

# Conference Call transcript

1 November 2019

## SAFARICOM HY20 RESULTS

### Operator

Good afternoon ladies and gentlemen and welcome to Safaricom Plc's HY2020 earnings release conference call. You are welcome to familiarise yourself with the disclaimer which is available on the investor presentation on the Safaricom website. All participants will be in listen-only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call please signal an operator by pressing star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to the CEO, Mr Michael Joseph. Please go ahead, sir.

### Sateesh Kamath

Hi. This is Sateesh Kamath, the CFO. Michael is joining us for the Q&A session. We are getting started. I will give you a quick introduction. The focus of half year one was regaining customer trust and market share. Good progress was made, but there is more to do. We have accelerated our 4G coverage rollout and are on track to delivering on our commitment of covering every town in Kenya by the end of the year. Despite the economic challenges we have delivered strong results for the period and we feel that the outlook is positive. The launch of our simplified plans and customer journey have presented [unclear] of how we do business. We are very excited about the second half of this year and our commitment is to be simple, transparent and honest in everything that we do. We have already announced that we are eliminating expiry of resources and offering bonus airtime. While this may have some impact in the short term we believe it is the right thing to do in the long term for sustainability of the company. We are also maintaining our guidance for the year which is an EBIT of KSh 93 billion to KSh 97 billion and capex of KSh 36 billion to KSh 39 million.

We are happy to announce that the focus on customer trust has really paid off and we now have a net addition of 700,000 customers for the period which is a growth of 8.9% year on year on the closing base and more than double the net adds of the same time last year. Last year you will recall we spoke about the corrective actions that we needed to take, the repositioning of data bundles, absorbing the excise duty increase and making it easier for customers to opt out of premium rate subscriptions etc. While these actions had a negative impact on revenue in the short term with ARPU reducing 2.3% year on year, the customer uplift more than compensated, rising 5% revenue growth that you would have seen already.

Some of these impacts look drastic, for example the reduction in effective rate per MB of 37%. However, you would realise this is the lapping effect of what we did last year. On a sequential basis the effective rate per MB declined only 3% versus Q4 last year. So, while mobile data revenue growth looks subdued at 4% the growth for September was 12%, which is promising. And we are now able to compare a more like for like basis and see that a lot of growth potential is still there. And we hope our new simplified offers can unlock the potential. Our GSM revenue streams like voice and SMS have finally begun behaving in line with industry trends. Voice outgoing declined 1% while SMS underlying declined 5%.

Now to add a bit of colour on M-PESA. We are very pleased with M-PESA's performance on an underlying basis, excluding gaming which declined by 15%. On an underlying basis M-PESA grew 20.9% which is an acceleration of

the 19.1% that we posted the previous year. We have seen an increased usage per customer and we see still opportunity for this ecosystem to continue to grow. So quite a lot has happened in the period, and if I was to try to normalise things to give a view of the true underlying performance excluding the impact of corrective actions that we took last year I would say the service revenue growth was just about 8%.

Moving on to bottom line. Despite the top line pressures EBIT grew 12.7% with margin expanding 2.4%. The contribution margin was broadly in line year on year with margin expansion coming from improved opex as well as capex intensity. Opex intensity improved by 1.3% and this was driven by continued efficiencies especially in areas like network opex. Again, this year we have grown our network, but managed to keep our cost at similar levels as last year through various initiatives. Depreciation and amortisation drove the balance, partly driven by the benefit from the review of useful life of assets which contributed 0.8%, while the remainder came from reduction in capex intensity. Lastly, I would like to touch on free cash flow. While performance in the period was -2.8% this was driven by accelerated capex and the impact of this is expected to unwind by the full year and free cash flow performance will return to growth. With that I open the floor for questions and answers. Thank you.

### **Operator**

Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question you're welcome to press star then one on your touchtone phone or the keypad on your screen and it will place you in the question queue. If you however decide to withdraw your question you are welcome to press star then two on your touchtone phone to remove yourself from the question queue. Just a reminder, if you would like to ask a question you are welcome to press star and then one. The first question comes from Jaynesh Bhana of Mazi Asset Management. Hello Jaynesh. Your line is open. You can ask your question. We are not getting a response from Jaynesh's line. We are going on to the next question which comes from Dilya of Citi.

