



# Safaricom Limited

FY14  
Presentation

12<sup>th</sup> May 2014



# Disclaimer

The following presentation is being made only to, and is only directed at, persons to whom such presentations may lawfully be communicated ("relevant persons"). Any person who is not a relevant person should not act or rely on this presentation or its contents.

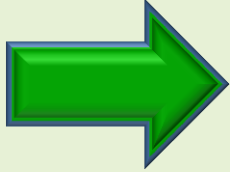
This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite or subscribe for or otherwise acquire securities in within the Company.

The presentation also contains certain non-GAAP financial information. The Group's management believes these measures provide valuable additional information in understanding the performance of the Company's businesses because they provide measures used by the Company to assess performance. Although these measures are important in the management of the business, they should not be viewed as replacements for, but rather as complementary to, the comparable GAAP measures.

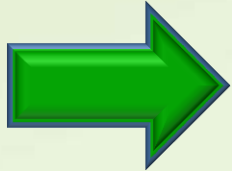
Safaricom, M-PESA and Safaricom/M-PESA logos are trademarks of Safaricom Ltd. Other products and company names mentioned herein maybe the trademarks of their respective owners.



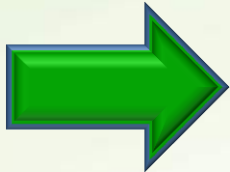
# Contents



**FY14 Highlights**



FY14 Financial Review



Strategic Focus and Guidance

# FY14 Highlights

- Strong commercial and financial performance across all segments and metrics
- Continued investment and innovation in network and services
  - Capex investment of Kshs 27.8bn, up 12%
    - Significant improvements in voice and data service quality based on our ongoing Best Network in Kenya program
    - 770 km of nationwide metro fibre completed, 640 km ongoing
  - 122,000 Lipa na M-PESA merchants recruited; 24,137 actively using the service
- Strong growth of 28% in non-voice service revenue, now 36% of total revenue
- Reinforced position as Kenya's most admired brand, with an overall equity score of 85% and a Kenyan resonance score of 94%\*
- Great progress on our initiatives to transform lives, especially in financial inclusion

\* Internally commissioned research performed by Millward Brown



# Strong financial performance

TOTAL REVENUE



+16% to Kshs 144.7bn

VOICE SERVICE REVENUE



+12% to Kshs 86.3bn

NON-VOICE SERVICE REVENUE  
(SMS, BROADBAND & M-PESA)



+28% to Kshs 52.1bn

EBITDA



+24% to Kshs 60.9bn

NET PROFIT AFTER TAX



+31% to Kshs 23.0bn

FREE CASH FLOW



+56% to Kshs 22.7bn

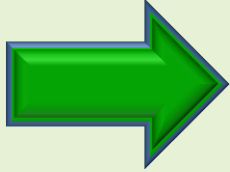
PROPOSED DIVIDEND PER SHARE



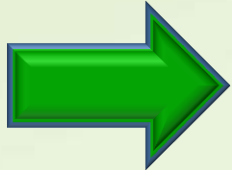
+52% to Kshs 0.47



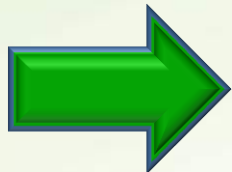
# Contents



FY14 Highlights



**FY14 Financial Review**

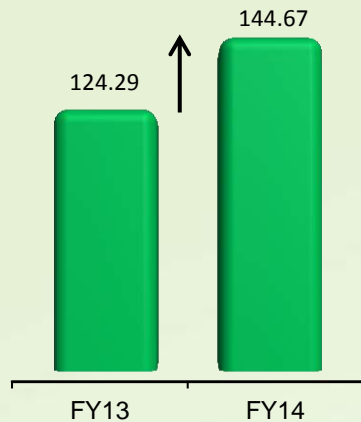


Strategic Focus and Guidance

# Delivering on strategy: Strong financial results

## Total revenue Kshs. Billion

**+16.4%**

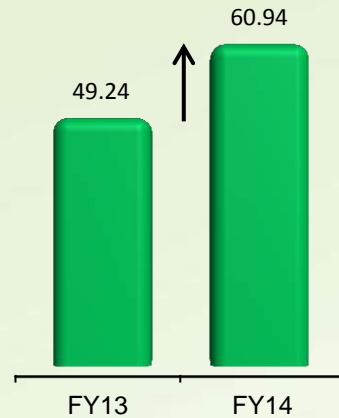


More customers using Safaricom products and services

Increasing ARPUs across Voice, SMS and M-PESA

## EBITDA Kshs. Billion

**+23.8%**

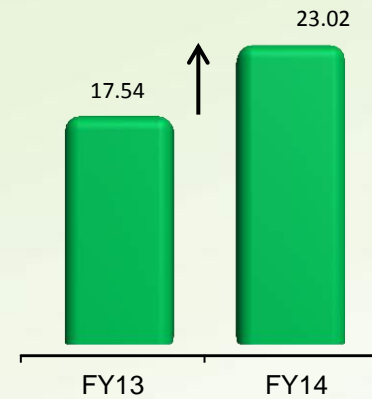


16.4% growth in revenue whilst containing overall cost growth at 11.6%

Robust EBITDA margin at 42.1% - up 2.5ppt

## Net income Kshs. Billion

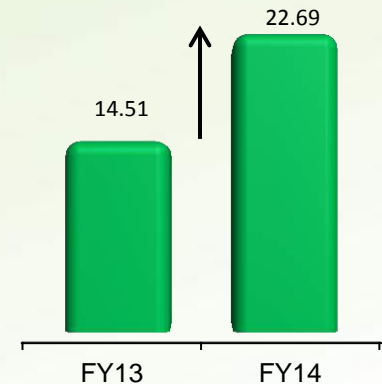
**+31.2%**



Driven by improved EBITDA and lower financing costs, partly offset by accelerated depreciation (non-cash)

## Free cash flow Kshs. Billion

**+56.4%**



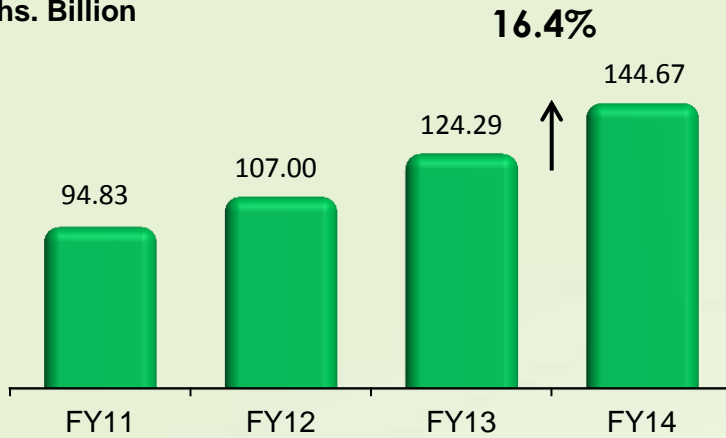
Positive impact of increase in EBITDA and positive working capital



# Strong revenue growth in the period

## FY14 Total revenue

Kshs. Billion

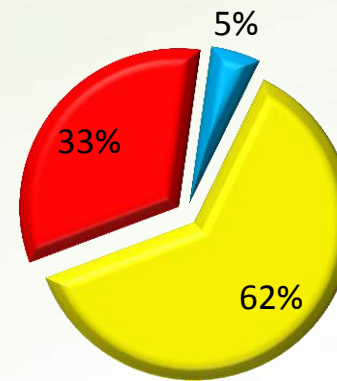


- 16.4% growth in total revenue
- 11.1% growth in customer base to 21.6m customers (19.4m in FY13)
- Voice service revenue growth of 11.6% and non-voice service revenue growth of 27.8%

