# News Release

Safaricom

## SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 SEPTEMBER 2013.

## KEY HIGHLIGHTS

**Strong financial and commercial performance**

- 29% growth in EBITDA to Kshs 28.9bn with an EBITDA margin of 41.7% - up 4ppt.
- Profit before tax increased by 38% to Kshs 15.9bn.
- Profit after tax increased by 45% to Kshs 11.3bn.
- Free cash flow has improved by 167% to Kshs 13.7bn.

**Solid growth in all revenue streams with continued significance of non-voice in revenue generation**

- Total revenue increased by 17% to Kshs 69.2bn.
- Service revenue growth of 18% to Kshs 66.2bn - Voice revenue grew 12% to Kshs 41.9bn and Non-Voice service revenue increased by 30% to Kshs 24.3bn.
- 49% growth in SMS revenue to Kshs 6.4bn.
- M-PESA revenue increased by 20% to Kshs 12.5bn.
- 19% increase in 30 day active M-PESA customers to 11.6m – 56% of our total customer base.
- Mobile data revenue grew by 43% to Kshs 4.3bn.
- 52% increase in 30 day active mobile data customers to 8.5m – 41% of our total customer base.

**Improved guidance for the full year**

- Free cash flow expected to be in the range of Kshs 20bn to Kshs 21bn.

**Calls To Government of Kenya to fast track LTE Frequency Allocation**

- Safaricom calls for allocation of additional frequency spectrum resources to facilitate nationwide LTE rollout;
- Safaricom commits to providing free broadband access to public schools identified as part of the Government's laptop project for primary school children if LTE spectrum is allotcated by GoK.

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

This set of results demonstrates our commitment to growing investment and shareholder returns through sustained commercial and financial performance across our entire service portfolio. We have delivered well on our goal to transform lives by providing unmatched services; made huge improvements in our network quality; and deepened financial inclusion with the introduction of Lipa na M-PESA on the M-PESA platform.

The growth in total revenue of 17% to Kshs 69.2bn is a result of our focus on providing quality services which has seen all our revenue streams post impressive growth. Non-voice service revenue streams continue to deliver solid growth having increased by 30% and highlights continued execution against our strategy to diversify revenues. Non-voice service revenues contributed to 35% of our total revenues in the period while voice made up 61%.

Voice is our core business, with a 79.5% market share of voice traffic as per the CCK March 2013 statistics. Voice revenues grew by 12% on the back of a growing customer base which now stands at 20.8m, a better network experience, convenient airtime distribution and attractive consumer propositions and promotions. Our messaging revenue also posted an impressive growth of 49% to Kshs 6.4bn which was fueled by SMS based promotions such as '*Tetemesha na Safaricom'* and '*Bonyeza Ushinde'*, affordable SMS bundles as well as an 8% increase in active SMS customers.

M-PESA continues to grow in its significance as a key revenue driver contributing to 18% of total revenue. The service generated Kshs 12.5bn which was as a result of a 19% increase in 30 day active M-PESA customers to 11.6m and an increase in the average number of transactions per customer.
Our M-PESA agent outlets also grew by 73% in the period to 78,856 as we promote accessability of the service to our customers. We also launched the Lipa na M-PESA service which enables cashless merchant payments and facilitates trade between businesses and their customers while improving business efficiency. We are well on course in our strategy to deepen financial inclusion and embed M-PESA as an integral part of the Kenyan society and economy.

As a result of our efforts to grow data through continuous improvement of our network quality, part-payment smartphone offers and affordable data bundles; mobile data revenues have increased by 43% driven by impressive growth in customer numbers of 52% to 8.5m active customers and usage per customer which went up by 18%.

Our 'Best Network in Kenya' program continues, with the goal being to provide the best customer experience by improving our network quality, capacity and coverage. We have increased the population coverage of our 2G and 3G networks, completed network modernization in six key cities and rolled out fibre to 40% of sites in Nairobi. We have commissioned independent drive tests which measure key quality metrics such as drop calls, voice quality and data speeds, these show that our network currently delivers the best data services and comparative voice services.

Direct cost grew at a rate of 11% in comparison to the 17% growth in total revenues and this has generated a 3ppt improvement in the contribution margin to 64.1%. Operating costs as a percentage of total revenue has declined to 22% from 24% the previous half year as a result of cost initiatives focused on transmission costs, inventory costs, network operating costs (including fuel) and IT operational costs.