### **Dilya Ibragimova**

Thank you very much for the opportunity and congratulations on the strong set of results. I have a couple of questions. One maybe on the international opportunity. There are headlines here and there. I was just wondering if you could give us a bit more colour on how you view it. Would you consider exploring this on your own or in partnership? And how do you assess risk versus return? For example, mobile money, if mobile money regulation will be key or not, or is it just a telco opportunity that looks interesting on its own? My second question is on M-PESA. It seems like there has been acceleration in savings and credit-driven fee revenue. Could you give us a bit more colour? Is it driven by primary Fuliza? And maybe you could give us a bit more detail as to where the volumes are in the first half in terms of transaction volumes and maybe some insight. How do you see customers using this? Once a customer gets the transaction is it being spent on P2P transactions or merchant payments like Lipa na M-PESA? I'm just looking at the Lipa na M-PESA growth rate. It doesn't seem it is actually slowing down somewhat. So just some insight on how customers are using their overdraft. Thank you.

### **Michael Joseph**

I will answer the question on Ethiopia. Michael Joseph here. So yes, as you know the Ethiopian government intends to issue two bids for spectrum. We don't have clear understanding of the documents yet. We will know this probably at mid-November. But there were two invitations to bid similar to what the Myanmar bid was like. So, there will be a qualitative portion of the bid where we will submit our credentials and what we have done so far, and then there will be a quantitative bid where it will be a bid for the license. Safaricom will be bidding together with its parent, Vodacom. It is still to be decided on the breakdown of what the equity will be between the two. Plus, there will be two other entities joining us in that consortium. I cannot give you their names yet because I don't really know if we have permission to identify them. We expect of course that this will be very high interest for these bids. This is the last big opportunity in Africa. It is almost the final prize to get these licenses. At the same time there will be also a partial privatisation of Ethiotel. But our main focus will be on the

new licenses. We do not yet know what the bid price would be. We have no idea right now. There are just rumours in the market about how they could go. So that's where we are.

**Dilya Ibragimova**

Thank you.

**Sateesh Kamath**

I will take the second part of the question on M-PESA. Overall, we are pleased with the performance of M-PESA which grew at 18.2%. Underlying M-PESA growth excluding gaming is 20.9%, so in a way acerbating. The growth is driven by multiple factors. One, we have seen a good increase in customers using M-PESA. So active M-PESA customer base moved from 21 million customers to 23.6 million customers, so 12.4% increase year on year. The number of underlying transactions has grown by 17.5% year on year, moving from 9.3 to 10.9 excluding gaming. Including gaming it moved from 12 to 13. If I look at the rest of where the growth is coming, roughly half of the growth has come from what we call new businesses, and half of it has come from traditional businesses. In the traditional business the transfer business is doing well again. You should remember the fact that it's a metro [?] business with sizeable value. So, growing 17% of that is something that we are proud of. Withdrawals have grown at 9%. As communicated in the past we are soft landing withdrawals by adding more and more use cases, such that the needs for the customer to withdraw goes down. And that has been the strategy of the company. So, withdrawals are growing slower, but that's a happy problem.

If I look at new businesses a very strong growth in sales and lending, 5.7% out of the 18.2%. Within the 5.7% more than half comes from [break in audio]. In Fuliza we have roughly disbursed KSh 112 billion thus far. These are all short three to four days, five-day type of overdraft facilities. And the ticket size is between \$5 and \$10. Other businesses like international money transfers are still small but growing at 44%. P2P business has grown by 31%. Lipa na M-PESA is growing at around 22%, which takes us to a space where we would launch more products, the details of which I can't share now, by April which should further accelerate some of the revenue streams which have reached certain levels of maturity. But overall what I would say is that management is pleased with M-PESA's performance of 18.2% and also pleased with the fact that the portfolio is now far more diversified with new businesses, withdrawals and person to person transfers all equally balanced within the revenue streams. Thank you.

**Dilya Ibragimova**

Thanks very much.

**Operator**

Thank you very much. The next question comes from Danesh Ranchhod of Franklin Templeton.

**Danesh Ranchhod**

Hi there. Good day. Thank you very much for having this call. I've got two questions. The one question relates to the Fuliza business. Just a question on that. With the potential for interest rate caps to be lifted looking very likely do you think that it will affect the Fuliza business? And then my second question relates to mobile data. You give some numbers that the first half growth in mobile data on the second half of last year was up 14%. Can you maybe talk a little bit about what you have done with pricing in light of the competition or in light of what Airtel has been doing in the Kenyan market? Thank you.