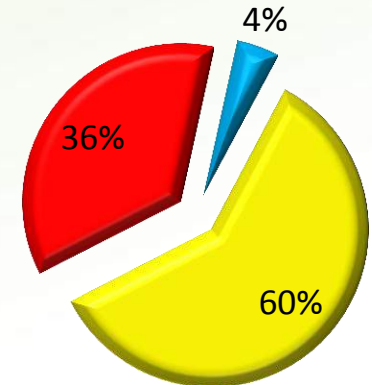
## Total revenue breakdown

Kshs. Billion

### FY13



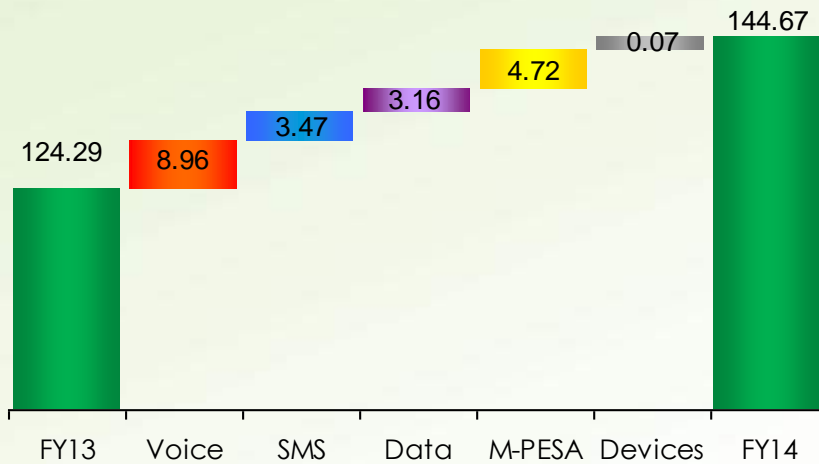
### FY14



■ Voice ■ Non-voice ■ Devices

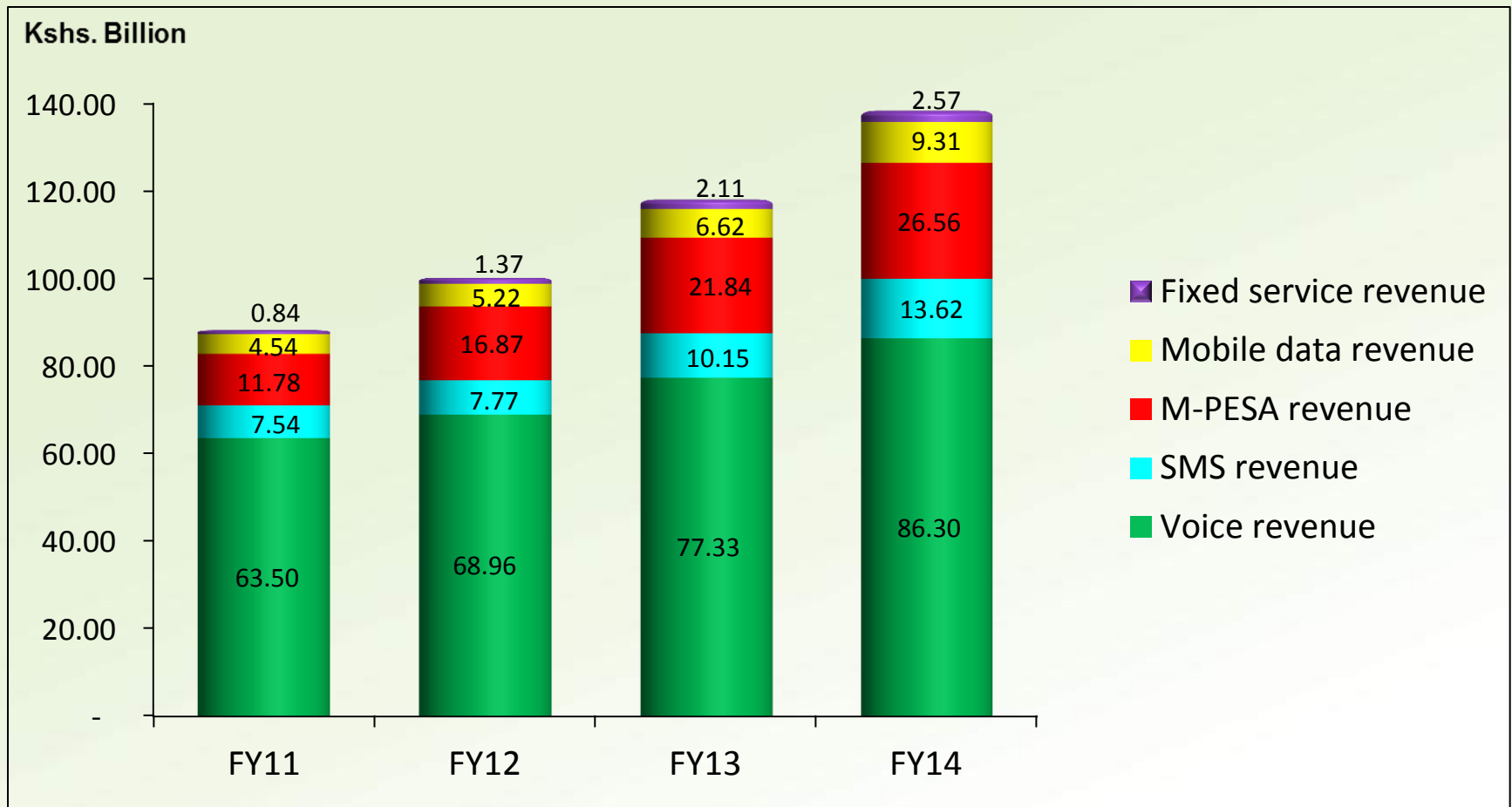
## Total revenue growth

Kshs. Billion





# Service revenue: Growth across all segments



# Lowest retail prices & MTR rate in sub-Saharan Africa

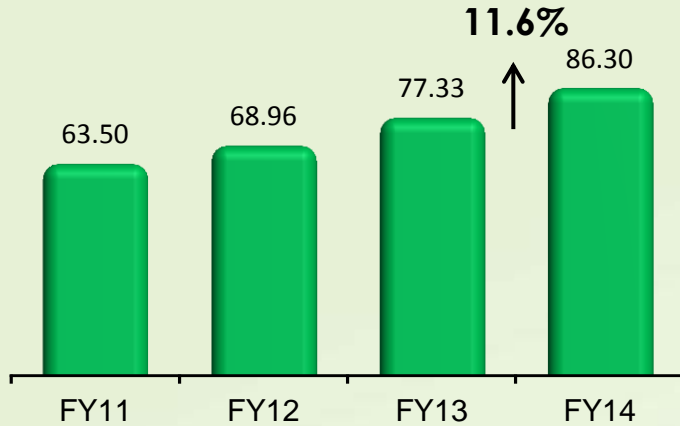
Country	Prepay Retail Price per Minute (US c)	MTR (US c)
Kenya	\$0.04	\$0.013
Angola	\$0.04	
Ghana	\$0.05	\$0.014
Rwanda	\$0.05	\$0.032
Nigeria	\$0.06	\$0.030
Gambia	\$0.07	\$0.013
Tanzania	\$0.10	\$0.020
Uganda	\$0.12	\$0.040
Madagascar	\$0.12	
Namibia	\$0.12	\$0.019
Benin	\$0.13	\$0.123
Burundi	\$0.13	\$0.031
Mozambique	\$0.13	\$0.064
South Africa	\$0.14	\$0.023
Guinea Bissau	\$0.15	

Country	Prepay Retail Price per Minute (US c)	MTR (US c)
Congo	\$0.16	\$0.040
Burkina Faso	\$0.16	\$0.099
Botswana	\$0.16	\$0.033
Cote D'ivoire	\$0.17	\$0.053
Malawi	\$0.17	\$0.083
Central African Republic	\$0.19	
Cameroon	\$0.19	\$0.053
Togo	\$0.21	\$0.111
Lesotho	\$0.21	\$0.044
Mali	\$0.22	\$0.026
Chad	\$0.26	
Gabon	\$0.30	\$0.064
Cape Verde	\$0.37	
Liberia	\$1.71	\$0.151

