News Release

Safaricom
Twaweza

When we come together,
great things happen.

SAFARICOM PLC ANNOUNCES AUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2018.

KEY HIGHLIGHTS

Delivering on our purpose and strategy continues to achieve good results

- Service revenue growth of 10.0% to KShs 224.54bn.
- Outgoing voice revenue grew by 2.4% to KShs 88.96bn.
- M-PESA revenue increased by 14.2% to KShs 62.91bn.
- Mobile data revenue grew by 24.0% to KShs 36.36bn.
- Messaging (SMS) revenue grew by 6.2% to KShs 17.72bn.
- Fixed service revenue growth of 27.3% to KShs 6.67bn.
- Total customer base increased by 5.1% to 29.6m.
- 30-day active M-PESA customers increased by 8.0% to 20.5m.
- 30-day active mobile data customers increased by 6.2% increase to 17.7m.

Strong financial performance

- 18.3% growth in EBIT to KShs 79.27bn with an EBIT margin of 33.9%[1], up 1.2ppts YoY. Excluding a one off adjustment of KShs 3.35bn in FY 2017, underlying EBIT margin is up 2.4ppts YoY.
- Net Income increased by 14.1% to Kshs 55.29bn. Excluding the one off adjustment of KShs 3.35bn in FY 2017, Net Income growth was 19.9%.
- Free Cash Flow up 27.3% to KShs 55.39bn.

Bob Collymore, Safaricom PLC CEO commented:
Safaricom finished the financial year ending 31st March 2018 ahead of management guidance. This performance was driven by customer growth and retention, having provided customers value through segmented and personalized offers.

Shareholder wealth also grew strongly, with EPS up 19.9% YoY on underlying basis. The solid results are proof of: one, a balanced and resilient business model that does not over index in one revenue stream; two, that the investments and strategies put in place are yielding results and have enabled the business monetize more, and lastly, effective cost management.

We remained resilient despite the macroeconomic headwinds of a prolonged election period, drought, low credit growth, uncertain regulatory environment and enhanced competitor activity. Negative post-election sentiments made voice market share retention a challenge during the September to December 2017 quarter, as

[1] EBIT margin is calculated on total revenue (excluding construction revenue) plus other income

indicated in the report published by the Communications Authority in April 2018. Despite this, our overall customer growth momentum remained solid.

We maintained steady commercial momentum in FY 2018 and remained focused on our strategic pillars of Customer First, Relevant Products and Services and Operational Excellence, guided by our purpose: Transforming Lives.

We sought to live this purpose through our brand promise of "Twaweza", which is captured in the belief that when we come together great things happen. In line with this, last year we supported impactful community projects and strengthened partnerships that transformed lives by delivering relevant solutions in healthcare (M-TIBA) and agriculture (DigiFarm and Connected Farmer).

We also invested in our customer care touch points, self-service channels and reinforcing the security of our services, which resulted in fewer calls to our call centres and shorter waiting times for customers in need of assistance.

In FY 2018 we used segmentation and data analytics to offer relevant products and grow our consumer and enterprise businesses, solidifying and sustaining our network leadership and service differentiation by investing KES 36.4bn in our network.

Looking ahead, our business remains fully cognizant of the shifts in the operating environment and has put in place measures to ensure we embrace the agility required to adapt to the ever-changing marketplace. Safaricom is well positioned to sustain growth in portfolio and actively manage profitability with new disruptive initiatives and offerings in M- PESA, E-Commerce and Home and Enterprise solutions including use of Internet of Things.

Successful expansion projects are the result of painstakingly developing the right partnerships and exploring a wide variety of business cases. So we continue to look for attractive opportunities to take M-PESA to other markets, and currently have projects of similar scale on the horizon.

Operating Review:

Strategic progress
We have implemented various strategies to differentiate our network experience, including reviewing our pricing and offering customers more value through segmented and personalised offers such as Tunukiwa, BLAZE, Flex and Platinum.