**Michael Joseph**

Okay. I will answer you on Fuliza. I think the interest rate caps will be lifted probably. I mean they will be lifted. I don't anticipate that it will have any impact on Fuliza interest rates and the business as such in the near term.

Let's monitor it and see where it goes. We are putting a lot of pressure on our banking partners not to increase the interest of any of our lending products that we have either in M-Shwari or Fuliza. So, I expect that we won't see an increase in our lending rates. On data pricing just let me say before anybody else wants to answer here, on data pricing there have been some changes from year to year. But we just launched a new direction of Safaricom which we launched last week where we are now offering data which has no expiry date and where you can buy as little or as much data as you like with no set pricing levels. This effectively is an effective decrease in data pricing overall, but we expect that this will convert into more people buying data at the base of the pyramid and perhaps people buying bigger bundles going forward knowing that they will not expire. So, I don't think in the second quarter that we will see any negative impact. Of course, the competition is yet to respond. Will they respond, or will they not respond? It's too early to say. Do you want to add anything to that?

### **Sateesh Kamath**

I will just add to what Michael has said. We are doing all of this to unlock the true data potential. So as Michael said this morning in the results presentation, we would spend a considerable amount of capex focus on 4G and we will take 4G to every town in Kenya. Now, why we are doing this is to unlock what we think is the true potential within the customer base. Of the 27.5 million customers that we have only 7.9 million customers use more than 100 MB. That is a huge latent potential that can be unlocked over a period of time if we get the trust and right propositions to the customers. You would notice within this period the underlying KPIs which we monitor to see whether the future looks strong or not have been very well performing. Active 4G devices in the network went up by 70.8%, and the customers who use more than 100 MB per month have grown by 33%. And the customers 100 MB are only 40% of the total active monthly customers, so we have got a way to go. And what we will be doing is to focus all the attention, energy and propositions to unlock that potential. Thank you.

### **Danesh Ranchhod**

Thank you.

### **Operator**

Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press star then one on your touchtone phone to place yourself in the question queue. The next question comes from John Munge of Vergent Asset Management.

### **John Munge**

Hello. Thanks for taking my call. My question is with regards to mobile money. Do we have a sense of how much growth is as a result of third-party developers connecting to the site? This would specifically the likes of Tala and Branch who offer small sized loans instantly through mobile devices. Do we have a sense of how much they are contributing to the underlying growth of the M-PESA? And is the prevalence of mobile lending from such individuals seen as a risk to the user base of M-PESA? Thank you.

### **Sateesh Kamath**

Thanks for the question, John. Unfortunately, I don't have a ready figure for what exactly the percentage of loans is that we disburse for Tala and Branch, and the reason for that is it's so small it doesn't appear in any of our KPIs. So, while I don't have the figure I can give you a feeling that it is negligibly small, so small that I don't monitor how much comes from there. Hence the second part of the question of whether we have any risks from some of those organisations. The answer is not really. Thank you.

### **John Munge**

Thanks.

**Operator**

The next question comes from Tracy Kivunyu of Tellimer. Hello Tracy. Your line is open.

**Tracy Kivunyu**

Sorry, can you hear me?

**Operator**

We can hear you now, yes. Please go ahead.

**Tracy Kivunyu**

All right. My question is regarding the broadcasting license you received in July. I just wanted to find out what your plans are in terms of content provision and any other content related activities you want to do with the fibre to the home profile.

**Sylvia Mulinge**

So, we are at advanced stages of finalising on the content platform. So, in the next wave of significant announcements that will be coming from our end we should be able to give you a good update on that. I think for us the strategy has evolved around identifying the most cost effective model to make sure that we deliver a content at a price that is affordable to our customers, so that even as they are subscribing and taking up the different packages from us they will be able to not only afford the subscription cost for the content but also be able to pay for the data service. So, bundling the two into something that is cost effective for our customers is critical, as well as ensuring that whatever content we deliver is mobile fast so that customers can be able to consume it off their mobile phones in a user interface that is easy for them to interact with. That is still work in progress, but I believe before the end of the financial year we should be able to come back to you with a significant announcement around that.

**Sateesh Kamath**

Sorry Tracy. Just for the transcript that was Sylvia Mulinge, our Chief Customer Officer.

**Tracy Kivunyu**

If I may add a follow-up question on that. Will the content be strictly data based? I mean will you need internet to access the content or will customers be able to access it off satellite and other subscriptions?