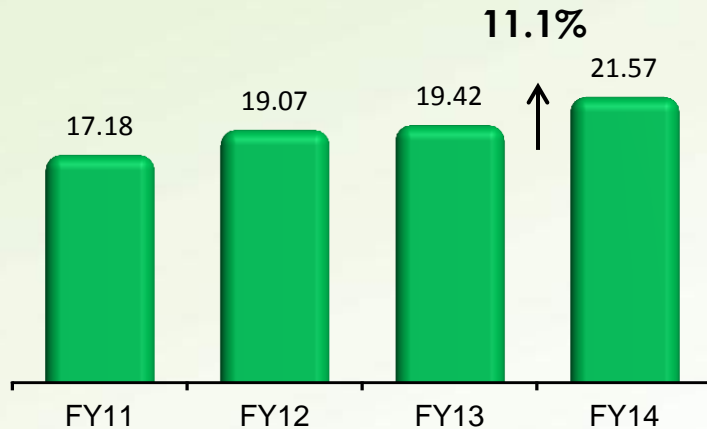
Source: Mobile Africa Tariff Tracker, March 2014

# Voice: Sustained growth momentum

**Voice service revenue**  
Kshs. Billion



**Total customers**  
Million

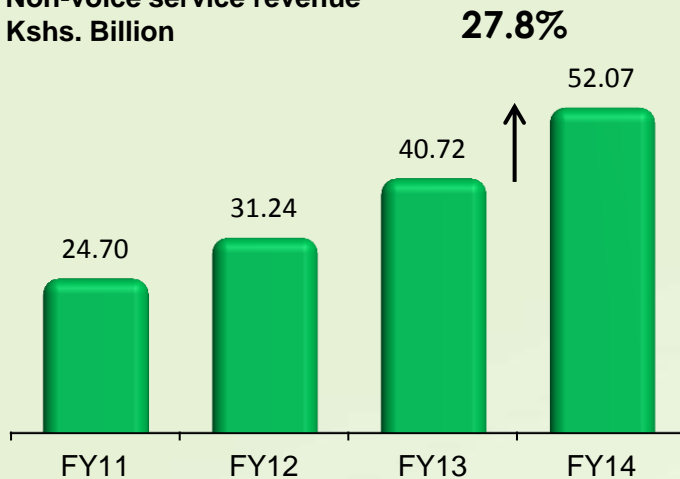


- 11.6% growth in voice service revenue
- Improved prepay airtime distribution
  - Top-up cards distributed to over 258,303 retail outlets and 40 own retail shops
  - 34.0% of airtime top-ups directly through M-PESA
- 36% increase in emergency top ups (*Okoa Jahazi*)
- Average blended rate per minute is Kshs 2.88 for national outgoing calls\*
- 2.6% increase in outbound (on/off net) calling time to 98.2 minutes per customer per month
- 9.0% decrease in inbound calling time to 12.8 minutes per customer per month

\*On top of which 16% VAT and 10% excise duty is levied

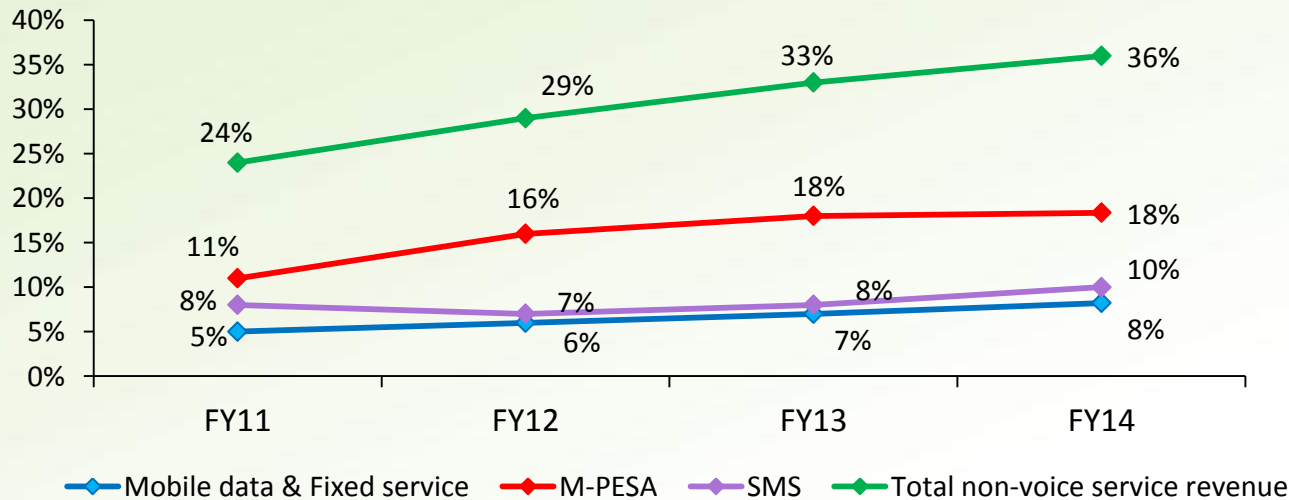
# Strong growth in non-voice service revenue

Non-voice service revenue  
Kshs. Billion



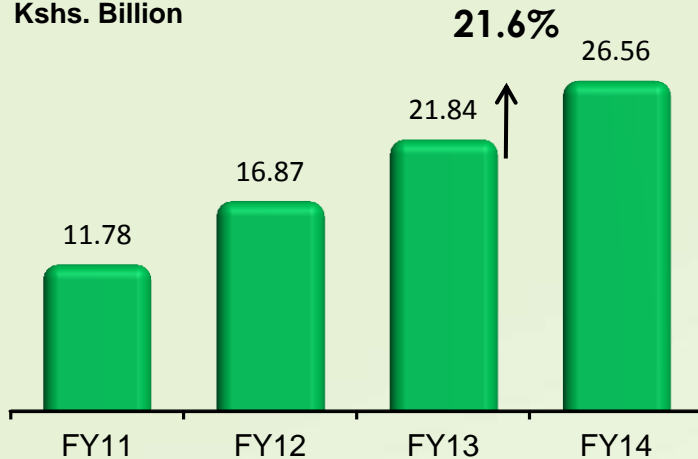
- Non-voice service revenue grew 27.8% - Now 36% of total revenue
- Driven by increased customers and usage
- Revenue growth of:
  - SMS +34.2%
  - Mobile data +40.6%
  - Fixed service +21.8%
  - M-PESA +21.6%

Data/M-PESA/SMS contribution to total revenue



# M-PESA: Driving financial inclusion

**M-PESA revenue**  
Kshs. Billion



- 21.6% growth in M-PESA revenue, driven by:

- 15.4% increase in 30 day active users to 12.2m
- 13.0% increase in registered customers to 19.3m

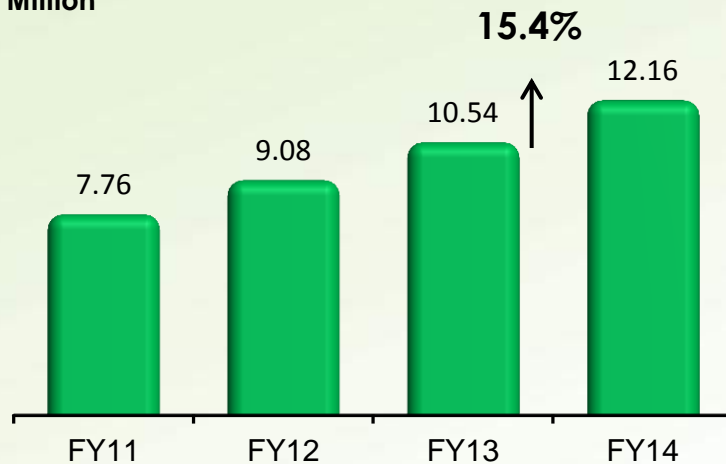
- Kshs 101.3bn of real time payments per month\*

- Person to Person: Kshs 81.6 bn per month (16% growth)
- Person to Business: Kshs 11.0 bn per month (73% growth)
- Business to Person: Kshs 8.7 bn per month (70% growth)

- 15,478 (23.6%) M-PESA agent outlets added in the year; now 81,025 M-PESA agent outlets.

