News Release

SAFARICOM GROUP
SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE SIX MONTHS PERIOD ENDED 30 SEPTEMBER 2009

The Board of Directors of Safaricom Limited is pleased to announce the Group Unaudited Half year results for the period ended 30 September 2009. Despite the adverse economic conditions experienced in the last six months, the Board is pleased to announce an increase in both Group turnover and profit with a further increase in Shareholder funds.

Key highlights of the six months period ended 30 September 2009

The following are the key highlights of the results compared to prior period i.e. 30 September 2008:

- The active subscribers increased to14.51m, up 21.4% from 11.96m in the prior period.
- Strong M-PESA service with 7.99m registered users, up 93% from 4.14m users in the prior period.
- Subscriber market share estimated at 77.5% (*Source: World Cellular Information Service*).
- Revenue market share estimated at 83%.
- Turnover Kshs 40.66bn, an increase of 17.8% from Kshs 34.51bn in the prior year.
- Data revenue (including SMS and M-PESA) increased by 93.6% to Kshs 7.20bn.
- Blended Average Revenue Per User (ARPU) Kshs 466.5, 7.3% lower compared to Kshs 503.0 in the prior period.
- EBITDA at Kshs16.52bn up 10.1% from Kshs 15.01bn.
- Operating profit at Kshs 9.90bn up 3.5% compared to Kshs 9.57bn in the prior year.
- Taxes down 9.3% from Kshs 2.76bn to Kshs 2.50bn. Effective tax rate has reduced to 26.9% from 30.7% in the prior period.
- Profit after tax Kshs 6.63bn grew by 6.7% from Kshs6.22bn.
- Earnings per share (EPS) growth of 8.1%.
- Capital expenditure down 15.1% at Kshs 8.53bn compared to prior period at Kshs 10.04bn. This brings capital investment since inception to Kshs 128.3bn.

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Financial and Operational Review

Safaricom Limited has continued to deliver robust financial results with a healthy increase in both subscribers and revenues. These results reflect the benefits of the actions taken to adjust to the continuing difficult economic conditions encountered during the period. The effects of the prolonged drought in the country resulting in power and water rationing and high inflation driven by food and oil prices combined to reduce the disposable income of our customers and increase our operating costs.

Total active subscribers increased by 2.65m from September 2008 to close at 14.51m, a growth of 21.4%. This has resulted in Safaricom being able to retain our market share leadership with an estimated market share of 77.5%.which is also reflected in our churn rate of 27.6%, which is lower than the industry average.

Double digit revenue growth continued with revenue increasing to Kshs 40.66bn, a growth of 17.8%. Our customer ARPU remains the highest in the industry, a function of the breadth and quality of the products and services offered to our subscribers. Data revenue increased by 93.6%. This represents 17.7% of revenue, compared to 10.8% in the period to September 2008. The growth has been driven by the combined effect of both broadband mobile services and M-PESA.

EBITDA of Kshs 16.52bn is 10.1% higher than in the prior period, resulting in a margin of 40.6%.

Shareholders' funds continued to increase over the period and grew to Kshs 53.78bn, an increase of 14.8% over the prior period.

Capital expenditure has continued at a high level to support and maintain our strategy of growth, in particular related to the continuing focus on the quality of our network, products and services offered, and infrastructure investments to support our data growth.

Major initiatives in the year

The 3G network now extends to cover Nairobi, Mombasa, Central Kenya (Meru, Thika, and Nyeri), Rift Valley (Eldoret, Nakuru, Naivasha, and Kericho), Western Kenya (Kitale, Kakamega, Bungoma) and Nyanza (Kisii) with 384 3G-enabled base stations. One Communications Limited – our existing Wimax Company, positively continues to provide fixed data services to corporate, medium sized institutions and individual customers, thereby complementing our 3G mobile Internet access. To further enhance our fixed data services and product offerings, Safaricom has entered into a purchase agreement for a 100% stake in Packet Stream Data Network Limited, a Wimax service provider, in the period. The contract precedents are being finalized. Once completed, this will allow Safaricom the ability to effectively roll-out a national fixed data service, offering excellent quality and capacity.

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 Hotspot/Broadband

PrePay and PostPay bundles, data modems, Safaricom Mobile Connect, 3G enabled Smartphones (including BlackBerry Bold), to mention a few.

In the period, various promotions and tariffs have been launched in the market including *Super Ongea* (the dynamic pricing tariff), Emergency top up dubbed *Okoa Jahazi*, *Surf-to-Win* and *Surf-to-Win Reloaded*, Call Back Ring Tones (*Skiza*), and various handset promotions.

