News Release

SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE FIRST HALF ENDED 30th SEPTEMBER 2011

Key Highlights

Continued active customer and revenue growth

- Revenues grew by 5.3% to Kshs.49.6 billion
- Active customers grew by 8.0% to 18.1m

Data delivers solid growth

- Mobile and fixed data revenue increased 36.3% to Kshs.3.1bn
- Data revenue now represents 31.7% of ongoing revenue
- Mobile data customers increased 71.6% to 5.1m
- Fixed data connections increased by 91.7%

Increasing importance of M-PESA

- M-PESA revenue increased by 49.3% to Kshs.7.9bn
- M-PESA registered customers now 14.9m - 82.4% of our customer base

Challenging macro and trading environment

- Tariff reduction of over 80% compared to previous period
- High inflation driven by escalating food and fuel prices has reduced consumers spending power
- Rapid depreciating shilling has driven up our operating costs by Kshs. 1.4 bn
- EBITDA margin of 29.7%, excluding the negative impact of foreign exchange the EBITDA margin is 32.6%.
- Net profit declines to Kshs 4bn with operating cash flow improving by 5.6%.

MAJOR INITIATIVES IN THE PERIOD

Within the first half of this financial year we grew our active customer base by 8.0% to **18.1 million** and revenue by 5.3% to Kshs. 49.6 billion despite a heightened competitive environment especially in the voice sector with headline tariffs falling by over 80%. However our voice business has shown considerable resilience with a traffic increase of 83% and a marginal decline in voice revenue of 5.5%. Mobile Number Portability has had a negligible impact on Safaricom with net port-outs of only 18,000 recorded from April 2011. Our strategy to diversify into non-voice services has continued to deliver strong growth with these revenue streams gaining traction and now contributing 32% of service revenues. Our M-PESA and Data offerings are undeniably market leaders in their respective sectors with a collective 43% growth in revenues. This is a clear demonstration that we remain Kenya's preferred network and that our products and services are indeed making a constructive difference in the lives of our customers.

We continue to invest in our network to ensure that we offer cutting-edge technology and reliable connectivity. In the first half of the year, we invested Kshs. 15.5 billion on our 3G network, our switching capacity, fibre connectivity and upgrading of our existing 2G equipment for increased quality and capacity. 52% of our network coverage is now 3G active. We recognise the increasing need for superior but affordable data connectivity and the fast paced changes in data needs among our customers. We have reduced our mobile data pricing and introduced a variety of internet bundles to meet the varying needs of our customers. Our data customers now account for just over 10% of the Kenyan population, with 92% of all internet subscriptions in Kenya on Safaricom connected devices. By further expanding our distribution network and by making available affordable data enabled devices we are ensuring that every Kenyan has the opportunity to access the internet using the best and fastest connection in the region.

We now offer mobile data speeds of 21 Mbps and trials for 42 Mbps are in progress. We continue with the modernization of our core network to 'IP' based technology. We have also upgraded our billing system to one of the most advanced billing systems in Africa and highlighting our commitment to customer service.

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Through the Enterprise Business Unit we offer bespoke solutions be it voice or data; including data centre services, video & tele conferencing, private & public clouds and managed services. We have launched **"Safaricom Cloud"** the largest indigenous cloud that will enable us to offer comprehensive and secure managed services for any size of enterprise. We are investing in technology and partnerships in the public and private health sector as well as the education sector.

M-PESA continues to grow in its significance as a financial inclusion tool, dramatically changing the way Kenyans carry out their day to day activities. In the past year alone; the value of transactions processed through the M-PESA platform was equivalent to 20% of the country's GDP. With a growing customer base now totaling 14.9 million users, M-PESA is positioned to expand its usability, not only at an individual level, but also at a corporate level.

The Kenyan economy has been hit by one of the toughest economic climates in the recent past which has made it a more challenging environment in which to operate. The effects of high inflation driven by rising food and oil prices; the European economic crisis; rising interest rates and a volatile shilling have all combined to reduce the spending power of our customers and driven up our operating costs.

