



INVESTOR BRIEFING CONFERENCE CALL TRANSCRIPT

ETHIOPIAN LICENSE AWARD TO SAFARICOM-LED CONSORTIUM

2nd June 2021

Vincent Opiyo- Moderator

Good day to you all, we are glad to have you for this briefing session on Ethiopia license award. As explained when we released our full year results and in subsequent road shows the RFP's NDA did not allow us to say much at that point. My name is Vincent Opiyo I head investor relations, and I will be moderating this session. We have in the call today our CEO Peter Ndegwa and our CFO Dilip Pal. Peter will make introductory remarks, as far as Ethiopia's concerned and thereafter, we will give you a chance to field your questions, which will be answered by both Peter and Dilip. Before we kick off the session, I would like to speak through a few house rules. Throughout this session any questions you have for our leadership team should be shared via the Q & A tab. Please type in your questions and we will read them out later and provide you with the answers. At the end of your questions remember to include your organization name. Please ensure you have joined the session with your full names for ease of identification when you post your questions. If you haven't, you can rename yourself now by hovering the cursor over your name and clicking rename on zoom. In staying committed to our promise on diversity and inclusion a live transcript has been made available for the comfort of anyone with hearing difficulties, who has joined us today. You can access this by clicking the view transcript tab at the bottom of your zoom application under more options. This will allow you to keep up with the conversation in a more comfortable manner. Finally, in case you require any assistance from us, that is not related to the discussion, you can write to us via the chat platform and we will be able to help you from the back end. I now, take this opportunity to welcome our CEO Peter Ndegwa to kick off the session, thank you.

Peter Ndegwa

Thank you everyone and good afternoon. Vincent just confirm, you can hear me so that I can continue.

Vincent Opiyo- Moderator

Yes, you are loud and clear Peter.

Peter Ndegwa

Okay, so good afternoon everyone, I know that we've spoken to many of you as part of our investor conversations over the past couple of weeks since we announced our results. So hopefully today, it is about trying to answer the questions that you have, as far as Ethiopia is concerned, and before we get into questions I thought that I should just say a few words. I think most of what we are about to speak on, has already gone into the public domain. About 10 days ago the Ethiopian authorities the ECA and the Ministry of Finance announced that the consortium, which



we are leading as Safaricom named Global Partnership for Ethiopia has been awarded a license. It is the only single licensee at this stage. The consortium partners include the Vodacom, Vodaphone, Sumitomo and CDC, we are delighted with this award of course. It's a bid that we've been working on for a very long time, as you are aware, as investors in Safaricom and for those who also invest in Vodacom. We are delighted we have been able to be awarded what we call license A, which is a very attractive spectrum for operating a GSM business in Ethiopia. At this stage the award is only for GSM it doesn't include mobile money. However, you will have heard that Ethiotel which is the public owned telecom operator in Ethiopia has launched mobile money. Previously, the Government of Ethiopia has messaged that mobile money will be allowed within a two to three-year period to any of the two licensees that would be allowed to operate telecom license. However, during the launch of mobile money by Ethiotel, the Prime Minister indicated that within a period of about 12 months' mobile money will be allowed, which is a positive. We hope that that can be converted into law so that, foreign operators like ourselves, can be able to operate mobile money. Mobile money was an important part of our business case in thinking about the opportunity in Ethiopia. But overall, we are very pleased to have won this license, it will give us as Safaricom and the broader family an opportunity to seek growth in a country that is the second largest country in Africa and one of the only remaining countries that has a single player. And, in addition to that we believe that our consortium which combines expertise of Vodacom in the region, Vodafone globally, Sumitomo internationally, and also CDC to bring together a really strong consortium, which has been successful across various markets and adds to our expertise in Kenya, but also mobile operation that has proven successful in Kenya and in the region. So that's all I needed to say. We will be happy to answer the questions you have, but there may be questions that we will not be able to answer at this stage, either because they have not been clarified by the ECA, or because at this stage it may be too confidential or under discussion with partners and therefore would not want to disclose them, but to the extent we can, we are happy to answer your question, so I hand over back to Vincent.

Vincent Opiyo- Moderator

Thanks Peter for the intro. Just to remind the investors in the call kindly use the Q & A tab to push through your questions. I think I'll pick up the first question that I'm seeing here from Silha of EFG and it is in three parts, around structure, so I'll take it once at a go. What is the thought process behind the consortium's decision on how shareholding would be distributed among the partners? That is the first part, then the second part is; Is it probable that the shareholding structure evolves over time with existing or new shareholders? Then the last part is; Does Safaricom and the consortium intend to capitalize the Ethiopia OPCO? Back to you Peter

Peter Ndegwa

Thank you for the questions. I think they are great questions in terms of the structure and with respect specifically to shareholding. For Safaricom our intention has been to participate in controlling stake to allow our business in Safaricom to consolidate the Ethiopian operation. So our intention was always to get beyond 51%, the latest shareholding you've seen is 55.6%, which is not too far off where we thought we would end up and that will allow us to have a controlling stake and an ability to consolidate the business. Yes, the rest of the shareholding is also dependent on



the expectations and needs of the individual shareholders involved, and I would not want to comment too much on that. In terms of how it evolves going forward the intention is to hold the shares for a while. There may be small changes that will happen to allow us to ensure that the needs of individual shareholders are met, but I would say that it should broadly remain where it is as has been indicated in the press announcement. In terms of the distant future, I would not want to comment on that at this stage if there is any change I'm sure I will communicate with the investors at an appropriate time.

Vincent Opiyo- Moderator

Thanks Peter. I think I will go to the next question from Ifraan Abbas. He says; Hi can you talk to the tension within Ethiopia and how this affects the original investment case? Then the second part to his question is; does the US sanctions affect the investment case for Ethiopia and will you still be able to secure funding from the US development finance institutions?

Peter Ndegwa

In terms of the tensions in Ethiopia, by the time we submitted that bid the tensions were already known. We had made an assessment based on an independent consultant that we used to assess the situation and seek feedback that we considered as part of our bid. We believe that we have made sensible decisions, given this is a very long term view of the country and betting on the country and its ability to develop and indeed telecommunication and, in future, mobile money being a key part of supporting the country Ethiopia, to develop. Of course we operate across our markets in a credible way we ensure that respect for human rights is considered and that's one of the reasons why we conducted a study through a consultant, and considered the views of that consultant, as part of the process of bidding. In particular with respect to the DFC, the DFC announced that they had sought and had gotten approval for funding specific investments across Africa to support Africa in particular for Ethiopia, they had indicated that they would be interested in funding consortium lead through the Vodafone group, which is our consortium. They have not made any other public announcements since this process was started so we would not want to comment beyond this. In terms of sources of funding our intention is to consider all sources of funding both related to the shareholders involved but also debt capital that can be sourced from various sources, including the DFC. At this stage that's all we're willing to comment on unless Dilip there's anything else you would want to add.

Dilip Pal

No Peter, thank you, I think you covered it quite well.

Vincent Opiyo- Moderator

Thank you Peter. There's a question from Jonathan Kennedy and the question is around CAPEX what is the annual CAPEX plan budgeted for the first three years? Will Safaricom have to take debt to fund that CAPEX?

Peter Ndegwa

I will ask Dilip to answer that one.



Dilip Pal

Thanks Peter, so the way to look at it is we are going in that market with a clear intention to building a very high quality mobile network which allows citizens to access all the digital services they need. Which is better connectivity as we launch in 2022, so we will very much remain disciplined in our capital allocation as we always do, but make sure that the quality of network we build is world class and provides the citizens of Ethiopia the benefit of digital services. Specific to your comment on funding, so for the license fee we do have a mix of internal accruals, on CAPEX and working capital funding requirement we do have options including what you mentioned about DFC and other options as well, so at this point in time, as I said, license fee funding is a mix of internal accrual, as well as the debt funding. Thank you.

Vincent Opiyo- Moderator

Maybe Dilip before you go I've seen a few questions on dividends, whether Safaricom will cut its dividends to fund this investment in Ethiopia, I think you can combine that as well.

Dilip Pal

Thanks Vincent, so first of all to confirm. You can hear me right Vincent?

Vincent Opiyo- Moderator

Yes, you're clear Dilip.

Dilip Pal

The dividend policy will not change, and when we did evaluate options of investment in Ethiopia, we took that into account and also to reconfirm to you that our dividend payout which is 80% of net income for the year remains unchanged, so we just want to give you that reassurance that we have enough balance sheet flexibility to be able to support a dividend policy, which is what we have been paying so far, so the dividend policy doesn't change and that will remain in force going forward.

Vincent Opiyo- Moderator

Thank you Dilip. A question from Alexander Vengranovich, is Safaricom concerned about the competition with Ethio Telecom or other potential competitors? That's the first part of the question, then, the second part is; do you plan to share the infrastructure to reduce rollout costs?

Peter Ndegwa

Vincent I'm happy to answer the two questions. In terms of competitive environment, of course, we as a consortium are going into a country which has one player and the intention of the ECA is to liberalize so that there are three players at steady state. We have a lot of experience both in Safaricom and also our consortium partners in playing in competitive markets and our intention is to deploy the best network and IT technology to be able to deliver the best experience and cover the right population based on the license requirements which we have specific population coverage, but also go beyond that, in terms of customer experience. So we respect the



incumbent they have been very successful and have a strong customer base as well as they have launched mobile money. But we are used to operating in a competitive environment, and we believe our intention is to focus on supporting the country to develop digitally in the same way that we have done in other countries, especially in Kenya and we will also drive the whole purpose of transforming lives, so that we connect beyond our commercial operations and we support sectors that impact on the livelihood of Ethiopians the same way we've done in Kenya and another countries and that's why also mobile money becomes an important component of our operation. In terms of sharing sites, yes, our intention is to share sites and the ECA has guided on this in terms of sharing sites, we expect to share sites, with Ethiotel, and indeed should a third licensee come into play at some point we also expect to share sites. So of course that will help both fast track the rollout but also reduce the cost of delivering the coverage that we need, and indeed the cost of making calls and delivering data in Ethiopia.

Vincent Opiyo- Moderator

Peter, I think you can pick the next question from Jaynesh Bhana; why did Safaricom take the lead in the consortium over Vodacom group? Was this perhaps politically motivated with the East Africa connection being favored?

Peter Ndegwa

It's a great question, I can answer it from Safaricom perspective. Safaricom has for a long time been messaging to investors that we are seeking new growth opportunities and Ethiopia presents a really credible long term growth opportunity for Safaricom. Safaricom has been primarily a single country operation has been extremely successful in Kenya, but as the GSM business slows down, especially on voice, and although we know there's still a huge opportunity for growth in other areas, whether that's data, financial services and even going into new areas on new digital ecosystems like agriculture and health, we needed to find new growth opportunities and Ethiopia is clearly a huge opportunity. So for us it is a business imperative, rather than any other issue. We've made this decision in the best interest of Safaricom and its shareholders and the broader stakeholder base. It will benefit this business to benefit Safaricom long term. The intention of going beyond 51% was to allow us to ensure that growth comes through by consolidating into our business, it also enables us, become a more regional business, and that would allow us to seek new growth opportunities that we would not have had if we remained a single market business.

Vincent Opiyo- Moderator

Thank you Peter. I see a number of questions on mobile money, which I will throw in Dilip's way. So the first one is whether the NPV changes if we do not receive mobile money? Then the related question is whether we will pay a new license fee once we receive the mobile money license?

Dilip Pal

We already did our business case, so we did consider mobile money coming at some point in time, based on our conversation and discussion that we had ECA and the Government of Ethiopia. So as you would know this RFP was only for mobile telecommunication license so obviously mobile money was not expected to come with this license, but it was always in the

background and expected at some point in time in the future, so it was part of the consideration and I think as Peter mentioned, based on what we heard from Prime minister's public announcement, we do see that probably coming faster than originally anticipated I think that's where I will leave it at. Initially we had thought that it will be coming later, but we always thought it was going to be coming and we now think that it's probably coming faster than we had originally anticipated. The second question on the license fee, so we don't know the process, but as it comes in, we believe that we will have to pay a separate license fee, but we understand that that will not be substantial. Thank you.

Vincent Opiyo- Moderator

Thanks Dilip keeping you to the microphone, a question from Alastair Jones, how do you intend to compete in the market, is it purely based on price or to differentiate on quality of service?

Dilip Pal

Great question, I think Maybe this is linked with the competition question that one of you asked and Peter had answered. I think the fundamental to our success in that market is building a great quality network so once we do that, we believe that the digital services that you can offer to our customers will enable customer stickiness, so I think I won't say that the market to operate is through the prices. I think it's through the value proposition, bringing innovation, bringing in products and services we solve the customers problem what they're looking for so in a market when it is opening up for a second license there is always an opportunity for bringing in quite a bit of innovative products and services that we have not only in Kenya, but also in some other markets but, of course, more customized to Ethiopian customers choices. So I think it is fair to say that it's not about pricing, pricing is just one element I think it's more about the values, the products, innovation that you bring in to allow the customers to experience the digital services in a great network. I think that will differentiate rather than simply on pricing.

Vincent Opiyo- Moderator

Thanks Dilip. I see a number of questions on the tax waiver, tax incentives that we will potentially enjoy with this investment, so I think I'll just combine them because I see corporate tax, then I see other taxes, maybe Dilip you want to take this.

Dilip Pal

Yes, Vincent go ahead what's the question?

Vincent Opiyo- Moderator

Sorry, the question is around you know tax waivers that come with this investment.

Dilip Pal

So the tax waiver, we understand that there will be certain benefits available, one general to all corporates in terms of being set up operations in certain areas, and on top of that there could be some other benefits in terms of input duty and other concessions, so at this stage, I think these are all part of the discussion that we are having. What is available in public domain is what you could



probably also see. But I think we are engaging with the Government and the Finance Ministry to get more clarity around the concessions and the conditions. I think what we will do is that will probably brief you on that at a later stage, when you have more visibility around this and what it means in terms of quantum and the implication.

Vincent Opiyo- Moderator

Thanks Dilip. There's a question from Rohit Modi which I think Peter, you can pick; please could you give more color on repatriation laws in Ethiopia? I believe this is around repatriation of dividends.

Peter Ndegwa

Thank you, Vincent. In terms of repatriating dividends, so there are two elements I'm sure that investors will be thinking about. One is can we be able to repatriate? The answer is yes, the second is, can we be able to access the currency to be able to repatriate dividends, and the answer is, by the time we believe based on what we have heard from the Government in terms of their economic plans which have been quite significant in the recent past and are expected to continue in the future, and in particular the liberalization around foreign currency by the time we need to repatriate dividends when we do make profits, some of those reforms will have been put in place and we believe will be in a good position to be able to repatriate the appropriate dividends to the shareholders who are involved.

Vincent Opiyo- Moderator

Thanks Peter. I am seeing a number of questions on license requirements, so I think Tracy is asking about what spectrum is available with this license? Peter I will hand that over to you.

Peter Ndegwa

Yes, the spectrum, that is available, especially for a new license is quite generous, attractive let me put it this way. So we have spectrum at 800, 900, 1800, 2100 and 2600 bands and it is 20 20 40 40 40. So, in terms of the spectrum that's available, we believe that it is a very attractive spectrum for a new license compared to similar auctions that have been had in other countries. So we are very satisfied with the kind of spectrum, we are getting. Dilip do you want to add.

Dilip Pal

No so, I think just to say that the portfolio of spectrum that Peter has just mentioned about is attractive, especially on the low band 800, 900 and having all the spectrum bands, that we need to use at the very first stage is very encouraging and very satisfying so that's what I think I just want to reiterate that.

Vincent Opiyo- Moderator

Thanks Peter and Dilip. There's a question on who will be managing the Ethiopia business unit? Does the nationality matter? Then the last part of it; will the Managing team be made mostly of transfers from Kenya and Safaricom? I think Peter I will hand that over to you.



Peter Ndegwa

Thank you, for the question, I think for me, what I will say to the investors is that we brought a very strong consortium. But of course Safaricom is the lead in this consortium, we will set up an operating company in Ethiopia. That will be managed by a team in the same way that Safaricom is managed in Kenya, that will have a CEO, executive team and a full management team. Of course, initially, we will need to second quite a number of people to be able to inject the level of expertise, both on the technology side, but also on the commercial side. But quickly start to embed local talent, to ensure that their flavor of the business will start being Ethiopian. Because our intention is to make sure that long term, that business is truly Ethiopian, it represents the Nation as diverse as Ethiopia is. But we will provide the level of support to accelerate the rollout that is required for us to be able to meet the license obligations in terms of population coverage. In terms of where those people come from, we will get the best talent that's available, but, of course, with Safaricom being the lead in this process, but leveraging across all our consortium partners.

Vincent Opiyo- Moderator

Thanks Peter. Dilip there are two questions that I'll throw your way from Roy Mutooni; what is the role of the other consortium partners? And is funding being secured on the basis of shareholding or a project structure? I think the last part you did answer on dividends, then I think I want you to also combine that with the question from Charat Dua; did you reduce your bid value at all since the initial proposal?

Dilip Pal

Thanks Vincent. So I think I'd start with the last one, did we reduce the bid value. I think your question was that what we have submitted as a bid and whether we had changed that bid amount and the answer is no. So that's fine. Then to your question on the role of the consortium partners. I think, Peter alluded it quite well in terms of the partners that we have whether it is Vodacom with a strong continuous presence and very successful presence in many of the markets. With the consortium who has you know, their presence in many industries and countries across the globe and then their specific expertise in media and digital part of the business which has allowed them, get quite a bit of experience in Asia and other parts of the world and, of course CDC is its commitment, to this continent is a carefully chosen consortium partners and they all bring diverse values in terms of experience, that combined with what we have, having ran a very successful business in Kenya it complements and when you're going to give this we're going to Ethiopia with a much stronger portfolio of experienced partners, providing services in many areas that Safaricom alone from Kenya's experience would not have provided. So we are very happy about how this has played out. Vincent did I miss anything?

Vincent Opiyo- Moderator

No Dilip you have answered both of them.

Dilip Pal

Thank you.

Vincent Opiyo- Moderator

So, then I think next, I'll pick a question from Jake Ward; what is the level of engagement you have with the ECA about the ease with which you can set tariffs? That's the first part, then the second part; presumably mobile terminating rates asymmetry will prevail, as the consortium ramps up, and then you ask is that a fair basis case? Peter, I think I will give that to you.

Peter Ndegwa

Vincent, I think I will answer one of the questions and then Dilip potentially could answer the second. In terms of the conversations, we've had a lot of conversations with the ECA throughout the RFP process just like with all the other potential bidders that were in the system. In terms of how the market will operate, what would be allowed? There are various laws they need to put in place for them to support the policy framework that they have in place and there are some that have already been done and there are others that needs to be done in the foreseeable future. Our read of the ECA is they are fully committed to creating an enabling environment that promotes competition but, more importantly, promotes the level of investment, so that we can deliver, or all investors can deliver the level of coverage and the number of products, innovation that's required in order for us to support the digitalization journey that the Ethiopian Government wants to undertake. So we are satisfied with our interaction with the ECA and there are commitments to ensure that there is a level playing field that we will get the level of attention that allows us to hit the milestones that are expected from the license that we have received and also achieve our own commercial objectives. Dilip do you want to answer the second question.

Dilip Pal

So I think. Mobile interconnect rates go through different phases of evolution for any market, so of course on a single operator's scenario to a multiple operators from one to two, two to three, the way you probably have seen in many markets, the mobile termination rates are rationalized over a period of time to allow the competitiveness in the market, so I think we do have a baseline and we also do believe that the regulator there is really committed to allow fair competition, allowing broader service adoption for customers there, which obviously means that any asymmetry on mobile termination rates will also be addressed, over a period of time, and this is how it has happened in many markets, if you have noticed. So I think there is a baseline to start with, over a period of time that gets rationalized.

Vincent Opiyo- Moderator

Yes, thanks Dilip. There's an overriding question across from Ann Rebecca, Phillippe Koch and a number of other analysts on the 8.5 billion USD investment in Ethiopia, just to paint some color on that media number.

Dilip Pal

So what we can share at this point in time is that it's a very broad number in terms of CAPEX, OPEX and all of other costs that we shall incur over a longer period of time which has been, probably in the news. So, you know at this point in time I'm not in a position to give you a breakdown of that eight or eight and a half billion numbers that was quoted but it broadly captures pretty much all



the items. At a certain point in time, as we spoke about it, Peter also mentioned about I think we will give you more color, probably a breakdown, but at this point in time, it's just a broad number over a long period of time.

Vincent Opiyo- Moderator

Thanks Dilip. Then the next is a question from Farouk Miah, I think Peter will answer this; What, if any, conditions have come with a license e.g. minimum coverage levels within a certain time period, minimum investment levels, job creation? That is the first part, license conditions, then the second part is; what are the main ways the Ethiopian market and Safaricom's approach there may defer to the approach in Kenya?

Peter Ndegwa

It's two great questions. I think the first question on the license requirements, yes, there are certain specific license requirements and conditions that come with the license in particular population coverage targets both across the country. So one of the things we needed to demonstrate as part of our bid, is that our investment profile will be able to either hit or surpass that minimum population coverage and over a certain timeframe. So that that has already been satisfied and that's what's part of the technical criteria that the ECA used to be able to pre-qualify investors through the bid process. So that's the main condition. In terms of how we operate in Ethiopia versus the way we operated in Kenya as Dilip and I have said, our intention is to bring our expertise and experience from the countries we've operated in particularly in Kenya and be able to deploy it in a way that allows the Ethiopia Government and the Ethiopians to achieve the objective of digitizing the country and enabling an environment where we install world class communication infrastructure. And then also when the time comes, mobile money in the same way that we've been successful both in Kenya and other markets. And the intention is not to copy Kenya, but actually to learn from the experience that we've had in the markets that we operate in. But it is actually to localize the business, so that it serves the interest of the local community, allows us to cover a very wide country, allows us to give the right level mix of products that are suitable for the country. But also allows us to go beyond commercial objectives to supporting community and really drive their aspect around living a purpose of transforming lives. If there's one thing that we are going to transfer from what we have learned in Kenya and be successful, is the whole piece about connecting with the fabric of the Community through investing in social elements such as education and health. So we are going to make sure that we tailor the business to meet the needs of our Ethiopian consumers and in particular ensure that population coverage meets the minimum criteria that had been set by the ECA.

Vincent Opiyo- Moderator

Thanks Peter, maybe related to what you've just spoken about Peter is a question from Sunil, who is asking, can you also comment about the report at satellite based services to be launched in Ethiopia?



Peter Ndegwa

Dilip you want to comment on that.

Dilip Pal

Peter can we come back to this question later on giving a little bit more time, if that is okay?

Vincent Opiyo- Moderator

Yes, I think we will get back to that question at a later date. Dilip now that I have you here Jaynesh is asking about the kind of IRR, ROI expected for Ethiopia and how long would it take to realize the opportunity? I think, then there's another question on how long it will take for the OPCO in Ethiopia, to break even?

Dilip Pal

So on IRR what we can confirm is, we did benchmark ourselves into similar markets like Ethiopia, and the business case that we have developed took that into account. So I mean we don't disclose that publicly so I'm not in a position to confirm that. However, I can confirm that the required benchmarking to a similar market as part of our investment case evaluation has been done. To the question on the breakeven, I think at this stage, we would not like to comment on a specific date for breakeven as we mentioned in the beginning, that sometime in future, maybe as part of our H1 release when we will provide more broader information on Ethiopia, as we start rolling out and as we set our companies in operation, we will provide a bit more color on the breakeven part, thank you.

Vincent Opiyo- Moderator

There's a question from Mohammed Khallouf he's asking why our fellow competitors dropped out of competition for the license and why they bid less than our bid? So I think Dilip you can also take that.

Dilip Pal

I mean it's an unfair question to us, this question is to be asked to them that, why did they do what they did. I think we did our evaluation of our business case in terms of our bidding value in all of this with our own lens in terms of the opportunity that we see, with everything taken into account with the required level of due diligence done not only by us but also by the other consortium partners so that's the process that we have followed, and we went ahead with it. I think the question that you're asking I don't think I will be in a position to answer on their behalf, as to why they have not done and why they have opted out.

Vincent Opiyo- Moderator

Thanks Dilip. A question from Henry Kabue. I think I'll just read the question, the way it goes; we note that mobile penetration and ARPU are relatively lower in Ethiopia compared to Sub-Saharan African peers. Yet EBITDA margins for Ethio telecom are higher compared to Safaricom. Could you comment how such a high EBITDA margin could be generated, is it a function of cost base?



Dilip Pal

Can you hear me?

Vincent Opiyo- Moderator

Yes, we can hear you Dilip.

Dilip Pal

First of all, Ethiotel is only one operator, the single operator in that country and in terms of that, there is no competition. We may say that the ARPU is low, but then in the context of GDP and the context of that market, they hold pretty much everything as we speak, so I think the way to compare would be as the only operator you do enjoy a certain scale benefit which allows you to have certain margin, but it's very difficult to compare on a like for like basis what is allowing them to have more EBITDA margin compared to us. Our assumption at this point in time is that it's always that way when you have only one operator running and not necessarily and I think your answer to this question also lies into the other things that you mentioned mobile penetration because when you start penetrating, you penetrate the big cities, towns or the high value customers reside and then you can include more into the rural areas ARPU tends to go down, so I think it's also a reflection of that, within the context of Ethiopia, they have the best customer and therefore probably enjoying the benefit of scale which allows for them to get the kind of margin they are reporting.

Vincent Opiyo- Moderator

Thanks. To Dilip, a question here from Linet Muriungi. Will Safaricom setup greenfield or would Safaricom still be interested in the 45% stake in Ethiotel as well? Then the second part of the question is what is Sumitomo's and CDC's investment horizon? I think Peter, you can pick that.

Peter Ndegwa

Thank you. It's a great question and the question is whether we would be interested in the shareholding within Ethiotel and the answer is no, and the reason is we went for a second or third license and we got the second license which is available for auction and therefore, that means we'll be one of the competitors to Ethiotel so therefore that prevents us from being able to bid for Ethiotel. Our preference was always to go for the greenfield license rather than bid for Ethiotel and we are delighted that we've been able to achieve that. In terms of the investment horizon for both CDC and Sumitomo they are going to be with us for the mid to long term, if there is any change that comes through, we will communicate, or CDC and Sumitomo can communicate at an appropriate time. But at this stage we believe that they will be part of the consortium for a considerable period.

Vincent Opiyo- Moderator

Thanks Peter. I think another question that has been running across a number of analysts here including Kuda is around the license and when we expect to have it renewed and I think I'd read a question around whether you know the renewal is guaranteed. Then related to that is the second part is what kind of discount we can expect from ZTE and Huawei, given that we now



have more bargaining power? I think I will rest at the two and Peter I think you can take these ones.

Peter Ndegwa

Yes, so. So the license fee is a great question the license fee or the TELCO license will be for an initial term for 15 years and we'd have a right to apply to the ECA for renewal for another additional 15 years, so this is quite some clear certainty around the kind of renewal process. In terms of the second question was with respect to Huawei just repeat that question, Vincent.

Vincent Opiyo- Moderator

So he is asking whether we expect to get discounts from ZTE and Huawei now that we have more bargaining power.

Peter Ndegwa

So, in terms of the vendor selection, we are currently going through the process of vendor selection so that we could start the operations as quickly as possible, we will of course at this stage not disclose where we are in that process. At an appropriate time, will be able to disclose that. We always expected that we would go through this process so I'm not sure that we have more bargaining power, but I think at this stage, I just want to say that we are going through the vendor selection and we will know the results at an appropriate time.

Vincent Opiyo- Moderator

Thanks Peter. A question from Ayobami. What are your infrastructure plans at the early stages of operations? Then will the GPE, global partnership for Ethiopia be using Ethio telecom's infrastructure, since Ethiotel already has, upwards of 90% coverage? I think Dilip you can take this.

Dilip Pal

Yes. Thanks for the question. On infrastructure plan, we are approaching it in a way, that we will have a mix of own build infrastructure and also sharing. I think the question that you asked on the second part, which is whether we will be accessing the infrastructure of Ethiotel, the answer is yes. The intention is always to share as much as we can, and also build where we don't see an opportunity of sharing, so we are going with a view that will have a mix of our own build, as well as sharing from Ethiotel.

Vincent Opiyo- Moderator

Thank you Dilip. I think there's a question from Silha again on what is the required timeline to pay the license fees? I think Dilip you take up that, then the second question that I think we can also take together is; in the future, can the fact that the Government of Kenya owns a large telecom player in Ethiopia become a problem?



Peter Ndegwa

Can I answer the second question, then Dilip can answer the first one? So, in terms of the Government of Kenya being a shareholder within Safaricom. We do not see it as a problem at all, the Ethiopian authorities are quite clear what the underlying shareholding of the individual bidders including Safaricom. Indeed, the Government of Kenya being involved is potentially a benefit because of the good relations between the two countries and also a lot of trade between the two countries and with mobile telecommunication being set up and being liberalized in Ethiopia and potentially in future mobile money we would expect the actual connection between the two countries to be even closer, so we see this as a relationship that will benefit both countries and also given the experience that we have had in Kenya in driving our business by leading through purpose and supporting community, we believe that will also really connect with Ethiopians so we don't see that being a challenge.

Dilip Pal

Thanks Peter. The question on your timeline for payment of license fee. From our public announcement you may have noticed that we have been designated the winner from an effective date of 24th of May, and then, as per license or the RFP condition we are expected to make the payment within 14 days from that day. And just to confirm, we are making all arrangements to make sure that the payment is reaching Ethiopia within the day prescribed by RFP.

Vincent Opiyo- Moderator

Thanks Dilip and Peter. Dilip probably, you can pick this next one; what will be the handset sales strategy? Can you comment about the pricing environment for handsets, particularly considering the crunch we are seeing in the chip sets?

Dilip Pal

That's a great question. First, to confirm that handset strategy will be a key element of our driving digital adoption into mobile data in Ethiopia. So we are very clear about how to do that with our learning of what we have in Kenya, as well as in other markets that we have understanding. Having a great network is not good enough, you need to have devices, so this will be deliberate, as we have been also talking about for Safaricom. So from day one, we will make sure that the mix of the portfolio of device financing, attractive offers for customers to buy, going to our retail or they go to an open retail. So all that we have learned in our market in Kenya as well as other parts of the world where we operate, will be put into use from day one, because we believe without that, the digital experience that we are committed to provide to the Ethiopians will not be there. So to your questions, I know I think it's a conversation that we had in our investor conversation that's also coming up, that's something we need to really watch out in terms of global shortage on chipsets and therefore the pressure on the pricing. Typically every year, we have seen a decline in pricing, driven by more demand for the devices. As the volume increases the prices also come down with more and more innovation coming in there. But this year, it has not been like that, but we are watching it very closely, we believe this is more to do with the pandemic and the covid related supply chain issues, which is not going to be there for long. So



as you keep saying, that this investment horizon, everything is for the long term so we're going to be there, but we'll be watching this space very closely as we are watching it for our Safaricom business as well. Thank you.

Vincent Opiyo- Moderator

Thanks, ladies and gentlemen, I think our time is spent so Peter I think I'll give you this opportunity to make closing remarks, then I know we have a few questions that are unanswered. Similar to what we did in the full year investor briefing we will provide responses to these questions and then share with all that are in the call. Over to you, Peter.

Peter Ndegwa

Thank you, Vincent and thank you Dilip. I just want to say thank you to everyone who called in today. We have tried to answer all the questions that you had, of course, there are some questions we were not able to answer. But, all I can say is that we are really, really delighted that the Safaricom-led consortium has been able to win this license. We've been going after it for a long time. It's been a hard job, but we believe that we've achieved the big prize, it will make a big difference to our business long term growth potential and therefore continued to allow us to deliver returns to investors and growth that is acceptable to investors. Of course, there's a lot of work to be done both in terms of paying the license fee as Dilip has mentioned and setting up the OPCO company starting to really set up the operation and get an accelerated operational plan that allows us to meet business to go live sometime in 2022. We are looking forward to this. We are looking forward to clarifying from the Government about mobile money in the coming months and we believe this will be a big part of our business, of our Safaricom group business in the future. There will be, of course, many things that we will be able to clarify, especially as we get towards half year results when we have a clearer business horizon, especially around CAPEX investment, operational plan for launch and so on and so forth, which we can share at a future date and also more detailed financing elements, both for the OPCO, but also for Safaricom. So thank you and have a good afternoon and good evening to everyone. Thank you very much.

END OF THE TRANSCRIPT