The loyalty of Safaricom subscribers has been enhanced by both the *Bonga* loyalty program and the M-PESA service. Over 60% of our subscribers are now registered on the *Bonga* loyalty program.
M-PESA, the world's first mobile money transfer service, has revolutionized customer interaction with Safaricom. With nearly 8 million registered users, over 13,000 agents and over 75 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 through business to customer payments, bill payment solutions through customer to business payments, convenient withdrawals through ATM network offered by PesaPoint, an agent float management system through the Agent Aggregator and Super Agents, and the International Money Transfer service.

<u>Future outlook</u>

External market expectations are that market penetration will increase to 65% over the next four years. This reflects a significant opportunity for future growth where we expect to remain market leaders and maintain our leading position.

With the increased levels of penetration into more rural areas where consumer disposable income is lower, it is anticipated that voice ARPU's will continue to decline. However with internet penetration still less than 10%, there is significant opportunity to partially compensate for the declining voice ARPU through increased data ARPU's.

Safaricom is well positioned to take advantage of this 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, TEAMS Limited (in which we have a 22.5% shareholding) and Seacom. Accessibility and the speed of related products and services have increased significantly due to the availability of much larger bandwidth and internet transfer speeds, and will reduce our dependency on costly and limited satellite capacity.

Our capital expenditure is expected to remain high over the remainder of this financial year and the next few years as we continue the rollout of our data infrastructure and continue to invest in the capacity, coverage and quality of our network. These investments will enable Safaricom to ensure we gain a strong share of net additions going forward and maximise on the high growth potential of the data market.

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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DETAILED RESULTS COMMENTARY

Financial Results – Profit & Loss Account

Kshs Bn			Period ending 30 September 2009	Period ending 30 September 2008	% Increase/ (Decrease)
Revenue	Voice		31.553	29.716	6.2
	SMS & Data (incl M-PESA)		7.203	3.720	93.6
	Acquisition		1.554	0.934	66.4
	Other		0.351	0.138	154.3
	Total		**40.661**	**34.508**	**17.8**
Expenses	Operating		(18.871)	(15.309)	23.3
	Selling, General and Admin		(5.281)	(4.197)	25.8
	Total		**(24.152)**	**(19.506**	**23.8**
Other operating income			0.008	0.003	166.7
EBITDA			**16.517**	**15.005**	**10.1**
		% of Revenue	**40.6**	**43.5%**	
Depreciation & Amortisation			(6.655)	(5.432)	22.5
Foreign exchange on operations			0.036	0.000	
Operating Profit			**9.898**	**9.573**	**3.4**
		% of Revenue	**24.3%**	**27.7%**	
Financing costs incl foreign exchange on cash and cash equivalents			(0.764)	(0.597)	28.0
Profit Before Tax			**9.134**	**8.976**	**1.7**
Taxation			(2.502)	(2.759)	(9.3)
Profit After Tax			**6.632**	**6.217**	**6.7**
		% of Revenue	**16.3%**	**18.0%**	
Earnings per share (Kshs)			**0.168**	**0.155**	**8.1%**

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Revenue

- Revenue Kshs 40.661bn up 17.8% compared to Kshs 34.508bn in the prior period driven by our subscriber growth.
- Voice revenue increased by 6.2% to Kshs 31.553bn representing 77.6% of revenue compared to Kshs 29.716bn representing 86.1% in the prior period
- SMS & Data revenue increased by 93.6% to Kshs 7.203bn compared to Kshs 3.720bn in the prior period. The contribution of this category to total revenue increased to 17.7% from 10.8% in the prior period.
  - SMS up by 16.1% or 6.5% of total revenue to Kshs 2.645bn from Kshs 2.278bn in the prior period
  - M-PESA up 247.5% or 7.9% of total revenue to Kshs 3.219bn from Kshs 0.926bn in the prior period and
  - Data revenue up 159.8% or 3.3% of total revenue to Kshs 1.338bn from Kshs 0.515bn in the prior period.
- Acquisition revenue (SIM Card and equipment revenue) increased by 66.4% attributed to increased sales of handsets, modems and other accessories in line with our acquisition strategy.

Operating expenses

- Operating expenses at Kshs18.871bn or 46.4% of revenue in the period to 30 September 2009, compared to Kshs15.309bn or 44.4% of revenue during the same period in 2008.

In addition to the effect of inflation and challenging economic environment, the following resulted in the increase in operating expenses:

- Commissions over the period increased by 35.9% driven by increased number of M-PESA users which has driven growth in M-PESA transactions against which commissions are payable to agents. Further dealer commissions have increased driven by higher connections as well as increased revenue.
- Interconnection costs up 48.0% driven by increase in minutes to interconnection partners
- Acquisition costs up 15.4% in line with the customer acquisition strategy.

Selling, general and administrative expenses

- Selling, general and administrative expenses up 25.8% to Kshs5.281bn representing 13.0% of revenue in the period compared to Kshs4.198bn, 12.2% of revenue, during the same period in 2008.

