



CONFERENCE CALL TRANSCRIPT

HY21 EARNINGS RELEASE ANALYSTS' BRIEFING

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Peter Ndegwa

We have supported the country for six months now, seven months and it has cost us 9 billion Kenya shillings for H1. We are not in a position to say when we will go back to charging. We do know that we will go back to charging at some point, we are not in a position to announce that. When we are ready to do that, we will come back to you and announce that. We have also been closely in touch with the Central Bank during this period, and we are working together to make sure that we have a position that is fully aligned between ourselves and them. But as I said I wanted to reinforce that we went with this direction to support the country, during this period to support a cashless environment, but also to cushion Kenyans during this period. Kenyans are aware that the free transactions are not going to be there forever, but at this stage we are not in a position to say when we'll stop, when we will go back to charging.

Cyndia Nguli

Thank you, Peter. Jaynesh, I believe, Peter has responded to your question as well. So, I will move on to Willis's question. This is regarding Ethiopia. How soon should we expect operations and revenues from Ethiopia?

Peter Ndegwa

Is that a question from Linet?

Cyndia Nguli

No, it's from Willis.

Peter Ndegwa

Thank you, Willis, I should say that our intention to invest in Ethiopia is a long term play, it's not to generate near term revenue. Just to indicate where we are, we submitted an expression of interest some months back, we are about to submit a bid although we are waiting for the terms to come through from the Ethiopian Government, which had been delayed, we expect those what they call an ITT which is the terms that allows us what to bid for, to come through in the next 30 days and we are required to submit a bid within 30 to 40 days thereafter. Our intention is to go with a consortium, Safaricom will be the lead with approximately 51% of course we will be sensible in terms of the kind of bid we have in terms of returns to shareholders, our ability to fund any investment that we make. There are challenges in terms of whether mobile money will be included and what time frame that would be. However, all I can assure you, is that the Board will consider the overall bid in the context of ensuring that shareholder value is protected. We do not believe that our ability to pay dividends will be impacted by investment in Ethiopia, but I do need to say that, at this stage, we do not have a view as to, or we are not in a position in terms of the return profiles or indeed the debt levels that we would have to put on the balance sheet to be able to



navigate our way through the bid. But when that is ready, we'll be able to share. We are waiting for the ITTs for us to be able to respond and we will seek the relevant approvals, both in terms of the Board itself and when the time comes from the regulatory authorities, but also shareholders. I will leave it there unless there is any further question on Ethiopia. But just one more point, Ethiopia is going to be a strategic investment. As I said at the beginning, it's a long term play. We hope that even if we went in with a pure telecom license that a mobile money license will then be allowed, within a relatively short period of time that is two to three years, which is what the government has messaged because long term, we believe that we will get an appropriate return. If we combined a telecom operation with a mobile money operation.

Cyndia Nguli

Thank you, Peter. I believe that also responds to Donatas's question. I think we can then move to Silha's has question. Ilanna this is a follow up on the short term borrowings any detail on duration or cost of debt, please?

Ilanna Darcy

Yeah, thanks Silha's. I hope you can hear me. Sorry, my internet went funny there. Yes, Silha I don't think we're going to get into the details of the cost of debt, and I think I mentioned this earlier but apologies if it wasn't very clear, the debt is purely timing. So, it would be repaid within this financial year. Now obviously if we are successful with the bid in Ethiopia it would be additional debt taken on our balance sheet, but to put it in perspective in case the question is coming from one of worry, our Net Debt-to-EBITDA ratio, at half one, was .27 which compares very favorably if you compare to say like Vodafone they operate at three times EBITDA, so our balance sheet is very under leveraged and under geared from the point of view of sustainability, but the funding that we talked of in half one was to facilitate a kind of timing of working capital commitments and would be repaid by end of year.

Peter Ndegwa

Can I add to that, Ilanna? I hope that the shareholders and investors are not going to complain with us paying dividends early. Because one of the reasons why we went for a bit of additional funding is to fund working capital for other projects, including CAPEX as Ilanna has mentioned. To enable us to use our free cash flows to be able to pay dividends, which we paid a few months earlier than normal. And it was a recognition of the fact that it was an unusual year. Of course, going forward, we are going to go back to the normal timing in terms of paying dividends. But certainly if we hadn't paid dividends earlier, we would not have been constrained so it's a purely timing issue. A short term matter which should wash itself by the end of the year as Ilanna has messaged.