We have once again delivered robust results for our shareholders driven by growth across all our revenue streams. This revenue growth coupled with cost efficiency helped to grow the EBITDA margin to a sustainable level of 41.7%, a 4ppt improvement. Free Cash Flow has also increased by 167% to Kshs 13.7bn compared to Kshs 5.14bn in the prior period as a result of the strong trading results and working capital management.

## Outlook

Based on our financial results in the first six months of the year, we have upgraded our full year guidance. We expect Free Cash Flow to be in the range of Kshs 20bn to Kshs 21bn while capex is expected to be in the range of Kshs 26bn to Kshs 27bn.

## Strategic Priorities

Our "Best Network in Kenya" program will never stop and our commitment is to continue improving across all facets of the network throughout Kenya. Over the next six months we will grow our 2G and 3G population coverage, including additional capex for 50 sites in counties where the return is not justified on a financial basis but is important to help improve security in those counties. We completed the fibre roll-out that we originally planned for this financial year, and have accelerated what was planned for next year into the second half : another 40% site coverage in Nairobi, connecting buildings in Nairobi CBD and expanding to more towns and cities. This sets us up to quickly and efficiently add a 4G (LTE) network to our 2G and 3G networks as soon as the spectrum becomes available, thereby assisting the Government to grow iGDP and providing the people of Kenya with a world class broadband experience.

As part of our commitment to democratize access to affordable broadband in Kenya, we have requested the Government of Kenya to allocate to Safaricom additional spectrum resources to facilitate the nationwide rollout of a 4G or LTE networks over the next 24 months. In consideration of this we are prepared to provide free broadband access to all public primary schools identified as part of the Government's lap top initiative.

M-PESA is the driver for deepening financial inclusion, and our focus is on extending cashless distribution in the FMCG environment coupled with Lipa na M-PESA, thereby enabling merchants to receive payments via M-PESA and avoid the security concerns of cash handling and card fraud.

The Safaricom vision may be ambitious but we strongly believe in being a purpose-led organization that transforms the lives that we touch. Naweza na Safaricom.

## Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ended 30 September 2012:

| Key Performance Indicators | 30-Sep-13 | 30-Sep-12 | % Increase/ (Decrease) |
|---|---|---|---|
| Total customers (m) | 20.82 | 19.22 | 8.32 |
| M-PESA registered customers (m) | 18.15 | 15.23 | 19.17 |
| M-PESA - 30 day active customers (m) | 11.55 | 9.72 | 18.83 |
| Mobile Data - 30 day active customers (m) | 8.48 | 5.59 | 51.70 |
| Fixed data customers | 6,931 | 6,718 | 3.17 |
| Churn (%) | 18.37 | 28.46 | (35.45) |
| Service revenue ARPU | 547.93 | 490.69 | 11.67 |
| Voice ARPU | 346.65 | 319.56 | 8.48 |
| SMS ARPU | 52.54 | 38.50 | 36.47 |
| M-PESA ARPU | 118.03 | 115.22 | 2.44 |
| Mobile Broadband ARPU | 86.97 | 91.72 | (5.18) |
| Fixed Service ARPU | 29,680 | 25,711 | 15.44 |
| Data (SMS/Broadband/Fixed Data/M-PESA) % total revenue | 35.14 | 31.6 | 11.20 |
| Number of M-PESA agents | 78,856 | 45,540 | 73.16 |
| 2G base stations | 2,984 | 2,815 | 6.00 |
| 3G base stations | 1,650 | 1,545 | 6.80 |
| Wimax Sites | 187 | 190 | (1.58) |