These strategies have helped to diversify our sales mix and improve customer retention, which has in turn sustained revenue growth by attracting 1.4 million new customers.

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Safaricom is more than your traditional telco; it is a platform designed to leverage the power of mobile technology to transform lives, and so we continue to de-risk our revenue growth by portfolio expansion and diversification.

In FY 2018 we made good progress in our strategic 'growth engines' – mobile data and M-PESA. We achieved parity in contribution to Service Revenue, with both traditional and non-traditional telco services contributing equally to service revenue. In FY 2018, our service revenue was sustained at strong levels of KES 224.54bn, a growth of 10% YoY.

Voice and SMS

Voice and SMS slices of the pie have been shrinking as a portion of revenue, however they remain significant and continue to defy global trends, reporting a blended growth of 2.9% YoY. This growth has been supported by data-driven segmented and personalized promotions, as well as identifying new market trends and niche use cases for wholesale customers.

Voice grew by 2.3% to KES 95.64bn, while SMS grew by 6.2% to KES17.72bn. Together, voice and SMS revenue now contribute 50.5% of service revenue.

M-PESA

We maintained a steady momentum in our mobile money business, adding 2.1 million new M-PESA customers and achieving revenue growth of 14.2% YoY to KES 62.91bn. M-PESA now contributes 28.0% of service revenue from 20.9% in FY 2015, highlighting its central position as a key growth driver alongside mobile data and displacing traditional voice and SMS.

You will recall that during HY 2018, we looked at the M-PESA ecosystem evolution and called out changing customer behavior. In FY 2015 the traditional M-PESA businesses contributed 88.4% of M-PESA revenue, while new business made up 11.6%. Since then the contribution from new business has more than doubled to 26.4%, including services like C2B, B2B, B2C, Lipa Na M-PESA and International Money Transfer.

We continued on our journey to democratizing M-PESA and enhance use cases for the long-term sustainability of our payments ecosystem, reducing the Lipa Na M-PESA merchant fees by 50%, and scrapping transaction fees for amounts less than KES 200 in order to encourage adoption of service, which we view as a huge untapped opportunity.

As a result, we now have more than 101,000 active merchants, a growth of 76.6% YoY, and over 147.6m Lipa Na M-PESA transactions, up 63.5% YoY.

For the long-term sustainability of this ecosystem and business stream, it is important that new use cases are continually created to enhance the velocity of transactions and keep the e-money circulating within the system.

We have made the decision to invest in these areas despite the short-term impact on our business, as we feel it is the right thing to do. We also continue to improve the customer experience on M-PESA through system enhancement, additional security features and mySafaricom App.

Mobile Data

The sustained demand for data remains a key growth driver. At 16.2%, mobile data has nearly doubled its service revenue contribution and continues to grow, contributing 3.5ppts of the 10.0% service revenue growth. 1.5ppts of the 3.5ppts was driven by increase in active data customers. The remaining 2.0ppts was driven by improvement in ARPU, which grew by 13.0%.

Data usage per subscriber has grown by 56.3% YoY to 421MB while four-year CAGR for data usage stood at 61%, driven by more affordable products and a further increase in the use of 4G handsets, up 24.3% to 2.2mn.

We are monetizing this growth in data usage through 'more-for-more' propositions as well as personalized offers, utilizing advanced data analytics. Customers have responded positively to our segmented marketing approach and concerted efforts to increase bundle adoption, particularly through our 'Tunukiwa Shinda Mamili' offers.

91.9% of our subscribers consume data in bundle, with more than 87.7bn bundles being consumed in FY 2018 representing 71.6% growth YoY from 51.1bn in FY 2017. Still, we remain committed to addressing out-of-bundle pricing through Tunukiwa offers and My Data Manager on mySafaricom App, to encourage in-bundle usage.