- 122,000 Lipa na M-PESA merchants recruited; 24,137 actively using the service

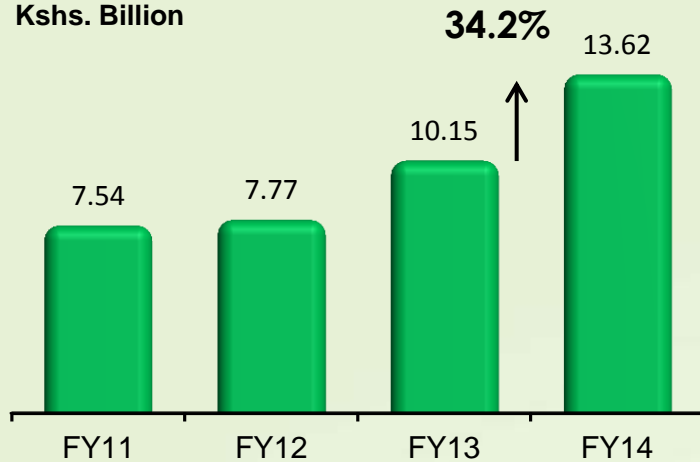
**30-day active M-PESA customers**  
Million



\*Average for April 2013 to March 2014

# SMS: Attractive bundles and promos driving growth

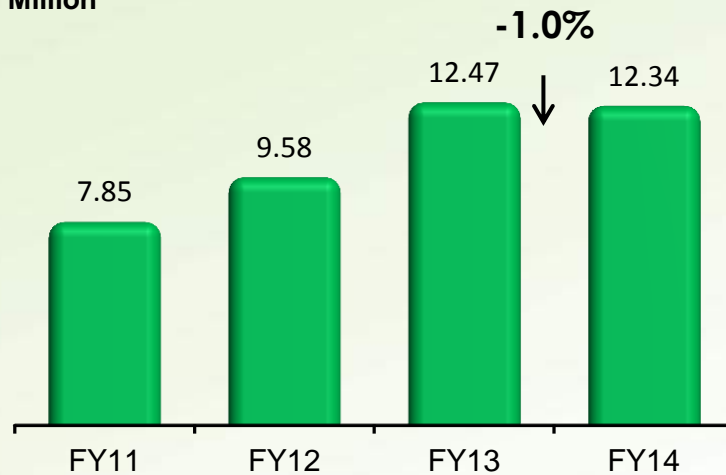
**SMS revenue**  
Kshs. Billion



- 34.2% growth in SMS revenue, driven by;

- Affordable SMS bundles, 66% growth in SMS bundle revenue to Kshs 2.5bn
- 129% growth in SMS usage per customer while average price per SMS declined by 64%
- SMS based promotion (Bonyeza)

**SMS customers**  
Million



**CONNECT ALL DAY, YOUR WAY**  
The new daily internet bundles now come with FREE SMS

FOR KSHS 5  
**GET 5MB**  
+ 5 SMS

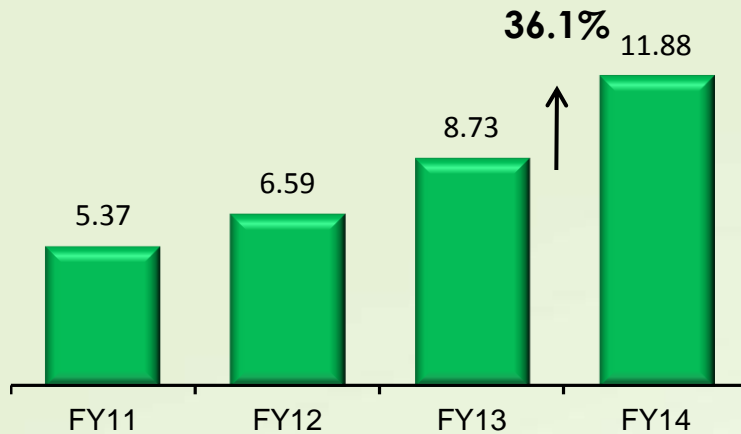
FOR KSHS 10  
**GET 10MB**  
+ 10 SMS

FOR KSHS 20  
**GET 20MB**  
+ 20 SMS

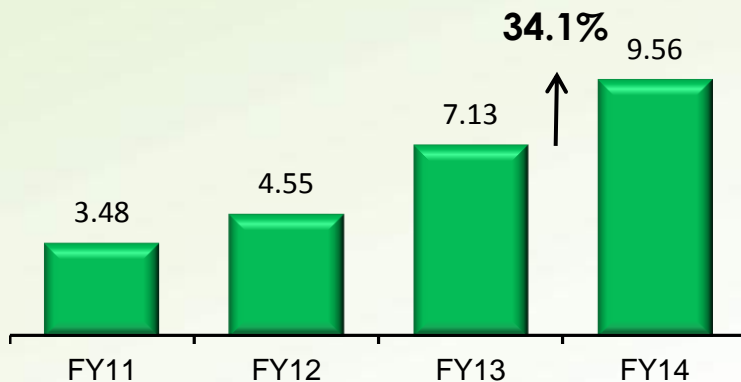
**LIVE 24/7**  
Dial \*544# & select daily internet bundles

# Data: Customers, usage & devices driving growth

**Mobile data & Fixed service revenue**  
Kshs. Billion



**30-day active data customers**  
Million



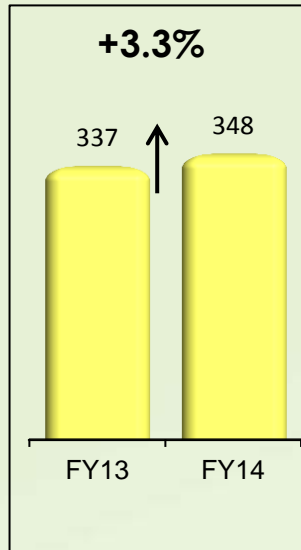
- Mobile data revenue growth of 40.6% driven by:
  - 34.1% growth in 30 day active mobile data users to 9.56m – now 44% of our customer base
  - 16.1% increase in mobile data usage per customer while average price per MB declined by 14.4%
  - 2.3m smartphones/tablets/dongles connected
- Fixed service revenue growth of 21.8%



# Sustained ARPU growth

## Voice

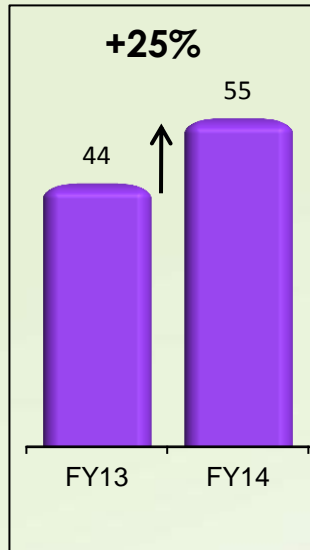
Kshs.



11.0% growth in customers and 3% increase in usage

## SMS

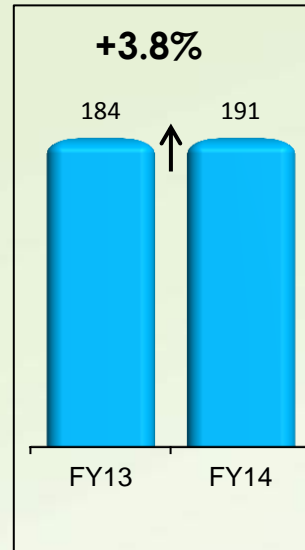
Kshs.



Increased usage driven by SMS bundles and campaigns (*Bonyeza Ushinde*)

## M-PESA

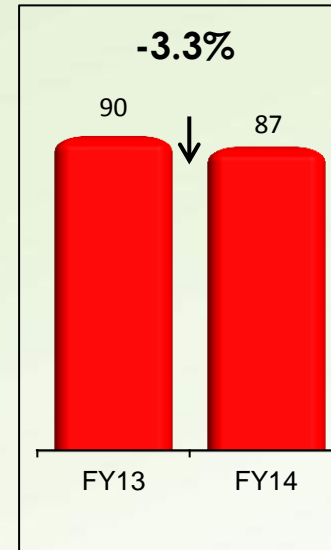
Kshs.



15.4% growth in 30 day active customers with minimal growth in chargeable transactions per customer holds ARPU almost flat

## Mobile Data

Kshs.