Cyndia Nguli

Thank you, Peter. We have a question from Ali AL-Nasser and he says, Thanks for the call. I was under the impression that the deadline for zero rating was December 31st. Are, you know suggesting that the zero rating can extend beyond this deadline?

Peter Ndegwa

No, I'm actually not suggesting anything like that. I am just stating that we are not in a position to make an announcement of when we will go back to charging. We do think that we will go back to charging at some point relatively soon. I do not want to commit to a date, whether that is December earlier or later. But in not committing it doesn't mean that we think that the deadline will move beyond December. One of the things we are sensitive about we do not want to discuss matters that we may be having in the background with the regulatory authorities at this stage. But I would not want anyone to read in us not committing to a date that we think this will shift beyond December.

Cyndia Nguli

Thank you, Peter. So, we have a follow up question from Fred Tilling; your customer churn rate has increased to above 30% from around 20% last year, please give some insights around why this has moved up?

Peter Ndegwa

The advantage of having a great team is that you can delegate some of the questions. And so, I will ask Sylvia Mulinge, who looks after consumer business but also our Chief Customer Officer to answer the question on Churn.

Sylvia Mulinge

Hello. Good afternoon good morning from wherever you're logging in. Yes, our churn did go up in half one, but that was a deliberate effort that we're putting in terms of cleaning up the fraudulent registrations on our network. We had quite a bit coming through during the covid period, and we have spent the first half of the year cleaning that up. So, if you look at the underlying Churn that's within control. It's still within the 20% range. But we have taken strict measures in terms of cleaning out all the fraudulent registrations that had happened. So that has shown up, it should stabilize. By the time we're exiting this quarter. And we get back into the normal range of performance that we have always had in the past. So, under control.

Cyndia Nguli

Thank you, Sylvia, so we'll move on to Sunil's question he has three questions. The first one is, can you please explain the one offs on the EBIT line? and then what trends are you seeing in the last three months? And finally, how should we be thinking about service revenue growth rates?

Ilanna Darcy

Thanks Sunil for the questions. So, on the one-offs, the nature of provisions that are taken in one period that may be, then get released in another period. I will give you an example, last year we took provision against possible liability with KRA related to PAYE. We successfully closed the issue with them, so we released that provision, we created last year, this year. I think there will always be kind of ups and downs was more to call out or caution investors that we didn't want you seeing that 10.6% OPEX reduction and expecting the same in the second half of the year when we knew the part of that was being driven by a one off that wouldn't recur. I think the other way to look at

it is that there are additional one-off impacts in the period both of the zero rating of M-PESA transactions, increase we've seen in the bad debt provision. So, we were trying to find a way to cover the impact of the increase in bad debt provision. One of the ways that we did that was to try and close out on any provisions that were sitting on the balance sheet that we felt maybe could be closed and released back into the P&L, so one could offset the other. I think there was two other questions. What trends are you seeing are you seeing in the last three quarters; am not entirely sure what you're referring to. If it is service revenue, the results we are looking are up to the end of September. So, we really only have October and a week of November to go on. October is looking good we're continuing to see the momentum that we saw in quarter two carrying through into half two, which we're pleased about. I think I'll be cautious to predict any kind of service revenue growth rates to your last point. I mean, at the moment, things are going quite well. But, you know, as you see across Europe, the US the number of cases spiking countries across Europe going into second round lockdowns if that was to happen in Kenya, it would impact our service revenue performance. So, it's very hard to predict at this point, I think all else being equal, the kind of performance we saw in quarter two should continue. But it'd be difficult to say with surety because we all have a lot of unknowns going on with Covid.