**Sylvia Mulinge**

We are going to look at different models, but obviously the objective of investing in content is so that we can add a lot more value to the data price that we're giving to our customers. So, it will be consumed off our network on both fixed as well as mobile. But obviously there are different options that are available. Customers can come and pay a subscription fee and download and watch later. There are others who want to watch streaming content. So, all that is in the play. And we are making those decisions right now and will be able to share with you once we launch.

**Tracy Kivunyu**

Thank you.

**Operator**

Tracy, have your questions been answered?

**Tracy Kivunyu**

Yes. Thank you very much.

**Operator**

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press star and then one. We have been re-joined by Jaynesh Bhana of Mazi Asset Management.

**Jaynesh Bhana**

Hi team. I think I just had some technical difficulties. I should be up and running now. You can hear me, correct?

**Operator**

Yes sir, we can hear you. Please go ahead with your question.

**Jaynesh Bhana**

Perfect. So, I've got two questions, one on revenue and one on opex. So, revenue growth was 5% and a bit, which is marginally above what inflation is now. Are you likely to reaccelerate your revenue growth? And then on opex you've done phenomenally well to squeeze the cost base, but how much more efficiency can you basically squeeze out of your cost base?

**Sateesh Kamath**

Thank you for the question. Do you mind identifying yourself once more please? We missed that portion.

**Jaynesh Bhana**

Sorry, it's Jaynesh Bhana from Mazi Asset Management.

**Sateesh Kamath**

Hi Jaynesh. To speak about revenue first, we are going through a transition phase where a number of actions were taken in the second half of last year to get back customer momentum which is extremely important. In a position like ours where we have such strong leadership it is important that we not only look at short-term imperatives but also look at in the long term maintaining the customer market share. What we have seen is extremely encouraging results from some of the actions we have taken which we think will be further accelerated with the actions that we have very recently announced which Michael spoke about earlier on. If you look on an underlying basis the 5% growth could have been 8% if we decided not to take some of those actions that we took.

A good example is PRS revenue, or premium rated services revenue, which was a point of pain for a number of customers who go ahead and subscribed to them but did not know exactly what they had subscribed to or did not know how to come out of it. As an example, we have run a campaign to explain that to the customer, providing the links to come out of those subscriptions they did not want. As a result the revenue has gone down by 22.5% to speak for just one action that we have done which is customer-centric. What we believe is all of this will again help us accelerate customer growth. And as we get customer growth the revenue growth will follow. Customer growth is 8.9%. And I'm not talking about reported customer growth which is 15%. I'm talking about active customer growth. So, in a revenue transformation year, Jaynesh, as you know which many of the telcos go through far more painfully when managed by the regulator, we have done in our view a strong performance with all the underlying factors that drive revenue showing very positive momentum. So, we are confident that revenue will accelerate in future, but at the moment we are focussing on ensuring that we get strong customer momentum, and revenue will follow through.

On the cost base you are right, Jaynesh, that there is a limit to what we can do in costs. Our cost base is already extremely efficient. I would not position this as a cost reduction programme that we have done. What we have done is re-looked at the way we run Safaricom and looked at each line item and seen whether we can run these things in a newer way. So it is a lot more re-engineering and digitisation of the company which has given us the cost benefit rather than the typical cost reduction programmes like reduction of people. Just for the record, we did not reduce people at all. It is all about re-engineering, looking at things differently and running the company more efficiently. I hope that answers, Jaynesh. Thank you.

**Jaynesh Bhana**

That did. Thank you.

**Operator**

The next question comes from Sela Rasuvu [?] of EFG Hermes. Hello Sela.

**Sela Rasuvu [?]**

Thank you. Just three questions regarding M-PESA. Apologies if I may have missed this. To begin with, on Fuliza could you provide transaction volumes that have been completed using the overdraft facilities in the period? Secondly, M-PESA commission costs in HY20. And third just on M-PESA fees or commissions do you anticipate repositioning or repricing similar to what you have been doing on mobile data? Are there any expected changes in pricing of M-PESA services? Thank you.

**Sateesh Kamath**

So on Fuliza you are right, you missed some portions. We already covered it, but I'm happy to repeat it. Fuliza is a good part of our growth story. It is 4% out of the 20% that we have grown in the year. So M-PESA has had an overall growth across streams, and Fuliza has accounted for roughly a fifth of it with the rest of the streams all delivering. M-PESA costs as a percentage of M-PESA revenue is coming down. As I've explained in the past in various investor calls, this is something that we look forward to because the money rotation is done digitally, as a result of which the margins improve. Every time the money comes in and every time the money goes out human effort is involved, and the more transactions that we do within the ecosystem the margins do improve. I do apologise. I missed your third question.

