

Sustained Revenue Generation

What we want to Achieve

- ✓ **Reduced reliance on voice through diversification into non-voice channels**
- ✓ **Product innovation and value addition**
- ✓ **Drive growth in Enterprise business**

Despite macro-economic challenges the mobile service market in Kenya continues to grow with 28.1 million Kenyans now accessing mobile services. Mobile penetration is now just over 70% ; we still have significant room for further growth.

Our core business remains voice and voice revenues continue to show good growth. We are executing well against our strategy of growing revenues beyond voice - M-PESA & broadband being the main drivers of non-voice revenue growth.

✓ VOICE

In the financial year ended 31st March 2012, we grew our active customer base by 10% to 19.1 million. We have achieved this despite a heightened competitive environment that saw voice tariffs drop to Kshs 1, increased inflationary pressure, depreciation of the Kenya Shilling and increase in energy costs that negatively impacted both the company and our customer.

*"Safaricom has embarked on a campaign to register the subscribers who have not yet registered. A short code (*232#) has been developed for users to confirm their registration details."*

Our voice business has continued to perform beyond expectations with increased traffic and an impressive growth in voice revenue of 9%. Our drive to maintain voice revenues through consumer promotions (such as "Nguruma Ibambe", "Bamba na Bob" and "Furahi Na Safaricom") and Retailer promotions (like the "Mauzo Kabambe") aimed at boosting airtime distribution and availability has enabled us maintain our revenue market share above 80%.

In the second half of the year, Safaricom increased the headline voice tariff by Kshs 1. Following the price change, usage declined by 18.7% from an average of 70m minutes per day to 57m. PrePay revenue increased by 17.9% post rate change implementation from an average of Kshs.145m daily revenue to Kshs.171m.

Further international tariffs to Zone 1 (USA, India, China, Canada) were increased from Kshs 3 to Kshs 10 in October 2011. This impacted traffic and a promotion was launched in December with a reduced rate of Kshs 3 from Kshs 10. The promotion has been successful as the traffic in the promotional period grew by over 100% compared to pre-promo levels.

Our strategy to diversify into non-voice services has continued to deliver strong growth with these revenue streams gaining traction and now contributing 29% of total revenues.

Our Ringback Tone service, "SKIZA" has experienced strong growth in subscribers. This was mainly due to the development of an easy USSD search mechanism that made it easy for subscribers to search for tunes hence increased uptake of the product.

Premium rate services continued to grow in subscription among our customers. These services include purchase of ring tones, wall papers, music as well as gaming activities all run by our premium rate service partners.

We continue to be the leaders in innovation as witnessed by the enhancement of our Bonga Loyalty Program which introduced sharing of Bonga points ("Changa Na Bonga") and purchase of merchandise using part cash and part bonga points (Bonga Part Payment), all aimed at rewarding and retaining our loyal subscribers.

We introduced the tiered "Okoa Jahazi" (emergency top up) product which allows subscribers to select a value they prefer rather than a fixed flat amount that led to an increase in subscriber uptake at the beginning of the year. Previously customers could only "Okoa" Kshs 50. Currently customers can get emergency top ups at a range of Kshs 10, Kshs 20, Kshs 50 and Kshs 100.

We increased our focus on the retention of High Value Customers – HVCs (both PrePay and PostPay) – witnessed with the launch of the Safaricom Platinum Club with exclusive value propositions and the introduction of the Karibu PostPay Bundles aimed at increasing the number of PostPay customers.

✓ INTERNET AND CONTENT

Our broadband revenues continued to witness double digit growth to 23% despite the overall tariff reduction of about 70%. Internet users have increased from 3.5 million to 4.6 million at the end of the year supported by an increase in data enabled phones on the network. Internet usage grew tremendously from the previous year, largely driven by our aggressive device sales, availing of local content to our consumers and targeted tariffs geared to various consumer segments.

Handsets



Safaricom's most affordable handset is the Vodafone VF150 retailing at Kshs. 999. Increasingly our priority is to reduce the cost of internet access via mobile. Our most affordable-internet enabled handsets are the Samsung Maple and Alcatel OT 306 both retailing at Kshs. 1,999. The phones use the Opera Mini browser which works effectively on 2G networks. The Kabambe 3G is our most affordable 3G internet enabled handset yet retailing at Kshs. 2,999.

Laptops



In an effort to make computers affordable, we continuously work with suppliers to provide good deals on various notebooks and netbooks. The most affordable laptop ever sold at Safaricom is the LG X120/X130 which retailed for Kshs. 16,999. The netbooks are best suited for learning purposes as well as web browsing.