Peter Ndegwa

Cyndia, let me add a couple points to what Ilanna has spoken to. In terms of the data on the data business as we said in our results announcement, we are seeing momentum, so we do expect that all the key drivers of penetration will continue, 4G coverage is improving, we are putting more 4G phones out there, and also on the fiber side both in terms of fiber to home and fiber to business we are seeing some momentum. So, on the data side all the indications, both in terms of days of use, the amount of MBs or GBs used is going in the right direction. On the voice side, we had a tough Q1, we saw a recovering Q2 we've started going after one to one marketing. Sylvia can speak a bit briefly on that we are giving a slightly more value. We've seen improvement in terms of number of minutes used the days of use, but also, we have seen the right trajectory in Q2, so voice is also looking reasonably stable. You know voice has been affected in the past, had been under pressure. We expect that to continue to be the case and therefore, we are looking to see how we can give more value to customers in the end, but still do well on the ARPU. On M-PESA we have seen very good underlying health of M-PESA so customer numbers are up, transactions are up, wallet size is up. Our execution is much better we have improved the number of products out there. We are focusing on micro SMEs and SMEs. So, once we start charging and we do not know how volume will respond to charging. We would expect to go back to normal in terms of the growth profile of M-PESA. I wouldn't want to say what that normality is because as Ilanna has said no one knows how the second wave of Covid will affect the economy and there are very many people who are out of jobs, SMEs are affected. So we are we are cautiously optimistic in terms of the underlying health of our business, but we just need to continue to manage and improve execution over the period and see where we end up we have of course now given guidance for EBIT and CAPEX and that should give you an indication of where our confidence levels are although there still assumptions that are out there that are related to the economy.

Cyndia Nguli

Thank you, Peter. The next question is from Dilya. The presentation shows decline in disposable income through September. What is the relationship between the disposable income and Fuliza values there appear has to be no relationship between income levels and repayments which have improved Q2 versus Q1?

Peter Ndegwa

Ilanna do you want to take that one or Sitoyo.

Ilanna Darcy

Hi Dilya, I think that the nature of fuliza and the type of product it is I suppose, in some ways, it ensures that the amount outstanding debts repaid because if you have Fuliza outstanding, once money comes back into the wallet the loan gets repaid, or maybe Sitoyo might be able to speak to this in a little bit more detail, I think Fuliza's has performance has been strong which I suppose in some ways is a reflection of the disposable income situation and that more people have been taking Fuliza. But I think it's just testament to the setup of the product construct in such that the repayment rate has remained high. So, it kind of facilitates convenience for the customer, especially in times of need, like Covid and from our side it's a less risky kind of setup. Sitoyo I don't know if you can speak to this in a little bit more detail.

Sitoyo Lopokoityit

Thanks Ilanna you're right, it's how fully fuliza was constructed. It's contextual in nature and this is something that customers would normally have. It helps complete a transaction, the customer will normally have completed it in two or three days later. So, the way it was designed. It does have low NPL. The growth is also pushed by the growth in customer numbers. It's also pushed by the growth in values and volumes and given the scenario of Covid which in Kenya cash has been seen as a means of transmission and the government has been pushing for going cashless. We have seen more volumes coming in and this has helped also fuliza in terms of repayment. But also, in terms of more money coming into M-PESA as Ilanna mentioned in terms of cash ins as well as money coming in from the bank. So that acceleration of M-PESA from volume values customers is helping the growth of fuliza and also maintaining their NPLs. Thank you.

Cyndia Nguli

Thank you, Ilanna, thank you, Sitoyo. Next question is from Alastair and I will also loop in Elizabeth's questions because they are very closely related. So, question from Alastair, could you talk about pricing for both voice and data services, for data year on year revenue growth slowed from half 20 to half 21 but we have seen an acceleration in traffic. Has competition intensified or were there any factors at play? How should we think about data revenue trends going forward? In voice it looks as if pricing pressure has also intensified. What is driving that and what should you think about it, going forward? Elizabeth is also asking about the outlook for mobile data and fixed service for half two.



Peter Ndegwa

Ilanna do you want to start the question and then hand over to Sylvia.

Ilanna Darcy

Yeah. So, I think for data you're comparing to have two last year and half one this year, it does look like that a slowdown in the growth rate. There has been consecutive quarter on quarter growth. Some of that growth rates in terms of the year on year is a function of the fact that in half two last year we were lapping the effects of what we've done in the previous year. So, the high kind of 20% growth that we would have seen it have two last year is a function of what happened the previous year. And that being said, in terms of, competition, Sylvia will speak more in terms of the intensification of competition, etc. and data trends. I think will maybe be able to speak directionally more than the specifics and at this stage. You will continue to see the price per MB or an effective rate per MB come down and the effective rate per minute come down and usage will continue to grow and data so that we could, fully, unlock the opportunity that's there and for voice as opposed to keep it relevant and you know to keep both offerings attractive. I'll let Sylvia chip in here, maybe more on the Competition part.

