Press Release

Safaricom Limited announces strong operational and financial performance for the financial year ended 31st March 2012

Key Highlights

Revenue growth of 13% and strong cost control in H2

- Revenue grew +13% to Kshs.107.0 bn
- Total customers base grew +11% to 19.1mn
- Voice revenues grew by +9% to Kshs.69.0bn

Continued growing significance of non- voice service revenue (M-PESA/SMS/Broadband) – up 27%

- Non-voice service revenue now represents 29% of total revenues
- Mobile and fixed data revenue increased by 23% to Kshs.6.6bn
- Mobile data customers increased 31% to 4.6mn

M-PESA remains a key differentiator

- M-PESA revenue increased by 43% to Kshs.16.9bn
- M-PESA registered customers grew 6% to 14.9mn – 78% of our total customer base

Significant macro-economic impact

- High inflation driven by escalating food and fuel prices
- Depreciating shilling in H1 and high fuel prices have driven up operating costs
- High interest rates in H2 have resulted in an increase in financing costs
- Shilling depreciation in H1 resulted in realized forex losses of Kshs. 1.1bn for the full year

Strong cost management

- Stabilised operating costs in H2 through stable shilling in H2
- Resilient FY EBITDA of Kshs.37.5 bn (+5%) and an EBITDA margin of 35%
- Net profit declines by 0.5bn (-4%) to Kshs 12.6bn due to a forex loss of Ksh. 1.1bn
- Free cash flow improved by 110% to Kshs. 9.4bn through EBITDA margin improvement and positive impact from working capital management initiatives

Bob Collymore, Safaricom Limited CEO, commented:

"Safaricom operates in an increasingly tough environment characterised by low voice tariffs, intense inflationary pressure, high borrowing costs and foreign exchange fluctuations.

Despite these conditions, we grew our total customer base by 11% to 19.1 million and our revenue by 13% to Kshs.107.0bn. In October we increased our headline voice tariffs, in response to difficult economic conditions, and this combined with our increased customer base, helped grow voice revenue by 9% in the year.

Our strategy continues to deliver growth with non-voice revenue (M-PESA/SMS/Broadband) growing 27% in the year and now contributing 29% of total revenues.

M-PESA remains a key driver of this growth with revenue of Kshs 16.9bn and a growth of 43% in the year. We continue to improve access to this service for our 15 million registered users, through opening over 12,000 new outlets in the year – we now have close to 40,000 outlets nationwide. We introduced more bands and lowered transaction fees for the lower bands in the M-PESA tariff structure, making it more convenient and cheaper for the bulk of our customers. M-PESA continues to offer valuable employment opportunities to the Kenyan population and currently employs over 50,000 people directly.

Despite the overall reduction in Safaricom's broadband tariffs, data revenue grew by 23% to Kshs 6.6bn with distinct internet users increasing 31% to 4.6 million by the end of the year. This growth was supported by increased penetration of data enabled phones with just over 400,000 smart phones in use on our network. Internet usage growth was largely driven by aggressive device sales, availability of local content to our customers and targeted tariffs geared to various customer segments. Several campaigns were launched in the year like "*Bamba Unlimited*", to create awareness of the content available on the internet such as music and video downloads as well as social networks.

As part of our commitment to offer a best in class service, we upgraded our 3G network to the latest available technology that will enable speeds of 21 and 42 Mbps. We continued to invest in the capacity and reach of our 3G network with 1,439 3G enabled sites and 187 Wimax sites. With over 75% of the market using Safaricom connected mobile devices to access the internet, we are the undisputed market leader in Data.

We have enhanced our Bonga Loyalty Program by the sharing of Bonga points *("Changa Na Bonga"*) and purchase of merchandise using part cash and part Bonga points ("*Bonga Part Payment"*). We also introduced the tiered emergency top-up *"Okoa Jahazi"* that allows subscribers to access a wider range of top-ups between Kshs 10 and Kshs 100. We have also increased our focus on the retention of high value customers. All this is aimed at recognizing, rewarding and retaining our loyal customers.

We are on track to deliver our cost initiatives aimed at protecting our bottom line and improving our margins. Early results of these efforts are evidenced in this financial year's performance especially in the second half - and we will continue to drive these initiatives forward to combat inflationary pressures and improve our working capital optimisation initiatives.

In light of the strong financial performance in the past year, the Board recommends a dividend of Kshs. 0.22 per share – an increase of 10%. We confirm our progressive dividend policy – whenever possible, it will be the Company's intention to, at least, maintain annual dividend payments at the level declared in the previous year.

FY12/13 STRATEGIC PRIORITIES

Our success is totally dependent on our focus on quality, product differentiation, value addition and unmatched customer experience. We will continue offering our customers relevant products and will pay particular attention to customer retention and innovation.

We will continue investing in our network coverage and capacity improvement to cater for growth in use of broadband and in particular mobile broadband. To this end we will commence the build out of our own fibre network over the next four years to augment the current dark fibre capacity we lease from various providers. We also intend to be the provider of choice as an integrated solutions provider for our enterprise customers.

Our people are at the core of everything we do and we will continue investing in the development of staff skills with a focus to achieve future business needs.

Five years after inception; M-PESA will continue to play a pivotal role in financial inclusion in the country through expansion and introduction of various financial products on the platform through partnerships with financial institutions.

Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ending 31st March 2012:

Condensed consolidated statement of comprehensive income

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Kshs Bn	31-Mar-12	31-Mar-11	% Increase/ (Decrease)
Total revenue	107.00	94.83	12.83
Direct Costs	(43.47)	(37.24)	16.74
Operating expenses	(26.03)	(21.87)	19.01
EBITDA	**37.50**	**35.72**	**4.96**
Depreciation and amortisation	(17.34)	(16.33)	6.19
Operating profit	**20.15**	**19.39**	**3.93**
Net financing & forex costs	(2.78)	(1.04)	168.44
Share of associate profit	0.00	0.01	(89.93)
Profit before taxation	**17.37**	**18.36**	**(5.40)**
Taxation	(4.74)	(5.20)	(8.85)
Profit after taxation	**12.63**	**13.16**	**(4.04)**
Earnings per share (Kshs)	**0.32**	**0.33**	**(4.04)**
Key indicators			
Customers (m)	19.07	17.18	11.01
Registered M-PESA users (m)	14.91	14.01	6.45
Number of fixed data connections	6,020	4,483	34.29
Distinct data customers (m)	4.553	3.479	30.86
Churn (%)	27.9	30.8	
EBITDA margin %	35.0	37.7	
Operating profit margin %	18.8	20.4	
Net profit margin %	11.8	13.9	
Effective taxation rate %	27.3	28.3	

- Total revenues increased by 12.8% from Kshs 94.83bn to Kshs 107.00bn driven by significant growth in M-PESA and data revenue and better than expected growth in voice revenues of 8.6%.

Revenue analysis:

Kshs Bn	31-Mar-12	31 March 2011	% Increase/ (Decrease)
Voice	68.96	63.50	8.59
Total Data	31.24	24.70	26.48
SMS	7.77	7.54	2.96
M-PESA	16.87	11.78	43.19
Data (mobile & fixed)	6.59	5.37	22.84
Service revenue	**100.19**	**88.20**	**13.60**
Acquisition revenue	6.80	6.64	2.53
Total revenue	**107.00**	**94.83**	**12.83**
Data revenue % total revenue	**29.00**	**26.00**	
Mobile service revenue ARPU	**456.0**	**436.6**	**4.43**

- Voice revenues increased by 8.6% to Kshs. 68.9bn, due to mid-year upward revision of retail voice tariffs, an 11% increase in customers and a 20% increase in MOUs (minutes of use).

- Mobile service ARPU increased by 4.4% due to a combined increase in voice ARPU by 3.3% and M-PESA ARPU by 18.5%.

- Increase in direct costs of 16.7% mainly due to costs related to revenue including interconnect costs, airtime commissions and customer acquisitions costs.

- Operating costs increased by 19% as a result of personnel related costs made up of annual adjustments in pay and the introduction of employee share grants to boost retention. Network operating expenses have increased in line with network expansion, additional diesel and electricity costs and costs of fibre to offer redundancy

Condensed consolidated statement of financial position

Kshs Bn	As at 31-Mar-12	As at 31-Mar-11	% Increase/ (Decrease)
Equity and non-controlling interest	72.08	67.45	6.9
Borrowings	12.10	12.11	(0.0)
Other liabilities	0.10	0.18	(45.2)
Capital employed	**84.28**	**79.74**	**5.7**
Non-current assets	100.71	91.15	10.5
Current assets			
Inventories	2.65	5.88	(54.9)
Receivables and prepayments	9.73	10.56	(7.8)
Cash and cash equivalents	8.81	5.26	67.5
	21.19	**21.70**	**(2.3)**
Current liabilities			
Payables and accrued expenses	30.61	31.10	(1.6)
Borrowings	7.01	3.02	132.3
	37.62	**34.12**	**10.3**
Net current liabilities	-16.42	-12.42	**32.3**
Net assets	**84.28**	**78.74**	**7.0**
Net gearing (borrowing less cash) (%)	13	13	

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

- Increase in current liabilities was due to the drawdown of Kshs. 4 bn of a short term revolving credit facility.

Net Debt

Kshs Bn	As at 31-Mar 2012	As at 31-Mar 2011	% Increase/ (Decrease)
Cash and cash equivalents	(8.81)	(5.26)	67.5
Bank and other borrowings	7.11	3.12	127.8
Debt - corporate bond	12.00	12.00	-
Total net debt	10.30	9.86	4.5
Net debt/EBITDA (times)	0.27	0.28	

- Net debt improved due to draw down of Kshs 4bn of a Kshs 8bn short term revolving credit facility. This effect was partly reduced by accelerated debt collections

Capital Investments

Kshs Bn	31-Mar-12	31-Mar-11	% Increase/ (Decrease)
Gross capital expenditure	25.74	25.48	1.01
Capex intensity (%)	24.1	26.9	
Investments	0.53	1.38	-61.57
Total Gross Capital Investments	**26.27**	**26.87**	**-2.21**

- Capital expenditure increased during the year in line with our continued strategy of improving the quality and capacity of the network

- The main expenditure areas in the period were in fixed data, 3G equipment, fibre, and the upgrade of existing 2G coverage to support the growth in customers

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Free Cashflow

Kshs Bn	31-Mar-12	31-Mar-11	% Increase/ (Decrease)
Operating cash flow	44.52	32.84	35.6
Total capital expenditure cash flow	(28.21)	(20.61)	36.9
Operating free cash flow	**16.31**	**12.23**	**33.4**
Interest paid	(1.70)	(1.09)	56.6
Taxation paid	(5.26)	(6.20)	-15.2
Free cash flow	**9.35**	**4.46**	**109.7**

- Increase in operating free cash flow despite increased capital expenditure in the period, due to a positive impact of working capital optimization initiatives.

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