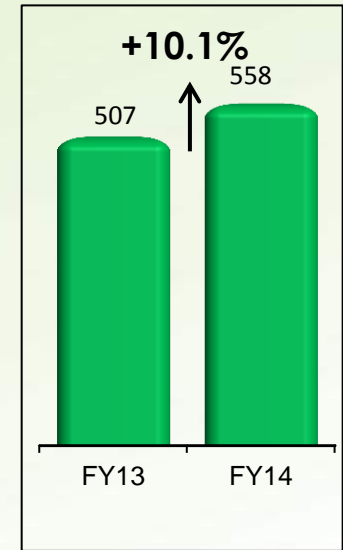
16.1% increase in mobile data usage

Average rate per MB declined by 14.4% to Kshs 1.21

34.1% growth in 30 day active customers

## Service ARPU

Kshs.



10.1% increase in the year driven by growth in all service revenue lines

\* Voice, SMS and Service ARPU are calculated based on total mobile customers

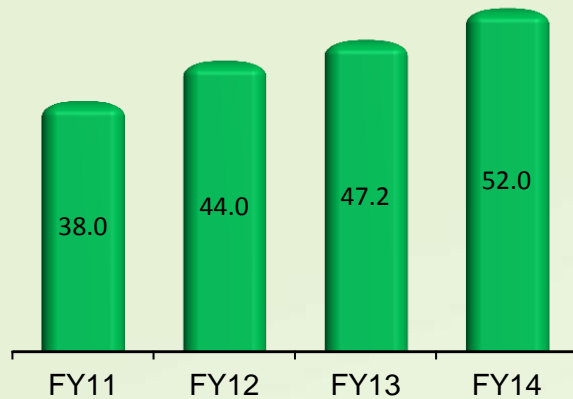
\* M-PESA and Mobile Data ARPUs are calculated based on respective 30 day active customers



# Direct cost control improves contribution margin

## FY Direct costs

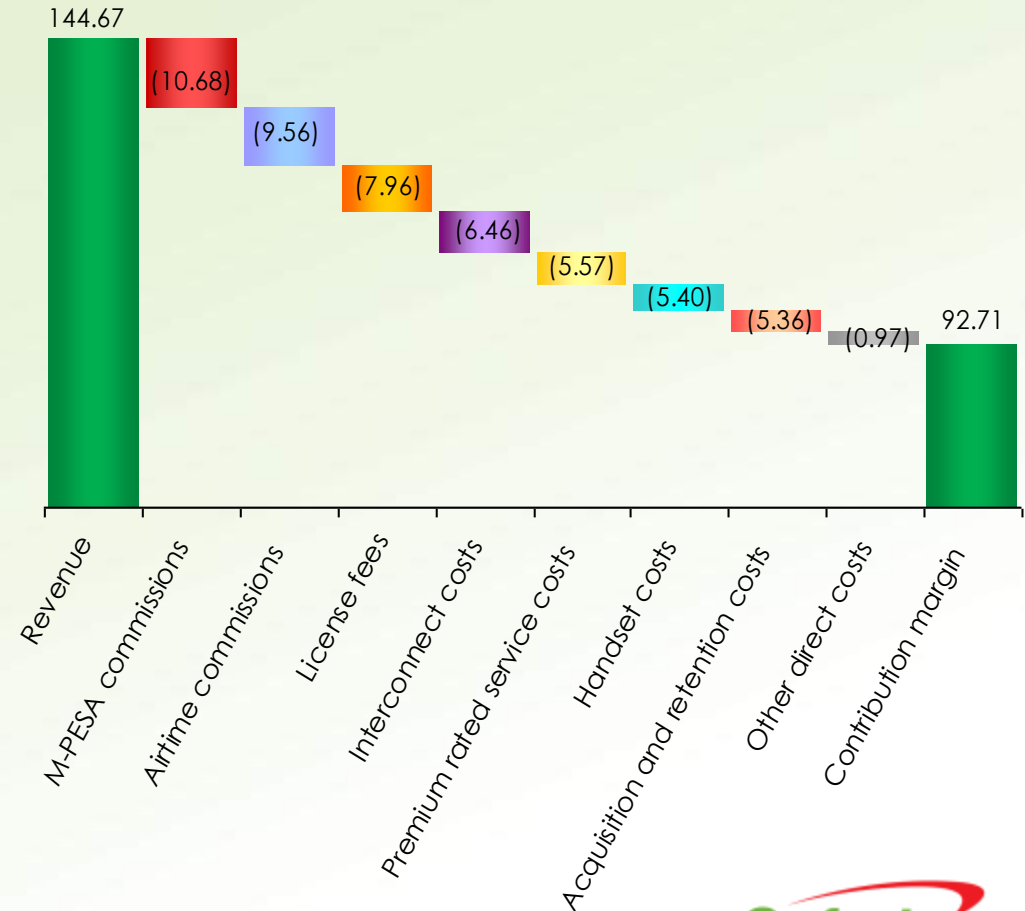
Kshs. Billion



- 10.2% increase in direct costs, lower than the 16.4% increase in total revenue
- Contribution margin increased to 64.1% up 2.1 ppt.
- Cost savings realized in the following areas
  - Customer acquisition costs (Sim cards and devices)
  - Top up card costs

## FY14 Direct costs breakdown

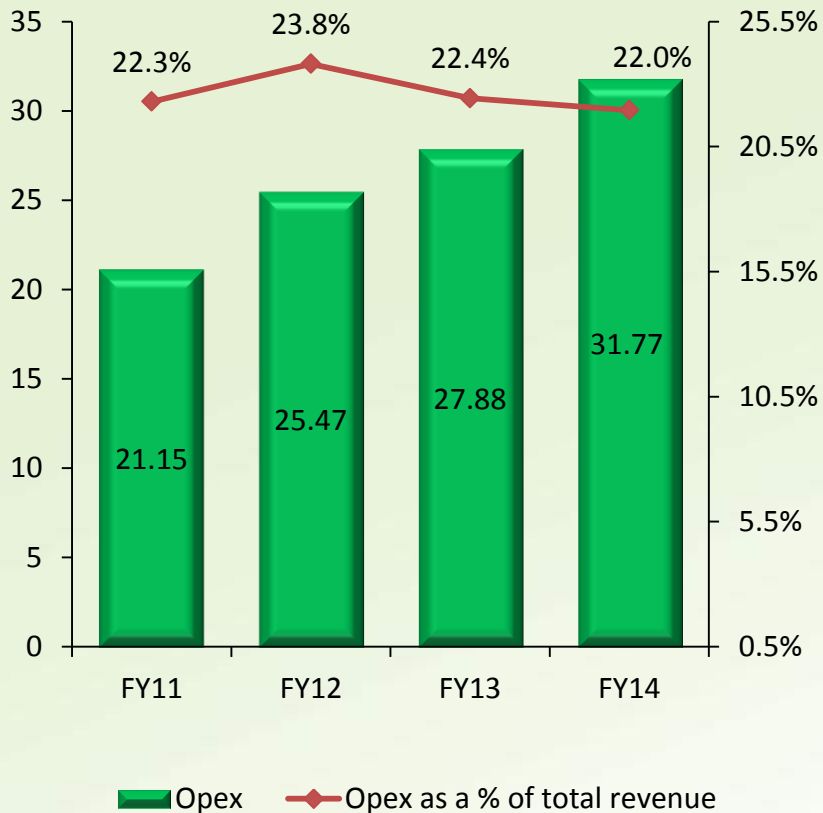
Kshs. Billion



# Continued focus on cost control initiatives

## FY OPEX

Kshs. Billion



- Operating costs as a % of total revenue declined to 22.0%
- 14.0% increase in operating costs versus a 16.4% increase in total revenue
- Operating cost saving initiatives focus on:
  - Transmission costs
  - Network operating costs (including fuel)
  - IT operational costs