Webbox



In September 2011, Safaricom rolled out a plug and play keyboard dubbed 'Safaricom Webbox' which is revolutionizing mobile internet access by using televisions to provide a big screen internet experience at home without a computer. The Webbox, adopted from Vodafone UK, offers an opportunity to significantly increase the number of homes with internet access by using their televisions to display the internet on a big screen for as little as Kshs. 4,999. Since its launch, the Webbox has sold 4100 pcs and there is a strong demand across the market.



In addition to the tariff review, we introduced time based billing for data with the launch of "Browse @ Kshs 2." The product has been well received by our customers. With internet penetration at 44% in Kenya as at December 2011, there is great potential for data to grow further.

To create awareness of the content available on the internet, several campaigns have been run to popularize the data short code *544# among our customers to increase daily usage. By dialing this code on their phones, subscribers are able to select content relating to soccer updates, music downloads as well as social networks. We also launched a YouTube campaign targeted at customers with 3G enabled devices.

The campaign was aimed at creating awareness on the diversity on the videos available on YouTube and also spur a daily habit of accessing and using YouTube. The local content service dubbed 'Kula Happy' is local comedy in different local dialects which had a huge impact in acquisition of new data subscribers.

As part of our commitment to offer a best in class service, Safaricom upgraded the 3G network speeds to 21 and 42 Mbps in the high traffic data belt areas. As a result, Safaricom maintained market share leadership of 77% in Kenya.

Our focus for the next year will be

- Adding value to our customers through provision of unmatched service.
- To enhance data revenue, we shall focus on profiling the data users and deliver targeted unrivalled data propositions across the country.
- By partnering with strategic partners both locally and internationally, we shall grow the content market and develop local capacity for application development. We shall aim to deliver smarter data enabled handsets to our customers that are affordable and offer a good customer experience.

✓ M-PESA

Changing Kenya forever

It began with a simple yet revolutionary idea – What if people could use an SMS to transfer money between themselves? In answering this question, the global phenomenon that is known as M-PESA was born.

5 years ago in March, M-PESA was launched as a fast, safe and affordable way to send and receive money via a mobile phone. Its growth since then has been nothing short of phenomenal. As of March 2012 there were 14.91 million customers actively using the M-PESA service, supported by a nationwide agent network of over 39,000 outlets.

M-PESA's convenience and low cost has provided financial inclusion to many Kenyans who do not have bank accounts and provides them with an avenue to conveniently transfer money, pay for bill or even buy goods. M-PESA has now evolved into a payments platform with over 900 paybill partners and over 300 bulk payments partners.

M-PESA Driving Innovation

Person to Person Transfers: This was the very first service available on M-PESA that allows customers to send and receive money from both Registered and unregistered M-PESA customers.

"These days, I'm very excited because my customers pay me via M-PESA. A while back, a customer could give me a note of Kshs 1,000 while making a payment for only Kshs 300 and I would spend a lot of time looking for loose change to give him back. Nowadays, I ask my customers to pay through M-PESA and they are very happy to do so". Mama Shiru from Gikomba.

Banking pillar: Over 25 banks have partnered with M-PESA to allow their customers transfer money between their bank account and their M-PESA account. With this service customers are able to move money from their bank account into their M-PESA account and vice versa. Once the money is moved into M-PESA customers can access the money from any of our over 39,000 agent outlets countrywide or withdraw at over 700 ATM's in Kenya. From their M-PESA account customers can directly pay bills or buy goods at any of our partner outlets.

Pay Bill: Over one million people now use M-PESA conveniently to pay their monthly bills through the Pay Bill function – electricity and water bills being prime examples – saving time and money for the individuals, and increasing efficiency for the companies receiving the payments.

Bulk Payments: A growing number of corporations that employ large numbers of people who do not have bank accounts have moved almost their entire payroll function over to M-PESA on the Bulk Payment Service. M-PESA is also used by corporate organizations to disburse payments for promotions payments.

Buy Goods: Customers can buy goods using M-PESA at any of our partner retail outlets such as Naivas, Uchumi, Bata, Deacons among others. M-PESA provides the security of handling e-cash.

Lipa Karo: All learning institutions can now have an M-PESA paybill number where parents & students can pay fees from their phones using the Pay bill function on their M-PESA Menu.