In FY 2018 we ran the 'Mambo ni Digital Campaign', a promotional discount on devices, to drive uptake of smartphones. We are now at 36.9% smartphone penetration on our network, and we see a window of opportunity for further expansion in smartphone adoption and migration to 4G. With 4G sites up 49.4% YoY, this will bode well for revenue-growth potential.

Fixed Data

We see demand for high-speed Internet growing rapidly as digitalization of the country takes root. In line with this, investment in infrastructure remains a key area of focus for our business.

Our current fixed footprint stands at 5,000 km of fibre, up 19.3% YoY. The extra capacity unlocked by this investment will enable us accelerate market share gains in the fixed service.

Overall, data contributed 42.0% of service revenue growth, while fixed data now contributes 3.0% of service revenue with 27.3% growth YoY. Our fixed infrastructure strategy aims to optimize the build, partner, wholesale and buy models in order to achieve the widest possible coverage at the most attractive economic cost.

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We believe that investing in our infrastructure will not only reinforce our competitive position, it also represents a compelling opportunity to accelerate our revenue growth, generate attractive incremental returns and further improve our strategic position in the Kenyan market.

Summary and outlook

FY 2018 performance was ahead of management guidance:
• Organic adjusted EBIT growth of 18.3% YoY.
• Free cash flow at 27.3% growth YoY.

We remain confident that the macro economic conditions will have gradual improvement providing a condusive environment for our company to continue to deliver growth. We are hence moving up our guidance for FY 2019 EBIT in range of KShs 85-89Bn.
Our guidance for FY 2019 Capex is in range of KShs 35-38bn. We remain very confident that a mid-teens level capital intensity is consistent with maintaining a leading mobile network experience and supporting our growth in fixed line, thanks to capacity CAPEX savings.

In FY 2019 we look to drive long-term shareholder value by deploying next-generation network services, leveraging data analytics, and segmentation and guided by our purpose of transforming lives to turn innovative ideas into realities."

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1. Key Performance Indicators

Key Performance Indicators	FY18	FY17	% Increase/ (Decrease)
Total customers (m)	29.57	28.13	5.1
Total customer ARPU*	638.65	636.12	0.4
30 day active customers (m)	24.89	24.04	3.5
30 day active customer ARPU*	760.14	741.34	2.5
Churn (%)	24.62	21.57	3.1ppt
Voice			
30 day active voice customers (m)	22.96	22.24	3.2
30 day active voice customer ARPU*	351.03	363.55	(3.4)
Voice ARPU(based on total customers)	272.03	291.27	(6.6)
M-PESA			
M-PESA registered customers (m)	28.64	26.57	7.8
Number of M-PESA agents	156,534	135,544	15.5
30 day active M-PESA customers (m)	20.55	19.02	8.0
30 day active M-PESA ARPU*	264.00	254.95	3.6
Mobile Data			
30 day active mobile data customers (m)	17.67	16.64	6.2
30 day active mobile data ARPU*	172.94	153.07	13.0
SMS			
30 day active SMS customers (m)	17.44	16.85	3.5
30 day active SMS customer ARPU*	84.57	85.13	(0.7)
SMS ARPU (based on total customers)	50.41	51.98	(3.0)
Base Stations			
2G base stations	4,534	4,281	5.9
3G base stations	4,183	3,517	18.9
4G base stations	1,648	1,103	49.4

*ARPU is in Kshs

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2. Condensed consolidated statement of comprehensive income