The volatile shilling has had the highest impact on our operating costs during the period. The unprecedented devaluation of the shilling within the period has led to a net forex loss and associated costs on revaluation of trading balances of Kshs. 1.4bn. In addition costs have been impacted by growth in interconnect costs and escalating energy costs as well as an increase in CCK license fees as a result of our continued network expansion and the 0.5% universal license fee on revenue introduced by CCK.

In view of the competitive and economic environment and increasing cost of doing business, we have put in place a number of initiatives aimed at protecting our bottom line. These include, but are not limited to; reducing data transmission costs, aggressive promotion of electronic top-ups, optimization of our corporate structure and reducing site build costs. In the first half these initiatives yielded significant savings of over Kshs. 1.8 bn.

FUTURE OUTLOOK

Our focus will continue to be the provision of superior service that offers integrated communication solutions to our various customer segments. In addition, we increased some of our local headline voice tariffs from the 1st of October by Kshs. 1.00 in light of the economic climate.

We continue to evolve our financial and digital inclusion agendas through the M-PESA platform and our data solutions. As the M-PESA portfolio expands to accommodate the diverse needs of our customers, we believe it can make an even bigger contribution to the lives of our customers through micro insurance, micro savings, micro credit and easy payment facilities.

We will continue to focus on our controllable costs to mitigate the inflationary and exchange rate pressure and protect our margins. Key focus areas include process re-engineering, streamlining of transmission and leased line costs and the introduction of a managed service model for network opex.

Our continued success has been made possible through our continuous engagement with the customer as well as product innovation. We make it our focus to intimately understand the customer as well as the nature of the market and it is this passion for our customers that will see us into further future success.

News Release

SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE FIRST HALF ENDED 30th SEPTEMBER 2011

Key indicators and summary financial information

The following are the key highlights of the results compared to the prior period ending 30th September 2010:

Condensed consolidated statement of comprehensive income

Kshs Mn	**Period ending 30 September 2011**	**Period ending 30 September 2010**	**% Increase/ (Decrease)**
Revenue	49,628	47,112	5.3
Operating expenses	(26,508)	(21,619)	22.6
Selling, general and administrative expenses	(8,360)	(6,662)	25.5
EBITDA	**14,760**	**18,831**	**(21.6)**
Depreciation and amortisation	(8,716)	(7,903)	10.3
Operating profit	**6,044**	**10,928**	**(44.7)**
Net financing costs	(645)	(484)	33.2
Share of profit in Associates	(2)	-	
Profit before taxation	**5,397**	**10,444**	**(48.3)**
Taxation	(1,384)	(2,813)	(50.8)
Profit after taxation	**4,013**	**7,631**	**(47.4)**
Earnings per share (Kshs)	**0.102**	**0.193**	**(47.3)**
Key indicators			
Customers (m)	18.046	16.714	8.0
Registered M-PESA users (m)	14.872	13.543	9.8
Mobile data customers (m)	5.110	2.978	71.6
Number of fixed data connections	6,177	3,223	91.7
Churn (%)	28.3	31.2	
EBITDA margin %	29.7	40.0	
Operating profit margin %	12.2	23.2	
Net profit margin %	8.1	16.2	
Effective taxation rate %	25.6	26.9	

Revenue analysis:

Kshs Mn	30 September 2011	30 September 2010	% Increase/ (Decrease)
Voice	31,487	33,305	(5.5)
Total Data	14,610	11,202	30.4
• SMS	3,654	3,669	(0.4)
• M-PESA	7,881	5,277	49.3
• Data (mobile & fixed)	3,075	2,256	36.3
Ongoing Revenue	**46,097**	**44,507**	**3.6**
Acquisition revenue	3,531	2,605	35.5
Total revenue	**49,628**	**47,112**	**5.3**
Data revenue % ongoing revenue	**31.7**	**25.2**	6.4
Mobile service revenue ARPU (Kshs)	**438.9**	**456.6**	**(3.9)**
Minutes of use (MOU)	**123**	**78**	**57.7**

- Total revenues increased by 5.3% from Kshs47.11bn to Kshs49.63bn driven by significant growth in data and acquisition revenue.

- Voice revenue declined by 5.5% due to the significant downward adjustment of average voice tariffs by above 80% in the previous period.

- Mobile service ARPU declined mainly due to decline in voice ARPU as a result of tariff reduction and dilutive impact of new subscribers who tend to spend less, however this was partially compensated by an increase in data ARPU due to increased mobile data customers and usage associated with lower data tariffs during the period.

SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE FIRST HALF ENDED 30th SEPTEMBER 2011

Condensed consolidated statement of financial position

Kshs Mn	As at 30 September 2011	As at 30 September 2010	% Increase/ (Decrease)
Equity and non-controlling interest	63,467	61,926	2.5
Borrowings	12,125	7,614	59.2
Other liabilities	118	395	(70.1)
Capital employed	**75,710**	**69,935**	**8.3**
Non-current assets	100,535	84,180	19.4
Current assets			
Inventories	5,452	4,043	34.9
Receivables and prepayments	12,020	12,105	(0.7)
Cash and cash equivalents	6,526	12,100	(46.1)
	23,998	**28,248**	**(15.0)**
Current liabilities			
Payables and accrued expenses	(43,293)	(34,471)	25.6
Borrowings	(5,530)	(8,022)	(31.1)
	(48,823)	**(42,493)**	**14.9**
Net current liabilities	(24,825)	(14,245)	**74.3**
Net assets	**75,710**	**69,935**	**8.3**
Net gearing (borrowing less cash) (%)	15	5	
Gross gearing (gross borrowing) (%)	28	22	

- Capital employed increased in line with the strong growth in shareholder funds, from the favourable trading results and from proceeds obtained from the second tranche of the Domestic Medium Term Note of Kshs 4.487bn in October 2010.

- Increase in current liabilities was due to increased purchases of network equipment (to support the growth in subscribers as well as enhancement of quality) and handset purchases especially of data enabled devices.

Net Debt

Kshs Mn	As at 30 September 2011	As at 30 September 2010	% Increase/ (Decrease)
Bank borrowings	5,655	8,124	(30.4)
Debt - corporate bond	12,000	7,513	59.7
Gross Debt	**17,655**	**15,637**	**12.9**
Cash and cash equivalents	(6,526)	(12,100)	(46.1)
Total net debt	**11,129**	**3,537**	**214.6**

- Net debt increased from Kshs 3.537bn to Kshs 11.129bn due to receipt of the second tranche of the corporate bond of Kshs 4.487bn and Kshs 3.13bn short term facilities.

Capital Investments

Kshs Mn	Period ending 30 September 2011	Period ending 30 September 2010	% Increase/ (Decrease)
Gross capital expenditure	15,513	10,009	55.0
Capex intensity (%)	31.3	21.2	
Investments	355	-	
Total Gross Capital Investments	**15,868**	**10,009**	**58.5**

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

- The main investment in the period was in fixed data, 3G equipment, fibre, and the upgrade of existing 2G coverage to support the growth in customers and traffic.

News Release

SAFARICOM LIMITED ANNOUNCES UNAUDITED RESULTS FOR THE FIRST HALF ENDED 30th SEPTEMBER 2011

Free cash flow

Kshs Mn	Period ending 30 September 2011	Period ending 30 September 2010	% Increase/ (Decrease)
Operating cash flow	16,642	15,753	5.6
Total capital expenditure cash flow	(14,591)	(9,084)	60.6
Operating free cash flow	**2,051**	**6,669**	**(69.2)**
Interest paid	(787)	(508)	54.9
Taxation paid	(2,008)	(3,723)	(46.1)
Free cash flow	**(744)**	**2,438**	**(130.5)**

- Operating cash flow remained strong due to working capital optimization initiatives.
- Operating free cash flow fell below prior period levels driven by increased network investment.
- The interest paid increased in the period in line with additional facilities drawn compared to prior period.