M-PESA Prepay Safari Card: This is a visa card launched in partnership with I&M Bank Ltd. It's a first of its kind service worldwide that allows users to load money into the card exclusively via M-PESA and make local, online and international transactions.

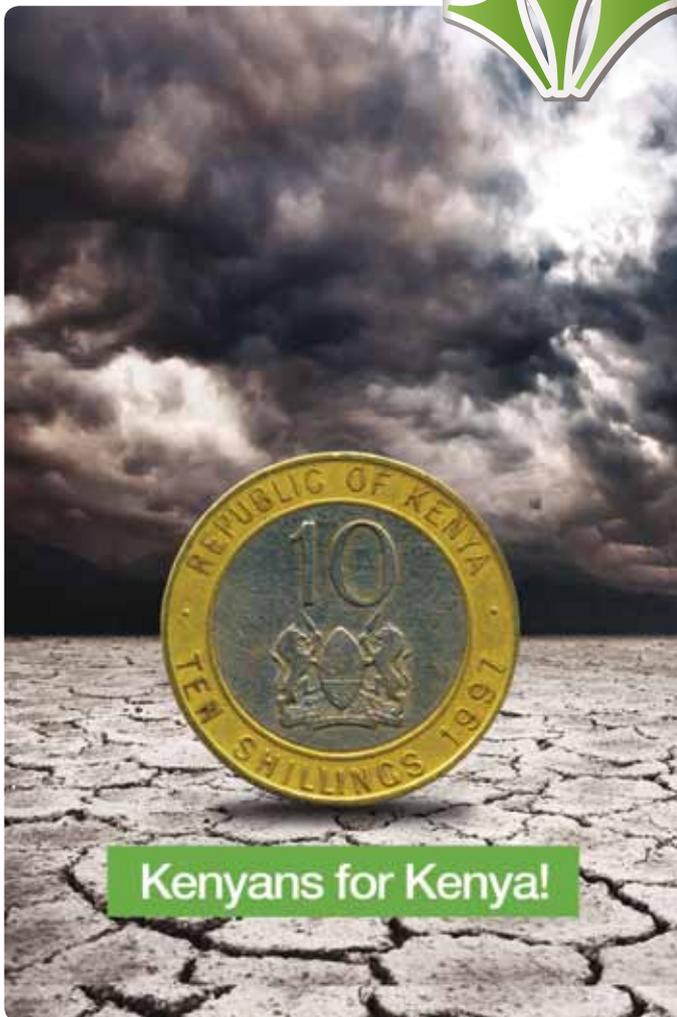
M-Ticketing: M-PESA Ticketing is a mobile ticketing service that enables Safaricom Subscribers to search, book, pay and get a ticket on their mobile phones for various services spanning from entertainment, travel, sport and others anytime, anywhere.

ATM withdrawal: You can access your M-PESA account conveniently from over 700 Pesapoint, Equity and Diamond Trust Bank (DTB) ATM's country wide. This channel offers an alternative access to your M-PESA funds.

Empowering Communities

Kenyans for Kenya

This was an initiative conceived by Safaricom Limited through M-PESA. We designed an initiative to provide a simple mechanism for Kenyans to donate; to engage and galvanize Kenyans' spirit of giving; and to transform responses and perceptions towards famine and public giving. As of 6th September 2011, Ksh. 671 million had been raised. M-PESA facilitated 25% of total contributions in terms of sums of money; and 99.5% of all contributions made via mobile money transfer within the initiative period.



Kilimo Salama initiative is a pay-as-you-plant insurance program for Kenyan farmers that protects them against adverse weather conditions like drought and excess rain. Over 12,000 farmers in Kenya have benefitted from this venture that is a partnership between Safaricom's MPESA service, Syngenta Foundation for Sustainable Agriculture and UAP Insurance. In the partnership, the insurer uses low cost mobile phone payment and data system (enabled by MPESA) to issue insurance policies and compensation to farmers in form of seeds, fertilizers and other farm inputs in cases of loss.

Changamka is an Integrated Health Financing Company that uses technology to improve access to affordable quality healthcare. Through a partnership with M-PESA, over 3080 mothers in Kenya acquired a Changamka Maternity's Savings Card that allows them to save for safe delivery. M-PESA provides the simplest saving platform for transfer of money to Changamka Maternity Account through M-PESA's paybill function.



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Multiple Awards

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The future for M-PESA is bright.