**Sela Rasuvu**

Just with regards to the outlook on pricing or commission on M-PESA services. Do you anticipate any sort of repositioning similar to what has been going on with mobile data?

**Sateesh Kamath**

Not at the moment. As you can imagine, pricing decisions are based on a number of factors, competitive situations, a strategy of what we need to unlock. And of obviously competitive reasons we cannot speak about it at this point in time, but at this stage as we sit today we do not foresee significant pricing changes in M-PESA.

**Sela Rasuvu**

Thank you.

**Operator**

The next question comes from Harrison Gitau of Apex Africa Capital.

**Harrison Gitau**

Thank you for making the time to set up the call. I have two questions. One is I noted a significant drop in non-current assets year on year first half 2020 compared to first half 2019. Kindly expand on that. Secondly, I also note that there is a significant slip in working capital. Can you explain how that might affect the company's ability to pay the dividend payable liability that is on its book? And thirdly, we have received a lot of questions from our investors asking us about the process on Digifarm. Thank you.

#### **Sateesh Kamath**

Okay. I would repeat the questions that you said because the quality of voice was not great. The first question that you asked is why there is a significant increase in non-current assets. The non-current assets this year is KSh 144 billion. In IAS 17 basis it was similar to KSh 145 billion in an IAS 17 basis the previous year. So, on IAS 17 to IAS 17 it is at a very similar level. You are aware that this year we adopted IFRS 16 which requires lease accounting to be done at a right of use asset, which has resulted in a significant increase in non-current assets from KSh 144 billion to KSh 161 billion. The details of this have been uploaded onto our website, so you will be able to see it there as well.

As far as your second question is concerned on the ability to pay a dividend, we did pay the dividend for the retail investors already. For the major shareholders we pay dividend closer to December period, at the end of the December period. So, the dividend payable is KSh 56 billion which is reflected in the balance sheet which you can see in the website. We have cash of KSh 23 billion, fixed deposits and fixed deposits and payables of another KSh 20 billion. So, we are reasonably close to the amount that is needed for dividends, so at this point in time we do not see any worry at all as far as the dividend payment is concerned.

#### **Michael Joseph**

On where we are on Digifarm, we are on the last of our trials for Digifarm which is testing products end to end with some 50,000 farmers going from borrowing to getting input to buying their crop. This is during the current rainy season. Subject to this successful trial which will end in January or February then we will launch it in a large scale going forward. The limitations of Digifarm are two things. One is on the ability to finance the farmers. We have now recently received some grant financing from Stanbic Bank and we hope to see something coming from Standard Chartered in the future which will help us from the lending side. And then the other challenge on the buying side is to make sure that we have buyers ready for the crops when they are ready. And we are working on that, and that should be putting up an exchange right now and also working with [unclear] foods as well to see if we can manage on the buying side. So, I think we will be able to report probably at the next reporting session successful completion of the concept trial.

#### **Harrison Gitau**

Okay. Thank you very much.

#### **Operator**

The next question comes from Evelyn Wandetu [?] of FAIDA Investment Bank.

#### **Evelyn Wandetu**

Thank you for taking my question. I have two questions. My first question is on the performance of the reverse call feature. Can you give for instance how many calls have been made so far? And my second question is on M-PESA. Could you kindly give a breakdown of M-PESA transaction value? Thank you.

#### **Silvia Mulinge**

On reversal it is one of the things we introduced a couple of months ago. We are seeing roughly half a million people every day generating a reverse call to their family and friends. And I think it has received positive



customer sentiment. We will continue to see how that grows as we go into the future. It is a great alternative to the please call me back service that we currently have.

**Sateesh Kamath**

Thanks for the question. As far as your second question of breakdown of M-PESA value I suspect it is going to take a little bit of time given the line items included there. We are happy to send it to your email separately after this call. Please do expect an email from our investor relations team.

**Operator**

Evelyn, does that sound fair?

**Evelyn Wandetu**

Yes, thank you.

**Operator**

Thank you very much. Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press star and then one. The next question comes from Alexander Vengranovich of Renaissance Capital.