Sylvia Mulinge

I think for us as an organization, the key thing we focus on first of all, is customers. I mean competition are free to do what it is that they want to do, but for us, the most important thing is what is happening with our customers. And what are they currently going through in their lives. As Peter shared during the presentation in the morning you saw the impact on the consumer disposable income due to Covid. And traditionally, we have had a premium in this market, which is a strategy that will continue to maintain. But because we must drive affordability for our customers, they don't have as much money as they previously had due to Impacts of covid, high levels of unemployment, we've seen a lot of businesses also closing in this market. There is now gradual reopening, but that impact is definitely there. Therefore, we made a deliberate choice to drive a lot more affordability for our customers. We had Peter and Ilanna in the morning speak about what we have now done with our one on one personalized offerings that we are driving through CVM and that has paid back for us in terms of traffic. So that's going to be a strategy that we're going to continue to deploy going into the future as we drive affordability. For data we did take some decisions during the covid period in terms of supporting our students with mobile data bundles that were highly subsidized from what we had before, as well as small and medium enterprises. We also took a decision on fixed data, to get a lot more customers onto the service, but give them double speeds for the amount of money that they were normally paying for a normal fixed bundle. So those things obviously did have a short term impact. But I think we are very happy to see what it's generating for us in terms of customer activity KPIs. User is up if you look at it from mobile data, we are now carrying significantly higher voice traffic, which is good. FTTH paid off for us fiber to the home in terms of increased connections. With customers coming on board and overall even in terms of NPS levels we have actually seen our net promoter score go up over the period. So, it's the right decisions. Cost us in the short term but it paid off our customers. So, for us the plan is keep on focusing on our customers. What is important for them. How do we help them navigate through this period because we believe if we earn their trust and loyalty during

this season, they will remain with us in the long term. So directionally that's where we're going with our pricing strategy.

Cyndia Nguli

Thank you, Ilanna. Thank you, Sylvia. Our next question comes from SW his question is; what services do you plan to offer under wealth management? What is the progress on Mali? Will you be seeking a license from CMA? Then there is a follow up question on Fuliza. What are the growth rates? and how much has been lent out? What's the average default rates?

Peter Ndegwa

Okay, so I'll start with a question on wealth management and the Mali product and Sitoyo, feel free to build on to this. We would not go into too much detail here only to say that we are exploring this area we have developed a couple of products. We are working with the regulators to seek approval. And until that approval is given, or actually obtained, we would not want to announce our intention, including the specific product on Mali. Because of regulatory sensitivities before approval of a product is made. Sitoyo you may want to add to that, given the broader agenda that you have in terms of broadening our service offering. In the financial services area, subject to regulatory approval.

Sitoyo Lopokoiyit

Thanks, Peter. I think one of the things that M-PESA has been successful on is in driving financial inclusion. So, when we started in 2007 financial inclusion was at 23% that moved to above 84% as reported last year by the Central Bank of Kenya, while the financial health of customers in Kenya stagnated around 20%. So, this is a key component of our transforming lives. So, we've managed to drive financial inclusion, but financial health has remained fairly stagnant and this is why we're looking at wealth, insurance. And providing deeper products and services that relates to savings is key in driving financial health and so that the customer is able to avoid the shocks that are there as an example of covid, as one of them. So, the reason why we are looking into wealth management, insurance and broadening that, is to deepen the Savings culture and drive the financial health. So, what you're looking at in wealth management is part of it. But there are certain things that we're still discussing with the regulators both the CMA and central banks which, at this point, we cannot really discuss, but it is part of our intention to drive more products and services that drive savings. I think on Fuliza, Ilanna had mentioned that the NPL is about 0.4% so we continue to see double digit growth in Fuliza Volumes that goes through the platform.

Cyndia Nguli

Thank you Sitoyo. Just on Fuliza there's a follow up question on that from Tracy and her question is; I see that KCB and Mshwari disbursements have come down, despite Fuliza going up. Is it a function of cannibalization or simply the Banks being more stringent on lending requirements? And also, any update on visa partnership?

Sitoyo Lopokoiyit

I will certainly take that.

Peter Ndegwa

Go ahead, Sitooyo.