We have just launched an M-PESA Mini-Statement service where customers can access their last 5 M-PESA transactions by dialing *234# from their mobile phones. Upon requesting for the mini-statement is displayed as an SMS

The vision for M-PESA is:

- To grow more partners in Customer to Business (C2B) and Business to Customer (B2C)
- Drive Micro Payments as we continue with our efforts at driving financial inclusion for all Kenyans
- Improving our distribution network within nontraditional channels
- Improving sim card distribution in the rural areas through improving on distribution and RTM (Route to Market) strategies.
- Growth of low entry data devices
- Growth of Mpesa both in terms of agent numbers and quality of agents
- Improvement of float levels in M-PESA outlets.

✓ ENTERPRISE BUSINESS

In the period under review Safaricom Business has evolved into an integrated service provider through delivery of a host of advanced IP, data, voice, video collaboration tools, and security solutions to meet the needs of business and government customers. This has been driven by Safaricom desire to become the most admired business partner by developing cost effective solutions that will enable business succeed. With this came, major milestones that have strengthened our credentials in the Enterprise Market including

- Cisco MSCP Certification that recognizes Safaricom as a Managed Solutions service provider. This puts Safaricom in the global stage as one of the select service providers to achieve this certification
- Award of being "The Best ICT Solution Provider for Enterprise Market in Africa" at the AfricaCom Awards Held in Cape Town in November 2011
- Infrastructure award at the East Africa CIO 100 Awards held in November 2011 for "The Deployment of the Largest Indigenous Cloud in Africa"

Think Virtual Meetings Think Safaricom Business

Increase productivity, save time and travel costs with Safaricom Virtual Meeting Solutions.



Impressive revenue growth driven by innovation

Leveraging on our extensive network and innovation Safaricom Business recorded impressive growth.

We have given the SME Segment, which is estimated at 120,000 formal businesses, special focus in the course of the year as part of our growth pillars. To cater for this segment we launched 'Zidisha Biashara', an integrated bundled offering of voice, data, and communication devices. Further the bundle has a website offer to get the SMEs online, emails as well as capacity building programs to enhance the productivity of SMEs.

We are currently executing this in an ecosystem of partners that include leading banks in the country, software providers such as Google as well as capacity building partners.

In the 2nd Half of the year we took leadership in the provision of cloud services in the region through the launch of the largest indigenous cloud dubbed 'Safaricom Cloud' on October 26, 2011.

This will enable us to offer comprehensive and secure managed services for any size of enterprise and government customers, on scale and on demand. We now cover the entire ICT ecosystem from data centre services, software and applications, business continuity and private clouds.

Our nationwide reach in both subscriber numbers and network, coupled with our extensive M-PESA ecosystem has made us the innovation and technology partner of choice for the government, NGO and other public sector players. We are expanding innovations to diverse areas such as:

- Working with USAID, Clinton Health Initiatives and Ministry of Health (TB Division, HSSF) on replicable technology solutions for capacity building, surveillance, training, monitoring & evaluation and governance/funds management for the TB/Infectious Diseases and Health Sector Sustenance Funds.
- To address the specific and very real challenges and opportunities presented by Health Access and Service Delivery in Kenya, we are engaged in rolling out an ambitious eHealth plan in partnership with the Ministry of Health.
- On the education front, we are building partnerships with local and global eLearning content and technology innovators to deliver the largest and most comprehensive eLearning ecosystem.

- We are moving into the Machine to Machine (M2M) and mobile applications space where we are now able to offer corporate and government customers value added services around areas such as workforce management, transportation, retail distribution, security and building management as well as smart utilities.
- Other areas of focus include the retail and distribution sectors where M-PESA is already an established medium for payments and transactions. Our M2M and cloud solution has provided the launch pad for next generation M2M-based platforms bringing together retail, banking, security, manufacturing and transportation sectors into a seamless managed transactions broker and interchange.

Unique infrastructure strength

Safaricom ownership of The East African Marine System (TEAMS) capacity, IRU purchase of Optical Power Ground Wire (OPGW) fiber with Kenya Power and Lighting Company and purchase of Government owned National Fibre Optic Backbone Infrastructure (NOFBI) has positioned Safaricom as a provider of Wholesale Capacity and Services to clients in the region who require international connectivity and Internet Capacity services.



Safaricom owns 22.5% of TEAMS Capacity which means that there is 22.95 Gigabits per second (Gbps) of Submarine Capacity available out of which about 11 Gbps is available for resell to clients. The TEAMS system is designed to a capacity of 1.24 Terabits per second and therefore huge potential to manage Wholesale Business in the entire East Africa region.