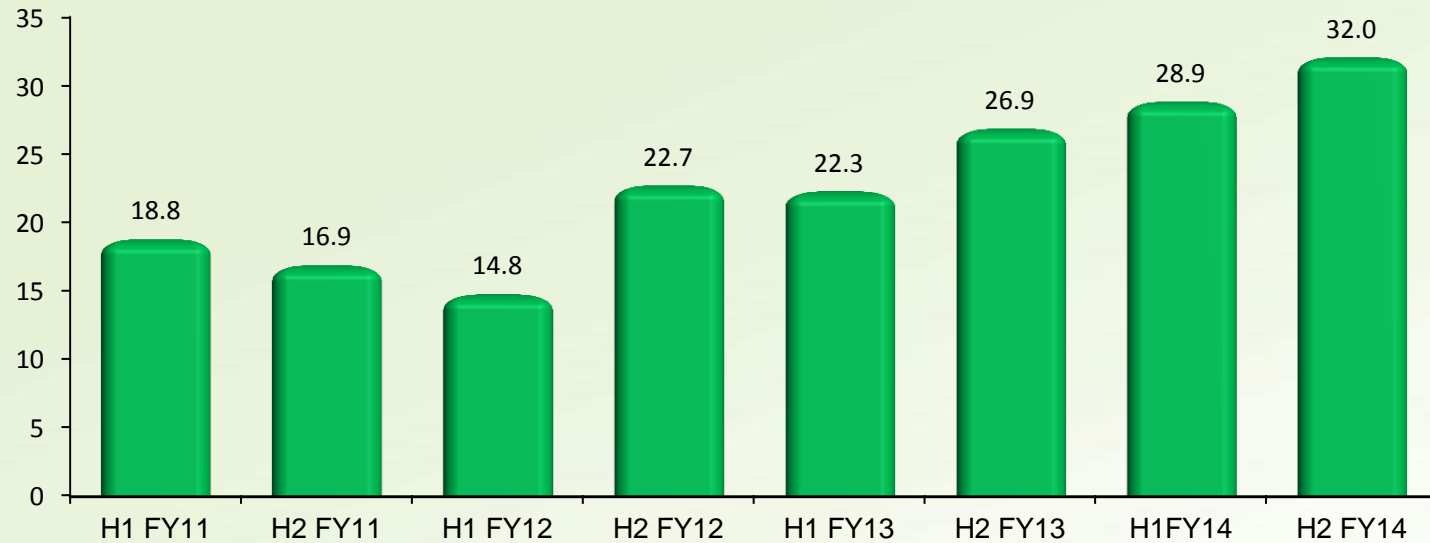
\* Operating costs relate to Payroll, Publicity, Leased Lines, Network & IT operational costs, and other costs (including rent, rates and insurances)

\* Bad debts now reclassified under operating costs

# Strong growth in EBITDA

## EBITDA

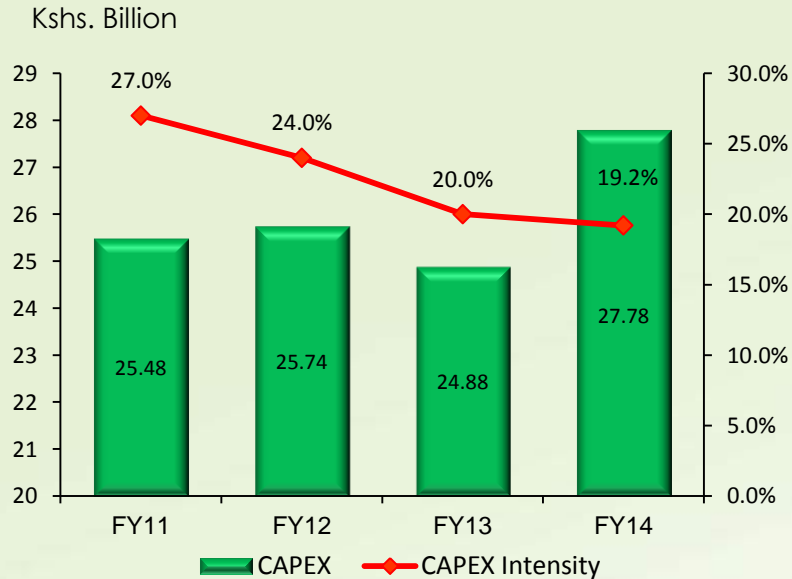
Kshs. Billion



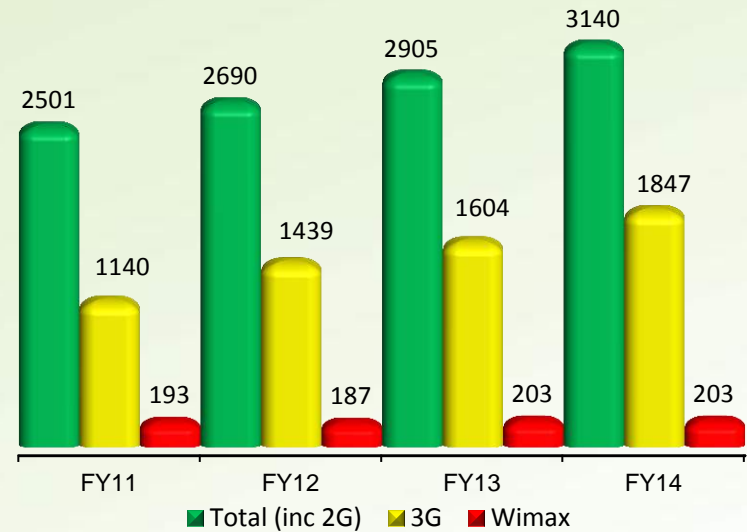
- 23.8% growth in FY14 EBITDA to Kshs 60.9bn
- FY14 EBITDA margin improves by 2.5 ppt to 42.1%

# Largest & Fastest Network in Kenya

## FY CAPEX



## Base stations



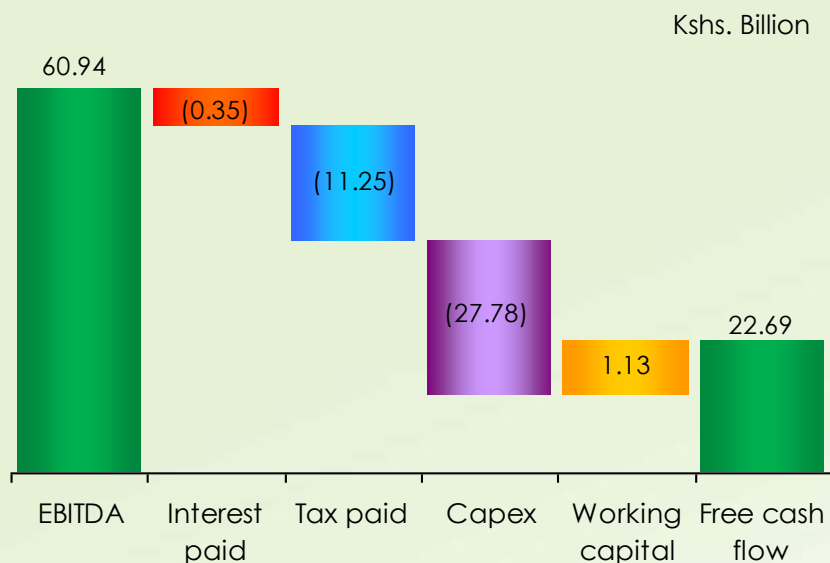
Capital expenditure of Kshs 27.78 bn invested in:

- Fibre – 770 km completed
- 640km ongoing in key metro areas Nairobi, Nakuru, Mombasa and Kisumu
- 2G and 3G capacity growth – modernization and upgrades
- Information systems upgrades

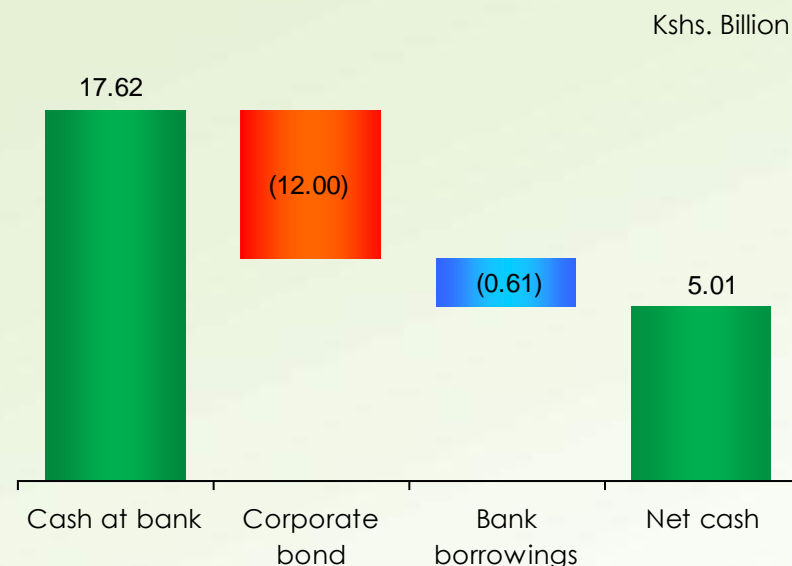
Largest 2G and 3G network:

- 3,140 2G enabled base stations of which 1,847 are also 3G enabled (59%)
- 900 3G sites at 21mbps
- 947 3G sites at 42mbps

## FY Free Cash Flow



## FY Net Cash



- 56% growth in Free Cash Flow to Kshs 22.7bn from Kshs 14.5bn in FY13
- Driven by improved EBITDA and positive working capital

\* Free Cash Flow excludes M&A and spectrum purchases

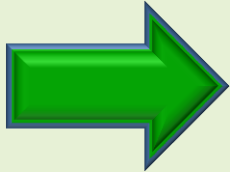
- Kshs 7.5bn corporate bond at 12.25%, expires Nov 2014
- Kshs 4.5bn corporate bond at 7.75%, expires Dec 2015
- Kshs 0.61bn two year term loan facility at 91 day TB rate minus 1%

# Key Financials:

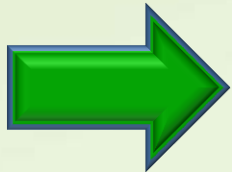
	FY 14	FY 13	GROWTH	H2 FY14	H2 FY13	GROWTH
Voice revenue	86.30	77.33	11.6%	44.34	40.07	10.7%
Messaging revenue	13.62	10.15	34.2%	7.28	5.88	23.8%
Mobile data revenue	9.31	6.62	40.6%	5.08	3.50	45.1%
Fixed service revenue	2.57	2.11	21.8%	1.35	1.10	22.7%
M-Pesa revenue	26.56	21.84	21.6%	14.07	11.42	23.2%
<b>Service Revenue</b>	<b>138.36</b>	<b>118.05</b>	<b>17.2%</b>	<b>72.12</b>	<b>61.96</b>	<b>16.4%</b>
Handset revenue	4.95	4.93	0.4%	2.72	2.50	8.8%
Acquisition and other revenue	1.36	1.31	3.8%	0.63	0.72	-12.5%
<b>Total Revenue</b>	<b>144.67</b>	<b>124.29</b>	<b>16.4%</b>	<b>75.47</b>	<b>65.19</b>	<b>15.8%</b>
Direct costs	(51.96)	(47.17)	-10.2%	(27.17)	(24.77)	-9.7%
<b>Contribution margin</b>	<b>92.71</b>	<b>77.12</b>	<b>20.2%</b>	<b>48.30</b>	<b>40.41</b>	<b>19.5%</b>
<i>Contribution margin %</i>	<i>64.1%</i>	<i>62.0%</i>	<i>2.1%</i>	<i>64.0%</i>	<i>62.0%</i>	<i>2.0%</i>
Operating costs	(31.77)	(27.88)	-14.0%	(16.21)	(13.45)	-20.5%
<i>Operating costs % total revenue</i>	<i>22.0%</i>	<i>22.4%</i>	<i>-0.4%</i>	<i>21.5%</i>	<i>20.6%</i>	<i>0.9%</i>
<b>EBITDA</b>	<b>60.94</b>	<b>49.24</b>	<b>23.8%</b>	<b>32.09</b>	<b>26.97</b>	<b>19.0%</b>
<i>EBITDA margin %</i>	<i>42.1%</i>	<i>39.6%</i>	<i>2.5%</i>	<i>42.5%</i>	<i>41.4%</i>	<i>1.1%</i>
Depreciation, amortisation & impairment	(25.79)	(22.14)	-16.5%	(13.09)	(12.23)	-7.0%
Net Financing cost	(0.16)	(1.65)	90.3%	0.08	(0.80)	110.0%
Taxation	(11.97)	(7.91)	-51.3%	(7.32)	(4.17)	-75.5%
<b>Net Income</b>	<b>23.02</b>	<b>17.54</b>	<b>31.2%</b>	<b>11.76</b>	<b>9.77</b>	<b>20.4%</b>
Earnings per share	0.57	0.44	29.5%	0.29	0.25	16.0%
Free Cash Flow	22.69	14.51	56.4%	8.95	9.37	-4.5%
Recommended Dividend	18.83	12.40	51.9%			
Dividend per share	0.47	0.31	51.6%			



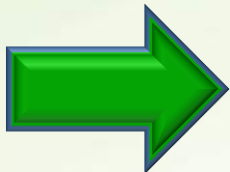
# Contents



FY14 Highlights



FY14 Financial Review



**Strategic Focus and Guidance**

# Strategy Overview

- Best network in Kenya
- Grow mobile and fixed data
- Partner of choice for business
- Deepen financial inclusion
- Grow, retain and reward our loyal customer base
- Grow youth appeal
- High performing innovative organization



# Deliver the Best Network in Kenya

## What we have achieved:

- Expanding coverage reach: 91% of population coverage by 2G network while 3G coverage is up to 61%
- Mobile Broadband: high speed 3G data sites (42Mbps) increased to 51%
- Successful LTE trials in 10 sites within Nairobi and Mombasa. 70Mbps data speeds achieved
- 86% of Radio Network now modernized. 78% of transmission network now on IP
- Fibre: 770 km completed with an additional 640km ongoing in key metro areas - Nairobi, Nakuru, Mombasa and Kisumu
- Own fibre deployment covering 50% of Nairobi sites
- Green energy adoption in 11% of sites resulted in 15% reduction in unit power utilization



# Sustained network improvement & expansion

## Top priorities:

- Complete the additional 640km of own fibre in key towns outside Nairobi
- Deploy fibre to 900 commercial buildings in key metro areas in Kenya (Nairobi, Nakuru, Mombasa and Kisumu)
- Increase the number of 3G sites of which 75% will be upgraded to 42mbps
- Launch of WiFi network in selected malls within the cities
- Launch a 4G network once spectrum is available
- Provide free broadband to schools who have had the laptop program rolled
- Deployment of 50 base stations in 12 counties where it is not commercially justifiable



# Grow Mobile Data

## What we have achieved:

- Increased data customers by 34% to 9.6m
- Increased the number of 3G devices on the network to 3.1m, of which 1.9m are smartphones by breaking price barrier jointly with handset manufacturers.
- Increased total usage by 74% through content usage stimulation
- Value based pricing – combined Internet and SMS bundles and social media propositions
- Introduced Vuma Online - WiFi service in public transport vehicles for internet sampling

## Top priorities:

- Increase smartphone and 3G device penetration through cost effective quality offers
- Greater push on relevant content, social media and applications
- Encourage developers to create relevant content and aggregate via Safaricom Appstore



# Grow Fixed Data

## What we have achieved:

- Fixed service revenue grew by 22% to Kshs 2.6bn
- Number of fixed customer accounts grew by 4%
- Fixed Voice connections increased by 24%
- Launched unified communication services for the SME segment of our business
- Re-launched our 'Software as a Service' (Cloud) with SMEs connected to either of our services below:
  - Hosted Payroll Solution
  - Hosted Accounting Solution
  - Website and Email Hosting

## Top priorities:

- Grow our managed services segment
- Expand fibre services to more customers, through a combination of 3<sup>rd</sup> party fibre and own fibre



# Deepen financial inclusion using M-PESA

## What we have achieved:

- Increased M-PESA outlets by 15,478 in the year, now at 81,025
- Launched Lipa na M-PESA: 122,000 merchants acquired; 24,137 are now active
- Increased cashless FMCG distributors to 158 with a total of 1,271 distribution points
- M-Shwari: 3.6m active customers, Kshs 4.0bn on deposit, Kshs 1.2bn on loan with NPLs at 2.7%

## Top priorities:

- Grow M-PESA to become a primary payment platform
- Commercialize Lipa na M-PESA by growing active merchant base
- Grow cashless FMCG distributors
- Grow Bank to M-PESA transfers & drive uptake of savings and loans

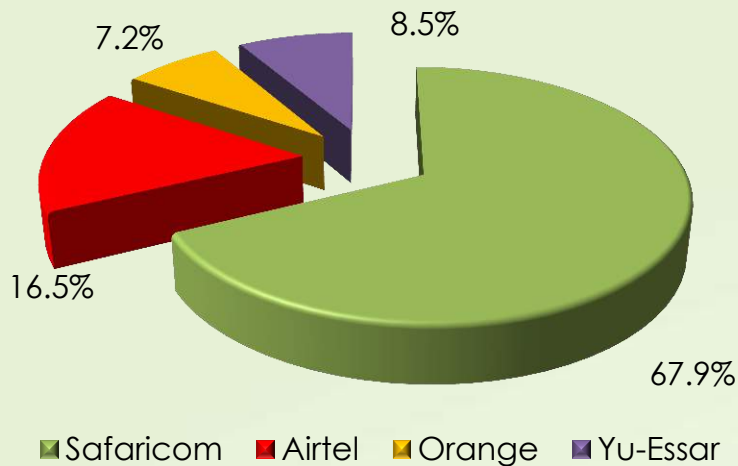


## M-SHWARI Performance

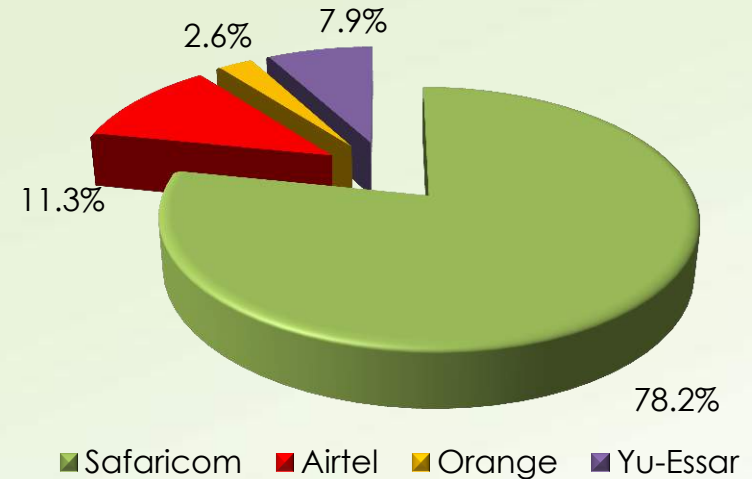
	March 2013	March 2014
Customers	2.5 million	6.8 million
Active Customers	1.1 million	3.6 million
Net Deposits	0.9 billion	4.0 billion
Loan Balance	0.3 billion	1.2 billion
Non Performing Loans	4.0%	2.7%

# Retain market leadership

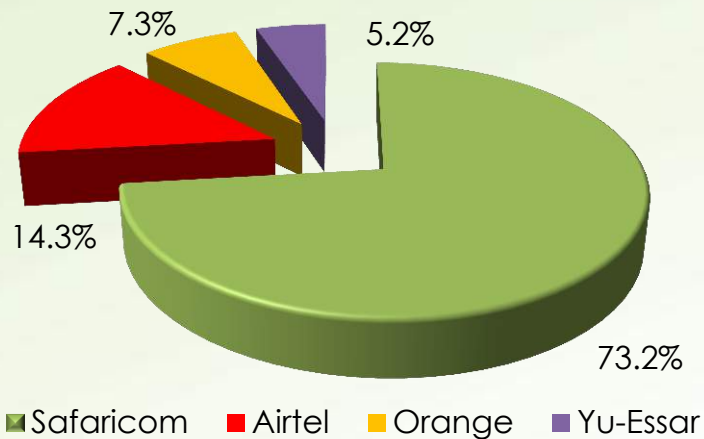
## Subscriber market share-Dec 2013



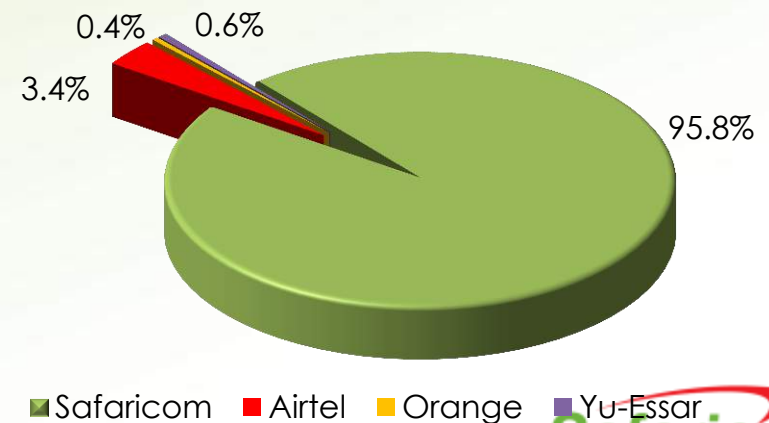
## Voice traffic market share-Dec 2013



## Mobile data market share-Dec 2013



## SMS market share-Dec 2013



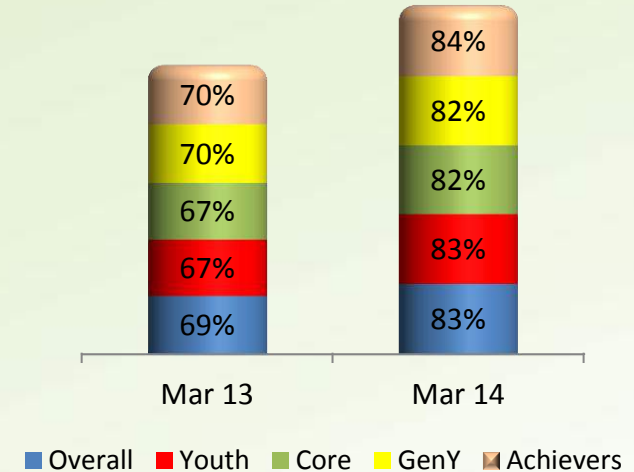
Source: Communication Commission of Kenya (CCK)

# Grow youth appeal

## What we have achieved:

- Increase in youth appeal with overall brand youthfulness growing to 83% from 69% since March 2013.
- Engagement with youth through activities and propositions:
  - Vuma online (WiFi in public transport vehicles)
  - Affordable bundles of data & SMS
  - Kaa social na chattitude (data bundles)
  - Niko na Safaricom live (local music engagement events)
  - Safaricom 7s (annual rugby tournament)
  - Groove awards (gospel music awards)

Youthfulness attribute – by segment



# Encourage further innovation

## What we have launched in the last 12 months:

- Lipa na M-PESA (cashless payments for goods & services)
- Cashless FMCG distribution using M-PESA
- Lipa Kodi (rental payments to landlords)
- *Chattitude* and *10+10 for 10* (data bundles)
- *Vuma Online* (WiFi in public transport vehicles)
- The Safaricom Appstore
- The Safaricom Appstar competition
- The Safaricom Appwiz competition
- i-Cow (animal health application for farmers)
- Linda Jamii (Health insurance: premiums paid via M-PESA)
- Telecoms lab at JKUAT university





# FY15 Guidance

## **Free Cash Flow:**

Expected to be in the range of Kshs 25bn - Kshs 26.5bn

**Free Cash Flow** excludes the impact of any future M&A, license renewal fees, and spectrum purchases

# FY14 Highlights

- Strong commercial and financial performance across all segments and metrics
- Continued investment and innovation in network and services
  - Capex investment of Kshs 27.8bn, up 12%
    - Significant improvements in voice and data service quality based on our ongoing Best Network in Kenya program
    - 770 km of nationwide metro fibre completed, 640 km ongoing
  - 122,000 Lipa na M-PESA merchants recruited; 24,137 actively using the service
- Strong growth of 28% in non-voice service revenue, now 36% of total revenue
- Reinforced position as Kenya's most admired brand, with an overall equity score of 85% and a Kenyan resonance score of 94%\*
- Great progress on our initiatives to transform lives, especially in financial inclusion

\* Internally commissioned research performed by Millward Brown





# Q&A