Sitooyo Lopokoiyit

So, for just a bit of context when Covid started, Central Bank of Kenya stopped listing of all non-performing loans in the market for both digital as well as banking products and this meant that KCB and NCBA basically KCB M-PESA and Mshwari. The discussions with the banks was to be more prudent during this period of time, Fuliza given the contextual nature that we've discussed was not so affected. So, because of them, we're not listing customers, then we decided to tighten a little bit of that, but that has since now reversed. And we're seeing great repayments from both Mshwari and KCB M-PESA. So, you will be seeing a bit of growth in that aspect.

Peter Ndegwa

And also, on visa if you can provide an update.

Sitooyo Lopokoiyit

On visa we announced the partnership in February. We have developed some products and services that we are looking to launch. So, we're just waiting for regulatory approval for those ones and then in the next half when we get that, then we'll be able to launch those products and services.

Cyndia Nguli

Thank you Sitooyo. We have a follow up question from Dilya. Peter this is still on the CBK and free fees. Could you give perhaps an indication of the options that are being discussed with CBK?

Peter Ndegwa:

Dilya, I am not in a position to give those options just because of the confidentiality involved in this matter and generally we do not discuss conversations with the regulator, especially on a matter like this in the public until they are resolved, because it could go either way. However, I would say that those conversations are going well. That's the way that I would put it at this stage.

Cyndia Nguli

Thank you, Peter. So, our next question is from Ruhan and also, someone else in the group has a question closely related I will just scroll down and check who. Can you give us a sense of your assumptions for the guidance on EBIT? For example, what do you assume regarding the reintroduction of M-PESA fees if at all in H2? I'll go down and see who else had asked a similar question. Thank you.

Peter Ndegwa

In giving the guidance and this might probably relate to some of the previous questions, is that we've assumed that at the very least, we would start charging sometime in Q4.

Cyndia Nguli

Thank you. I think the other question was from Donatas and I think your other question has been responded to by Peter. So, we'll move on to Henry Kabue who's asking kindly provide details on what year on year service revenue growth in H1 would have been excluding M-PESA revenue? Secondly, could you explain the decline in FTTH ARPU despite strong growth in new connections?

Ilanna Darcy

Thanks, Cyndia, Peter, I can take this. So, excluding M-PESA revenue, service revenue grew marginally by 0.2% for half the period and however I did mention at the start of the call, voice was under pressure in quarter one as was fixed enterprise. So, if I look at on a quarter by quarter basis in quarter one the business excluding M-PESA declined 0.7% where it grew 0.7% in quarter two so similar to the 1% or so growth, we saw that the business excluding telco performed at full year last year. And on the fiber to the home ARPU growth connections, this is just a function of mix, Henry, so you know as more customers took up the offering that didn't previously have it. Obviously, when we started rolling out fiber to the home when we started with the demographic areas we thought would give us the best return and once those areas were serviced to continue to gain more and more customers the take up, it seems to be largely the kind of lower value packages. The bronze package as an example, instead of say the silver package, which is giving a mix impact and the ARPU, which is causing the ARPU decline.

Peter Ndegwa

One more addition Cyndia to Ilanna's answer, we did also, as part of the Covid response in quarter one, we did give significantly more bandwidth to fiber to home for free to support the working from home, and Sylvia did reference, some of the aspects around supporting education.

Cyndia Nguli

Thank you, Peter. Thank you, Ilanna. So, we have a follow up question from Dilya during the strategy update this morning, Peter mentioned that partnerships and M&A would be strategic enablers. May I please ask types of M&A you have in mind, size, lines of business?

Peter Ndegwa

I knew that question would come I would answer it in a broader sense. Safaricom has been extremely successful over the past 20 years and we believe that going forward we will need to leverage more partnerships and M&As rather than do a lot of the things ourselves. So, as we go into new areas, whether that's agriculture, health and education, but also, more broadly, even as we think about content as we think about going into internet of things and other aspects of our business, we do need to leverage partnerships and M&As. So, where it makes sense for us to acquire an entity to give us either speed to market or capacity, we will do that rather than rather wait to build. So, I don't want to go into specific areas. But certainly, one of the areas that you could think as an opportunity is the whole financial services area or whether when we go into the sort of digital ecosystems. Also, in the content area because we don't want to build everything from scratch or take a very long time to build the assets we need to be able to win. And so, it is



more generic i know. But as soon as we start forming some themes in terms of areas of interest for us we will keep you informed.