KShs. Billion	FY18	FY17	%Increase /(Decrease)	%Increase/ (Decrease) Normalised
Voice revenue	95.64	93.46	2.3 %	2.3%
Voice- Outgoing	**88.96**	**86.84**	**2.4 %**	**2.4%**
Voice- Incoming	**6.68**	**6.62**	**0.9 %**	**0.9%**
M-PESA revenue	62.91	55.08	14.2 %	14.2%
SMS revenue	17.72	16.68	6.2 %	6.2%
Mobile data revenue	36.36	29.33	24.0 %	24.0%
Fixed service revenue	6.67	5.24	27.3 %	27.3%
Other service revenue	5.24	4.32	21.3 %	21.3%
Service Revenue	**224.54**	**204.11**	**10.0 %**	**10.0%**
Handset revenue and other revenue	8.98	8.70	3.2 %	3.2%
Construction revenue	0.20	0.08	>100	>100
Total Revenue	**233.72**	**212.89**	**9.8 %**	**9.8%**
Other Income	0.50	2.51	(80.1%)	79.2%
Direct costs	(70.55)	(66.78)	5.6 %	5.6%
Construction costs	(0.20)	(0.08)	>100	>100
Contribution margin	**163.47**	**148.54**	**10.1 %**	**11.7%**
Contribution margin %*	**69.9%**	**69.0%**	**0.9 %**	**1.2%**
Operating costs	(50.61)	(44.92)	12.7 %	9.9%
Forex Loss on trading activities	(0.03)	(0.01)	>100	>100
Opex & forex loss % total revenue	21.6%	20.9%	0.8 %	0.1%
EBITDA	**112.83**	**103.61**	**8.9 %**	**12.5%**
EBITDA margin %*	**48.2%**	**48.1%**	**0.1 %**	**1.1%**
Depreciation, & amortisation	(33.56)	(33.23)	1.0 %	1.0%
EBIT	**79.27**	**70.38**	**12.6 %**	**18.3%**
EBIT Margin %*	**33.9%**	**32.7%**	**1.2 %**	**2.4%**
Net Financing and Forex Losses	0.63	0.23	>100	>100
Share of associate profit	0.01	0.02	(50.0%)	(50.0%)
Earnings Before taxation	**79.91**	**70.63**	**13.1 %**	**18.8%**
Taxation	(24.62)	(22.19)	11.0 %	11.0%
Net Income	**55.29**	**48.44**	**14.1 %**	**19.9%**
Net Income %*	23.6%	22.5%	1.1 %	2.0%
Earnings per share	1.38	1.21	14.1 %	19.9%

* All margins are calculated on total revenue (excluding construction revenue) plus other income

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3. Condensed consolidated statement of financial position

Kshs. Bn	FY18	FY17	%Increase/ (Decrease)
Share Capital (including share premium)	4.20	4.20	-
Retained earnings	75.64	64.43	17.4
Proposed Dividends	44.07	38.86	13.4
Capital Employed	**123.91**	**107.49**	**15.3**
Non-Current Assets	**139.98**	**136.53**	**2.5**
Current Assets			
Inventories	1.61	1.37	17.5
Receivables and prepayments	15.85	17.83	(11.1)
Cash and cash equivalents	9.50	5.96	59.4
Tax recoverable	0.50	-	>100
	27.46	**25.16**	**9.1**
Current Liabilities			
Payables and accrued expenses	39.35	36.57	7.6
Current income tax	0.14	1.09	(87.2)
Borrowings	4.04	16.54	(75.6)
	43.53	**54.20**	**(19.7)**
Net Current Liabilities	(16.07)	(29.04)	(44.7)
Net Assets	**123.91**	**107.49**	**15.3**
Gross gearing (gross borrowing) / Capital employed	3.3%	15.4%	(12.1ppt)

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4. **Net Cash**

Kshs. Bn			
Cash and cash equivalents	9.50	5.96	59.5
Bank and other borrowings	(4.04)	(16.54)	(75.6)
Total net cash	**5.46**	**(10.58)**	**>100**

5. **Free cash flow**

Kshs. Bn			
EBITDA	**112.83**	**103.61**	**8.9**
Working capital movement	4.49	(1.27)	>100
Capital Additions	(36.40)	(35.33)	3.0
Operating free cash flow	**80.92**	**67.01**	**20.8%**
Net Interest received	0.75	0.51	47.1
Taxation paid	(26.28)	(24.00)	9.5
Free cash flow	**55.39**	**43.51**	**27.3**