**Alexander Vengranovich**

Yes, good afternoon. I joined the call a bit later, so sorry if I repeat one or two questions which were already asked. My first question is on the mobile money regulation. Can you give us an update if there is anything new with regards to the changes there which could be impacting your business in the second half of the year? And the second question is regarding the mobile towers you currently have in Kenya. Do you theoretically consider spinning off the portfolio of the towers, or has it not been discussed within the company yet? Thank you.

**Michael Joseph**

I think I can answer the question on the M-PESA regulations. There are no major changes coming right now. We are in active discussion with central bank to change some limits on M-PESA in terms of how much you can hold and how much you can transfer. We have not got an answer back yet and we don't know when we'll get an answer, but there is nothing new coming from the regulator on mobile money. On the second question in regards to towers we have no intention at this stage of doing any transaction with regard to our towers.

**Alexander Vengranovich**

Thank you.

**Operator**

The next question comes from James Bannan of Coeli.

**James Bannan**

Good afternoon guys. A very quick one from me. As far as I understood on the gaming side there was some gaming companies that had their licenses revoked and they were going to be reissued over the summer or over September. I'm just wondering if those licenses have come back, and would that mean that this gaming line item in M-PESA will start returning to growth as we go forward?

**Sateesh Kamath**

James, thanks for that question. At this point in time it is something that the regulator is looking at. It is complicated because there are taxation issues as well with these gaming companies. From what we see we have

seen a substantial reduction. Close to 50% to 60% of revenues from gaming have gone already. And we have always called this out with our investors that we are not likely to participate in any discussions. We would provide services as required by the regulator, and now that the regulator has decided to clamp down we will do it as well. In our models internally at this point in time we are not factoring in gaming going back to those high levels. However, this is an [unclear] which is outside our [unclear] and under the control of the regulator, hence it is difficult for us to predict reasonably. Internally we are not factoring in increase in gaming revenue.

**James Bannan**

Cool. Thanks very much.

**Sateesh Kamath**

Thank you, James.

**Operator**

Ladies and gentlemen, just a reminder, if you would like to ask a question you are welcome to press star and then one. We have a follow-up question from Tracy Kivunyu of Tellimer.

**Tracy Kivunyu**

I just wanted to ask about the expansion plans that Safaricom has. Are there any other countries that Safaricom is considering, and is there any timeline in terms of those?

**Michael Joseph**

No there is nothing. Other than Ethiopia there is nothing that we are looking at at the moment.

**Tracy Kivunyu**

Thank you.

**Operator**

We have a follow-up question from John Munge of Vergent Asset Management.

**John Munge**

Hello. Sorry, my question was already asked by Tracy. Thank you.

**Sateesh Kamath**

Thank you, John.

**Operator**

Ladies and gentlemen, just a final reminder, if you would like to ask a question you're welcome to press star and then one to place yourself in the question queue.

**Operator**

The next question comes from Ali Al Nasser of Vergent Asset Management.

**Ali Al Nasser**

Hello. Thank you for the opportunity to ask a question. Can you comment on the appointment of Mr Peter Ndegwa as the company CEO effective 1 April 2020? I'm particularly interested in hearing about the factors that were considered and how you see him fitting in given that he is somebody who is an outsider from both an industry perspective and from a Vodafone Safaricom perspective. Thank you.

**Michael Joseph**

I will answer that question. When we went to search for a replacement for Bob obviously we decided at some point together with our shareholders that we would look for a Kenyan for this job. That immediately limits your scope to what you can find in terms of people who are telecom experienced in Kenya and with the level of maturity and experience to run a company of the size of Safaricom. Nevertheless, we went through an extensive search and an extensive recruitment process. And in the end we chose Peter Ndegwa for the role based on his experience in the multinational organisation, his maturity and his experience in running two companies, one in Nigeria and one in Ghana. Recognising that he doesn't have any telco experience as such we still think that from his knowledge, experience, maturity and intelligence level that he would be able to come into the company and be able to pick it up what needs to be done. Of course, it won't be immediate. We expect that there will be an overlap or a transition period of about three to six months. And of course, we have a good team in place to support him going forward. So, although he is not an ideal candidate he is as close to ideal that we can get, taking into account our limitations.

**Ali Al Nasser**

Understood. Thank you, Michael.

**Operator**

The next question comes from Lisa Kamati [?] of Standard Investment Bank Kenya.