In addition to the effect of inflation and challenging economic environment, the following resulted in the increase in selling, general and administrative expenses:

- The increase in payroll and personnel costs by 44.4% is due to increase in headcount from 1,784 in the prior period to 2,457 in September 2009, as well as the routine annual increase in salaries in the year.

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- Marketing and publicity costs were held at last year's levels in line with the strategy to manage costs
- General and administrative expenses up 26.2% due to increased cost of running additional retail outlets, and maintenance and support costs for all systems that support customer operations.

EBITDA

EBITDA increased to Kshs 16.517bn in the period compared to Kshs 15.005bn in the prior period, reflecting an EBITDA margin of 40.6% compared to 43.5% in the prior year. The EBITDA margin decline from the prior period was due to increased operating expenses primarily commissions, interconnect costs and acquisition costs.

Depreciation and amortisation

Depreciation and amortization increased by 22.5% to Kshs6.655bn in the period compared to Kshs5.342bn during the same period in 2008. The charges have increased in line with the continued high capital investments incurred over the past few years.

Profit before Tax

Profit before tax increased by 1.8% to Kshs 9.134bn compared to Kshs 8.976bn during the same period in 2008. The tax charge reduced by 9.3% to Kshs 2.502bn from Kshs 2.760bn in the prior period due to change in tax rate to 27% from 30% previously, following the listing on the Nairobi Stock Exchange in June 2008.

Net Income

Net income increased by 6.7% to Kshs 6.632bn from Kshs 6.217bn in the same period in 2008.

Financial Results – Balance Sheet

- Shareholder funds continued to increase over the period and grew to Kshs 53.779bn, which is an increase of 14.8% over the prior year.
- Strong closing cash position of Kshs 7.925bn, an increase of 178.7%.
- Total gross borrowings (excl. cash and cash equivalents) increased 78.7% to Kshs15.913bn from Kshs8.905bn. Gearing (gross borrowing less cash and cash equivalents divided by shareholders funds) increased to 14.9% from 12.9% due to higher short term borrowings.
- The Directors are committed to the progressive dividend policy adopted previously; however the directors do not propose the payment of an interim dividend.

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Balance Sheet

Kshs Bn	As at 30 September 2009	As at 30 September 2008	% Increase / (Decrease)
Capital Employed			
Shareholders' funds	53.779	46.859	14.8
Non-current borrowings	4.051	5.760	(29.7)
Total	**57.830**	**52.619**	**9.9**
Represented by			
Non current assets	74.523	66.455	12.1
Investment in TEAMS	1.952	-	N/A
Current assets			
Inventories	3.148	2.006	56.9
Receivables and prepayments	9.445	8.030	17.6
Current income tax	0.082	0.584	(86.0)
Cash and cash equivalents	7.925	2.844	178.7
Total	20.600	13.465	53.0
Current liabilities			
Payables and accrued expenses	23.240	24.156	(3.8)
Borrowings	11.862	3.145	277.2
Dividend payable	4.000	-	N/A
Financial Derivative	0.143	-	N/A
Total	39.245	27.301	43.7
Net current liabilities	(18.645)	(13.836)	34.8
Total	**57.830**	**52.619**	**9.9**
Gearing (borrowing less cash)	**14.9%**	**12.9%**	**1.9**
Gearing (gross borrowing)	**29.6%**	**19.0%**	**10.6**

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Financial Results – Cashflow

- Cashflow from operating activities remained strong during the period enabling Safaricom to expand the network coverage further and ensure that we are able to cope with the increased subscriber base, however was lower than prior year due to negative working capital movements, relating mainly to accelerated outstanding capital creditor payments.
- Net cash used in investing activities was Kshs 8.532bn in the period compared to Kshs 10.044bn during the same period in 2008, in line with our capital expenditure plans.

Kshs Bn	Period ending 30 September 2009	Period ending 30 September 2008	% Increase/ (Decrease)
Cash from Operating Activities			
Generated from operations	9.915	13.742	(27.9)
Interest paid	(0.524)	(0.282)	85.5
Income tax paid	(1.898)	(3.812)	(50.2)
Net from Operating Activities	**7.493**	**9.648**	**(22.3)**
Investing Activities			
Net purchases of fixed assets	(8.532)	(10.044)	(34.4)
Net investing Activities	(8.532)	(10.044)	(34.4)
Financing Activities			
Borrowing/(repayments) during the period	4.602	(0.294)	N/A
Dividend paid	-	(2.000)	N/A
Net Financing Activities	4.602	(2.294)	(300.6)
Increase/(Decrease) in cash	4.602	(2.690)	(300.6)
Movement in cash and cash equivalents			
Cash at start of year	4.362	5.534	(21.2)
Increase/(Decrease)	3.563	(2.690)	(232.5)
Cash at end of period	**7.925**	**2.844**	**178.6**