Cyndia Nguli

Thank you, Peter. Our next question is from Jaynesh. Excluding Ethiopia are there any other external expansion opportunities being explored?

Peter Ndegwa

From a geographical perspective our primary focus, just so that we also maintain management effort in a specific area, our primary focus at this stage is Ethiopia and once we are clear how that pans out then we will discuss what other areas we should go after, but it will be a significant effort because this would be the biggest investment that Safaricom has made for a very long time both in terms of the structure of the country, future revenue opportunity, but also the operational capacity that will be required for us to be able to bring it to life. And that's the reason why we are focusing on that, on the financial services side as you know we signed the JV, which is primarily a cost and innovation sharing JV with Vodacom on a 50/50 basis. We have accelerated that in terms of pulling resources investing together so that we can create the future M-PESA from a platform perspective, but also start to accelerate and share best practice in the way we develop products. So, if there are some countries that are ahead on say insurance, for example South Africa is ahead on insurance, we'll borrow some of those best practices in thinking about how we launch insurance in this market. And so, the JV that that we have on M-PESA will help us be able to accelerate our product development innovation, but also ensure that we have the best platform into the future and that can benchmark against the best globally. So those would be the two areas we are focusing on that at this stage. I would ask Sitoyo to say a few words on the JV and some of the work we are doing. And also, if you want to talk about anything you may want to touch on the IMT, Sitoyo.

Sitoyo Lopokoiyit

Thanks, Peter. I think from M-PESA Africa as you stated, it's designed to look at M-PESA as one. Kenya has been very successful as an M-PESA market, but we have seven other markets across. So, while Kenya has about 26 million customers, we have over 42 million customers 30-day active M-PESA customers. So, we are looking at leveraging our strength to build once and deploy enterprise wide so that helps in terms of our CAPEX spend, OPEX spend. We're looking at how do we leverage on our scale when you're talking about global partnerships that we want to engage in. So, we're looking at state of the art common platforms that we invest in as well as giving a broad range of access to partners beyond the African border to enable both e-commerce, as well as international payments and remittance. To talk about international remittance IMT, we've seen very good growth during the last six months, we've seen more inflows coming into the country and today, over 50% of all inflows into Kenya terminates on M-PESA and seeing that being part of not only revenue, but also funding our downstream transactions on M-PESA. So international money transfer today we have over 28 partners such as PayPal, Ali express, World Remit, Western Union and MoneyGram. We continue to expand this and for M-PESA Africa will be leveraging on the strength of M-PESA to be able to bring in more partners to our market. Thank you.

Cyndia Nguli

Thank you, Peter. Thank you Sitoyo. To our next question is from Samuel Njihia. On the new Pochi la Biashara feature, the business funds will not be used to offset the overdraft facilities. Do you anticipate customers misusing this feature to delay making payments on Fuliza? If there's misuse, are there any measures you may implement to curb it?

Peter Ndegwa

Sitoyo, do you want to go for your favorite topic?

Sitoyo Lopokoityit

So, I think this is a great question, and it's good that we've captured Pochi la Biashara which is our latest product targeting, as Peter said, SMEs and micro SME. Pochi la Biashara targets micro SMEs and today we are 5.4 million micro SMEs within our ecosystem. And these micro SMEs do not qualify from a KYC, to be able to get on merchant till. So what we've designed is a wallet that separates the business and personal line. When they receive money via P2P. When the money comes on to the Pochi or the secondary wallet, yes, this is not impacted, does not pay Fuliza, but remember, this is an ecosystem. So they will be doing more transactions across the M-PESA platform, but, as well as also withdrawing and during that whole period, Fuliza will be captured. So we have mitigated any potential leakages but we're also, to Peter's point, we're empowering our micro SMEs. Today they can also sell airtime and get a commission on it. So this is the beginning of something great that we're looking at in terms of how we can empower the micro SME in our ecosystem. Thank you

Cyndia Nguli

Thank you Sitoyo. The next question is from Dilya, and we also have Tracy, who's asked a very similar question. Lipa Mdogo Mdogo was launched during this period. What is the initial take up or demand? And then Tracy asks how many devices have been released under the 4G subsidized handset program? What is the average usage for these customers?