**Martin Kirimi**

Hello. Actually, it's Martin Kirimi. Thanks for taking my call and thanks for the presentation. A couple of months ago you sent out a statement that you are partnering with Equity Bank on some projects. Could you kindly give us an update on how far the partnership has actually taken up? Thank you.

**Michael Joseph**

I'll answer the question. I don't think I can answer that question in detail because obviously it's a transaction between two companies and we are still negotiating with them on different work streams. Some of them are close to fruition. Some of them take a little bit longer to close, if we can close them. So, I think, it's too early to say and I think I'm not at liberty to disclose where we are with that relationship.

**Martin Kirimi**

Okay. Thank you. That's all from me. Thank you very much.

**Operator**

The next question comes from Kuria Kamau of SBG Securities.

**Kuria Kamau**

Good afternoon and thank you for the call. Just a couple of short questions from me. The first one is around looking at guidance. Guidance hasn't necessarily changed, but I'm just wondering, you seem to be tracking ahead of that. You mentioned we saw with mobile data and also with call tariffs we saw those being reviewed downward, so I guess there is an expectation that the second half might be a bit more challenging from that perspective, but you mentioned that it is more of a long term. I'm just curious, what in essence do you see going into the second half in terms of headwinds in addition to the ones you mentioned? And then the second question, even briefer than that, is around what keeps you up at night. What concerns you? We saw the market share data come out a couple of weeks back. We saw at least on minutes there seems to be some advance

movement. So, I'm just wondering other than that what necessarily keeps you up at night. That's it from me. Thanks.

**Michael Joseph**

I think looking ahead and going forward, do we face some headwinds, I think right now based on what we launched last week in the marketplace here and the market offering and new service delivery that we're going to provide I don't see any major headwinds coming to us based on what we know. Of course, there are always going to be external factors that we cannot predict. But I think we are pretty confident about the second half of the year both in terms of revenue, margins and numbers. But let's see how it goes. But I think we're pretty confident that we will make some inroads in terms of market share. That's our objective in terms of market share, repositioning of our NPS score and basic financial numbers. What keeps us awake at night? I think it is not anything serious that we have here. Because we are a big company, because we are a successful company, it is very easy to sit back and rest on our laurels and say we're doing really well. What other mobile phone company has a 50% EBITDA margin? So, I think what keeps us awake is to make sure that we're not too complacent about our position in the marketplace and our success. Thank you.

**Kuria Kamau**

Thanks. That's it for me.

**Operator**

Thank you very much. The next question comes from Deepak Tolani of Seven Summits Investments.

**Deepak Tolani**

Good afternoon. Just a quick clarification on the Ethiopia spectrum that you're bidding for. Does that spectrum allow you to do voice, data and mobile money? Or right now is the conversation just on the voice? Thank you.

**Michael Joseph**

Sorry, this is an earlier question which I didn't really answer. At this stage we don't know. There is lots of clarification still to come from the government of Ethiopia. There is some consultation taking place on the 15<sup>th</sup> November where we will get some of these questions answered. Right now, mobile money is not included in the bid because mobile money cannot be offered by a foreign entity. We are hopeful that the regulations will change to allow foreigners to provide financial services, but we don't know whether that will be in time for this particular bid. So right now, it is undecided whether we will include mobile money in the bid that we should make for the licenses. We cannot say with any certainty today. Hopefully as I say when the government issues its final clarifications we will get some more clarity on this.

**Deepak Tolani**

Thank you very much.

**Operator**

Ladies and gentlemen, just a final reminder, if you would like to ask a question you are welcome to press star and then one on your touchtone phone to place yourself in the question queue. Gentlemen, we don't seem to have any further questions on the lines. Do you have any closing comments?

**Michael Joseph**

I think as Safaricom having done what we've done in the last few weeks, having re-established or changed the direction of Safaricom both in terms of pricing methodology, service offering and service delivery I think we are pretty confident about the future. I think we have set a new standard for mobile phone companies in Kenya. I

think we have seen that possibly Airtel and Telkom will still merge. I'm not sure if it will be completed in this quarter. It is probably going to move to next quarter. But nevertheless, I think based on our fundamentals of making sure that we have 4G everywhere by the end of this year our data offering will be very strong, and the quality of service that we will get from data will be very good based on our fixed data that we are accelerating as well. And then on financial services I think we are in a very strong position for the next half of the financial year, and I expect that this trend will continue. I think that's about all I want to say.

**Operator**

Thank you very much, sir. Ladies and gentlemen, on behalf of Safaricom Plc that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT