the two undersea fibre optic cables, TEAMS and Seacom. Safaricom has a 22.5% shareholding in TEAMS and leases capacity on Seacom. These cables provide significant increased capacity, greater speeds and lower cost than the previous satellite connectivity and will greatly enhance Safaricom's ability to deliver strong revenue growth from data services.

Safaricom has continued to invest heavily in its data offerings in order to maximize on the expected significant growth in its data services. Following the launch of the 3G network in the prior period, continued investment in the rollout has extended the 3G network to all major towns in the country and now comprises 607 3G-enabled base stations. During the period the acquisition of a 100% stake in PacketStream Data Network Limited, a wimax service provider, added significant capacity to the existing wimax business enabling Safaricom to provide fixed data services to corporates, medium sized enterprises and individual customers. The wimax network now comprises 140 sites offering an extensive nationwide network thereby complementing our 3G mobile Internet access.

The data services have been tailored to meet customer needs as well as lead innovation. Safaricom offers the fastest mobile internet services enabling our subscribers to take full advantage of the various new, exciting and affordable products launched during the period. These include, amongst others, fixed data services through Wimax technology, Hotspot/Broadband connectivity, PrePay and PostPay data bundles, data modems, Safaricom Mobile Connect and 3G enabled Smartphones.

In the period, various promotions and tariffs have been launched in the market including *Super Ongea* (the dynamic pricing tariff), *Okoa Jahazi* (emergency top up), *Skiza* (call-back ringtones), and various handset promotions.

The loyalty of Safaricom subscribers continues to be enhanced by both the *Bonga* loyalty programme and the M-PESA service. Over 69% of our subscribers are now registered on the *Bonga* loyalty programme and 60% are now registered M-PESA subscribers. This success is reflected in our churn rate of 27.2%, which is considerably lower than the pre pay industry average.

M-PESA, the world's first and most successful mobile money transfer service, has revolutionized customer interaction with Safaricom. With 9.48m million registered users, over 17,000 agent outlets and over 290 Pay-bill partners, the service continued to perform exceptionally well. The M-PESA service has diversified the provision of services beyond money transfer to include salary payments, bill payment, convenient withdrawals through the ATM network, and International Money Transfer service.

Future outlook

A stable macro-economic environment will have great significance to our business. The level of inflation, stability of the Kenyan shilling and a positive economic outlook will have a direct impact on consumer spending and therefore disposable incomes. Sub-Saharan Africa remains the fastest growing mobile market in the world. External market expectations are that the Kenyan market penetration will increase to 65% over the next three to four years. This reflects a significant opportunity for future growth where we expect to remain market leaders.

Increased levels of penetration into more rural areas, where consumer disposable income is lower, combined with additional competition and reducing voice tariffs, may reduce voice ARPU further. However with internet and PC penetration still less than 10%, there is significant opportunity to compensate for the declining voice ARPU through increased data ARPU. We expect to continue with our cost management programmes and thus safeguard the margin levels.

With over 600 3G enabled sites and over 140 Wimax sites, Safaricom is well positioned to take advantage of the data growth opportunity with the continued expansion of our existing 3G and Wimax infrastructure technologies, products and offerings which have been greatly enhanced with the landing of the submarine fibre optic cables. Accessibility and the speed of related products and services have increased significantly due to the availability of much larger bandwidth and internet transfer speeds. The cost of these services is expected to decline in the long run due to less dependency on costly and limited satellite capacity.

Our capital expenditure is expected to remain high over the next few years as we increase the subscriber base, continue the rollout of our data infrastructure and continue to invest in the capacity, coverage and quality of our network. We expect to continue with the ongoing technology modernisation initiatives of our network management and billing systems, product offerings and network optimisations that will guarantee a broader portfolio of services to our customers. These investments will enable Safaricom to ensure we maintain a lean cost structure, gain a strong share of net additions and maximise on the high growth potential of the data market.

However we expect to see increased competition and regulatory changes going forward. Following the gazettement of several new regulations by the Ministry Of Information And Communication to manage the sector we expect to see increased regulatory activity by the CCK primarily on matters relating to competition management, these activities may have an impact on Safaricom's performance. The CCK has set in motion a process that will see the introduction of mobile and service number portability; is currently undertaking an industry wide network cost study to establish a glide path for local mobile termination rates and is also engaged in discussions with operators on the modalities of implementing the Universal Service Fund.

Safaricom is well positioned to continue to increase shareholder value now and in the future through organic growth or further acquisitions where it makes economic sense, and will continue to enhance data and other services.

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Key indicators and summary financial information

The following are the key highlights of the results compared to prior period ended 31st March 2009:

	Period ending 31 March 2010	**Period ending 31 March 2009**	**% Increase/ (Decrease)**
Subscribers (m)	15.79	13.36	18.2
Registered M-PESA users (m)	9.48	6.18	53.4
Churn (%)	27.2	24.3	2.9
Blended ARPU (Kshs)	458.5	474.7	(3.4)
Kshs Bn			
Revenue	83.961	70.480	19.1
EBITDA	36.604	27.951	31.0
Operating profit	22.611	16.175	39.8
Net profit	15.148	10.537	43.8
Operating free cash flow	11.837	5.615	110.8
Net borrowings	5.968	6.949	(14.1)
Gross capital expenditure	17.435	23.817	(26.8)
Gross investments	1.555	0.185	740.5
Earnings per share (Kshs)	0.38	0.27	44.2
EBITDA margin %	43.6	39.7	
Operating profit margin %	26.9	22.9	
Net profit margin %	18.0	15.0	
Effective taxation rate %	27.8	31.1	
Net debt/EBITDA (times)	0.16	0.25	

SAFARICOM LIMITED ANNOUNCES AUDITED RESULTS FOR THE PERIOD ENDED 31st MARCH 2010

Detailed results commentary

Profit and loss account

Kshs Bn	Period ending 31 March 2010	Period ending 31 March 2009	% Increase
Revenue	83.961	70.480	19.1
Operating, selling, general and administrative expenses	(47.357)	(42.529)	11.4
EBITDA	**36.604**	**27.951**	**31.0**
Depreciation and amortisation	(13.993)	(11.776)	18.8
Operating profit	**22.611**	**16.175**	**39.8**
Net financing costs	(1.644)	(0.871)	88.7
Profit before taxation	**20.967**	**15.304**	**37.0**
Taxation	(5.819)	(4.767)	22.1
Profit after taxation	**15.148**	**10.537**	**43.8**
Earnings per share	**0.38**	**0.27**	**44.2**

Despite the depressed economic conditions earlier in the year and further tariff reductions in the voice segment, total revenue increased by 19.1% as the non-voice segment continued to expand.

A strict focus on cost management during the year was reflected by a lower increase in costs, compared to revenue increase, which augmented the EBITDA margin up to 43.6%. Without the deferral of revenue following the adoption of IFRIC13 (as mentioned on page 6), EBITDA margin would have been 42.7%.

The increase in operating profit was as a result of the growth in data and M-PESA revenue as well as expansion in the EBITDA margin.

The company's marginal taxation rate was reduced to 27% effective 1 April 2009, subsequent to our IPO listing in June 2008. This resulted in a reduction in the effective taxation rate of 3.3% during the year to 27.8%.

Total Earnings growth of 43.8% was therefore attributable to the strong growth in EBITDA and the reduction in the effective taxation rate.

Revenue

Kshs Bn	Period ending 31 March 2010	Period ending 31 March 2009	% Increase
Voice	63.405	58.795	7.8
Data	15.724	9.098	72.8
• SMS	5.191	4.665	11.3
• M-PESA	7.556	2.927	158.1
• Broadband data (mobile & fixed)	2.977	1.506	97.7
Other revenue	1.171	0.277	322.7
Ongoing Revenue	**80.300**	**68.170**	**17.8**
Acquisition revenue	3.661	2.310	58.5
Total revenue	**83.961**	**70.480**	**19.1**
Data key indicators			
Data revenue % total revenue	18.7	12.9	
Data Customers			
• Distinct mobile data users(m)	2.64	1.47	79.6
• Fixed links	969	134	623.1

The period realised a significant increase in non voice revenue, in line with our strategy to grow the data business, with the proportion of non voice revenue increasing from 16.6% to 24.5% of total revenue. M-PESA and Broadband data revenues increased by 137.6% thereby doubled their share of total revenue from 6.3% to 12.5% again reflecting the strategy of reducing the dependence on voice revenue.

Voice revenues increased as a result of the 18.2% increase in the subscriber base but was partly offset by a 11.2% reduction in voice ARPU. This voice ARPU reduction was a combination of reduced tariffs and the dilutive impact of new subscribers, who typically spend less than existing subscribers. During the period the average revenue per minute declined from Kshs 7.3 to Kshs 6.0, but was partly offset by an increase in average minutes of use per customer per month from 56.1 minutes to 60.6 minutes.

The company adopted IFRIC13 in the year and now accounts for customer loyalty credits (Bonga points) as a separate component of the sales transaction and hence as a revenue deferral, whereas previously this was recognised as a cost provision. This resulted in a net deferral of revenue of Kshs 2.238bn at the point of adopting the policy and Kshs 308m for the period thereafter totalling Kshs 2.546bn, of which Kshs 1.473bn relates to the previous year. The revenue deferral was effected against voice revenue. Without the deferral of revenue, voice revenue for the year would have been Kshs 65.951bn with a double digit growth rate of 12.2% and the total revenue for the year would have been Kshs 86.507bn resulting in a growth of 22.7%.

Expenses

Kshs Bn	Period ending 31 March 2010	Period ending 31 March 2009	% Increase/ (Decrease)
Interconnection	4.524	4.170	8.5
Airtime and acquisition	20.799	16.751	24.2
Network	7.994	7.557	5.8
Retention	(1.210)	0.954	(226.8)
Other operating	4.447	3.356	32.5
Total operating expenses	**36.554**	**32.788**	**11.5**
Payroll and personnel	5.625	4.325	30.1
Marketing and publicity	2.662	2.301	15.7
Foreign exchange differences on debtors & creditors	(0.173)	0.679	(125.5)
General and administrative expenses	2.689	2.436	10.4
Total selling, general and administrative expenses	**10.803**	**9.741**	**10.9**
Total expenses	**47.357**	**42.529**	**11.4**
Cost intensity (%)	**56.4**	**60.3**	

In line with our focus of cost management and efficiency, operating expenses increased at a significantly lower rate than revenue with the major increases being attributable to revenue related expenses, principally commissions and licence fees.

Airtime costs increased due to the increase in commissions paid to our dealers and M-PESA agents in line with the relevant revenue streams. Top up card costs decreased due to efficiencies achieved in delivering airtime to subscribers through more cost effective channels like M-PESA and pinless top ups, as well as savings from more prudent procurement. Acquisition costs increased in line with the customer growth strategy.

The decrease in retention costs was due to a reversal of Kshs 2.238bn in relation to the implementation of IFRIC 13 (Customer Loyalty credits) during the period. Historically all customer loyalty points were recognised as a cost provision. Without this deferral, retention costs would have been Kshs 1.028bn, an increase of 7.8% and total operating expenses for the year would have been Kshs 38.792bn resulting in a growth of 18.3%.

Other operating expenses increased due to the increase in license fees payable to the CCK, which are based on revenue, and M-PESA license fees charged on the number of active M-PESA users.

Increase in payroll and personnel costs was mainly due to the annual increase in salaries, pension contribution and allowances in the year, and further growth and restructuring in the commercial, technical and retail divisions.

Marketing and publicity costs increased as the company sought to reach, educate and endear our diverse target audience, to the Safaricom brand and the vast product and service offerings we have available.

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Balance Sheet

Kshs Bn	As at 31 March 2010	As at 31 March 2009	% Increase/ Decrease
Capital employed	**70.301**	**55.921**	**25.7**
Non-current assets	**81.550**	**74.180**	**9.9**
Current assets			
Inventories	2.887	2.930	(1.5)
Receivables and prepayments	8.961	10.210	(12.2)
Cash and cash equivalents	10.723	4.362	145.8
	22.571	**17.502**	**29.0**
Current liabilities			
Payables and accrued expenses	24.739	29.224	(15.3)
Borrowings	9.081	6.537	38.9
	33.820	**35.761**	**(5.4)**
Net current liabilities	**(11.249)**	**(18.259)**	**(38.4)**
Net assets	**70.301**	**55.921**	**25.7**
Net gearing (borrowing less cash) (%)	9	12	
Gross gearing (gross borrowing) (%)	24	19	

Capital employed increased in line with the strong growth in shareholder funds, from the encouraging favourable trading results.

Net Debt

Kshs Bn	As at 31 March 2010	As at 31 March 2009	% Increase/ Decrease
Cash and cash equivalents	(10.723)	(4.362)	145.8
Bank Borrowings	9.178	11.311	(18.9)
Debt - Corporate Bond	7.513	-	100.0
Total net debt	5.968	6.949	(14.1)
Net debt/EBITDA (times)	0.16	0.25	

Capital Investments

Kshs Bn	Period ending 31 March 2010	Period ending 31 March 2009	% Increase/ (Decrease)
Gross capital expenditure	17.435	23.817	(26.8)
Capex intensity (%)	20.8	33.8	
Investments	1.555	0.185	
Total Capital Investments	**18.990**	**24.002**	**(20.9)**

Capital expenditure declined during the year however it is still in line with our expansion strategy plans. In addition to the actual expenditure, capital commitments of Kshs 6.1bn were outstanding at the year end compared to Kshs. 4.1bn in the previous year. Key capital expenditure areas during the year were in fixed data infrastructure, 3G network equipment, switching capacity, fibre, and upgrade of existing 2G equipment for increased capacity and quality to support the growth in subscribers

In addition to our continued capital expenditure investments during the year, the company acquired a 22.5% stake in TEAMS, purchased further capacity on the SEACOM undersea cable primarily for redundancy and acquired 100% stake in PacketStream Data Networks Limited. These investments are all in relation to the support and growth of our data strategy.

Cash flow

Kshs Bn	Period ending 31 March 2010	Period ending 31 March 2009	% Increase/ Decrease
Operating cash flow	29.662	28.728	3.3
Total capital expenditure cash flow	(17.826)	(23.113)	(22.9)
Operating free cash flow	**11.837**	**5.615**	**110.8**
Interest paid	(1.269)	(0.725)	75.0
Taxation paid	(4.477)	(5.942)	(24.7)
Free cash flow	**6.090**	**(1.053)**	**678.3**

Cash flow from operating activities remained strong during the period. The increase was as a result of an increase in operating income but offset by a reduction in creditor balances. The cash from operations and increased financing activities enabled Safaricom to expand the network coverage further and ensure the continued ability to support the increased subscriber base. Interest paid increased due to additional borrowing as well as increased interest rates. The effective interest rate over the period was 10.5%, an increase over the 8.2% in the previous period.