**Condensed consolidated statement of comprehensive income**

| Kshs Bn | 30-Sep-13 | 30-Sep-12 | % Increase/ (Decrease) |
|---|---|---|---|
| Voice revenue | 41.92 | 37.42 | 12.03 |
| Messaging revenue | 6.35 | 4.27 | 48.71 |
| Mobile data revenue | 4.25 | 2.97 | 43.10 |
| Fixed service revenue | 1.22 | 1.01 | 20.79 |
| M-PESA revenue | 12.50 | 10.43 | 19.85 |
| **Service Revenue** | **66.24** | **56.10** | **18.07** |
| Handset revenue | 2.22 | 2.43 | (8.64) |
| Acquisition and other revenue | 0.74 | 0.59 | 25.42 |
| **Total Revenue** | **69.20** | **59.12** | **17.05** |
| Direct costs | (24.85) | (22.96) | 8.23 |
| **Contribution margin** | **44.35** | **36.16** | **22.65** |
| *Contribution margin %* | *64.09%* | *61.16%* | *2.93* |
| Operating costs | (15.50) | (13.87) | 11.75 |
| *Operating cost % total revenue* | *22.40%* | *23.46%* | *(1.06)* |
| **EBITDA** | **28.85** | **22.29** | **29.43** |
| *EBITDA margin %* | *41.69%* | *37.70%* | *3.99* |
| Depreciation, impairment & amortisation | (12.70) | (9.91) | 28.15 |
| Financing cost | (0.24) | (0.87) | (72.41) |
| Taxation | (4.65) | (3.74) | 24.33 |
| **Net Income** | **11.26** | **7.77** | **44.92** |
| Earnings per share | 0.28 | 0.19 | 47.37 |

- An impairment charge of Kshs 2.1bn (30 September 2012: Nil) due to network modernization has been charged to the statement of comprehensive income.
- Reduced financing costs due to repayment of short-term borrowings.

**Condensed consolidated statement of financial position**

| Kshs Bn | As at 30-Sep-13 | As at 30-Sep-12 | % Increase/ (Decrease) |
|---|---|---|---|
| Equity and non-controlling interest | 79.25 | 70.50 | 12.41 |
| Borrowings | 12.00 | 12.00 | - |
| **Capital employed** | **91.25** | **82.50** | **10.61** |
| **Non-current assets** | **102.33** | **99.66** | **2.68** |
| Inventories | 2.49 | 3.45 | (27.83) |
| Receivables and prepayments | 11.51 | 11.67 | (1.37) |
| Cash and cash equivalents | 19.81 | 13.20 | 50.08 |
| **Current assets** | **33.81** | **28.32** | **19.39** |
| Payables and accrued expenses | 44.89 | 38.45 | 16.75 |
| Borrowings | - | 7.03 | (100.00) |
| **Current liabilities** | **44.89** | **45.48** | **(1.30)** |
| Net current liabilities | (11.08) | (17.16) | (35.43) |
| **Net assets** | **91.25** | **82.50** | **10.61** |
| Net (cash)/gearing (borrowing less cash) % Capital Employed | (8.56%) | 7.07% | (15.63) |
| Gross gearing (gross borrowing) % Capital Employed | 13.15% | 23.07% | (9.92) |

- Capital employed increased in line with strong growth in shareholder funds and favourable trading results.
- Current assets increased due to cash from favourable trading results offset by decrease in stock holding.
- Reduced gearing ratio as a result of repayment of short term borrowings.

**Net Cash**

| Kshs Bn | As at 30-Sep-13 | As at 30-Sep-12 | % Increase/ (Decrease) |
|---|---|---|---|
| Cash and cash equivalents | 19.81 | 13.20 | 50.08 |
| Bank and other borrowings | - | (7.03) | 100.00 |
| Debt - corporate bond | (12.00) | (12.00) | - |
| **Total net cash/(debt)** | **7.81** | **(5.83)** | **233.96** |
| Net cash/(debt)/EBITDA (times) | 0.27 | (0.26) | 203.85 |

- Repayment was made of all short term borrowings.

**Free Cashflow**

| Kshs Bn | 30-Sep-13 | 30-Sep-12 | % Increase/ (Decrease) |
|---|---|---|---|
| **EBITDA** | **28.85** | **22.29** | 29.43 |
| Working capital movement | 2.05 | (5.87) | 134.92 |
| Capital Additions | (10.52) | (8.55) | 23.04 |
| Other capital movements | 0.01 | 0.04 | (75.00) |
| **Operating free cash flow** | **20.39** | **7.91** | **157.77** |
| Interest paid | (0.38) | (0.77) | (50.65) |
| Taxation paid | (6.27) | (2.00) | 213.50 |
| **Free cash flow** | **13.74** | **5.14** | **167.32** |

- Increase in free cash flow due to favourable trading results and working capital management.
- Increase in tax paid inline with improved trading results.