Peter Ndegwa

Thank you. A great question. I'll ask Sylvia to talk about that.

Sylvia Mulinge

Okay, thank you. And thank you for remembering that we launched the Lipa Mdogo Mdogo towards the end of May. And so, yes, very excited about the results that we're seeing coming out of this. We had said that we are going to use the first quarter to test what would the customer behavior be in terms of take up but also in terms of the repayments that you would be seeing coming through and the change in terms of their usage profile. Remember we were targeting predominantly 2G users, getting them to move directly to 4G because, as you probably know, if you look at the profile of the handsets on our network, about almost 50% of our customers are still using 2G phones so a big opportunity to be able to move those customers to 4G as we have continued to accelerate the network coverage. So good encouraging early results. Now we want to scale up using our dealer network because we were only initially offering this through the retail



channel. We have just probably about 50,000 customers who've already taken it up. We can see upwards of about 30% increase in ARPU on their data usage from 2G to 4G, which is also very encouraging. And now we want to really ramp up by leveraging our dealer infrastructure. We have over 2,000 dealer points across the country to be able now to offer this to our customers. The NPL performance has also been good and very much, for me, within the business case expectations that we had set, so that is also going well. When we look at the overall 4G devices attachment on the network also growing well, in line with plan, there's what we drive through the sales that we do through our retail shops, but there's also what is driven across by the retail market, and that's why it's important for us as an organization to shape the profile of the devices that have been pushed in the market when we focus on pushing 4G devices. We also see the open market also pushing the same and therefore we have seen an increment by a million smartphones that have been added on to our network, since we came into this year just simply by focusing on working with the open market to ensure that we are adding a lot more LTE phones on the network. So, that is good for us, we're excited about that and we'll continue to push that into the second half of this year.

Cyndia Nguli

Thank you Sylvia. Our next question comes from Louise Pillay. Please can you give more color on your increase in IT Capex spend. Your current guidance implies a step down in Capex intensity in half two relative to half one. Also please provide an update on how you're managing the network demands and related network Opex.

Peter Ndegwa

Ilanna you want to talk about Capex?

Ilanna Darcy

Yeah, hi, Louise. Thanks for the questions. So, the IT related spend relates to things like Biometrics, voice biometrics and upgraded dealer pinless vending portal and increased kind of capacity and functionality on our various databases on the one I called out this morning relating to the M-PESA platform, which makes it easier, you know, to launch new products and easier to integrate API's. And Capex intensity for half two, yes this is expected to drop versus half one. We took the decision to accelerate our capital expenditure in half one and to support as well as top line growth, and we thought it was best to see what we could do to support the growth given we knew it would be under a significant pressure and then your last question on network operating expenses. So our network Opex is in good control and we're showing a saving year on year in half one, and so it's in good control.

Cyndia Nguli

Thank you, Ilanna. Our next question is from Jake. Jake, I believe the question on guidance has been responded to by Peter, but for any further details, you can reach out to us directly. I think I will move on to Soji's question. Soji's is asking, what are your updated strategic thoughts on M-PESA rollout into the markets and what should we expect from M-PESA over the next three to five years. Any possibility of spinning off this business and listing it separately?



Peter Ndegwa

Can I ask Sitoyo to answer the question, I can answer the question about spinning, but Sitoyo can you talk about what we are thinking in terms of broadening M-PESA?

Sitoyo Lopokoiyit

So M-PESA Africa, as I mentioned earlier is designed to look at M-PESA as well as one unified platform. And what we're looking at, while Kenya is ahead in terms of products and services and also the platform, other markets are not at par with Kenya. So we've got a big opportunity to accelerate those markets, but, as well, accelerate Kenya in terms of the new innovations that are coming on board. Peter had said that M-PESA Africa is almost like a cost center so Safaricom and Vodacom are investing more Capex into M-PESA Africa to accelerate Safaricom as well as accelerate the other markets. In terms of any other opportunity that we do, that we may see beyond the markets that we have, those will be evaluated and if there's any attractive market, then I'm sure Peter and the Board will be guiding on that. But in terms of M-PESA Africa, this is to strengthen M-PESA, have common platforms, build once, deploy enterprise-wide. Thank you.

Peter Ndegwa

Yeah. Sitoyo could you speak a little bit more about just becoming a financial services provider in Kenya.

Sitoyo Lopokoiyit

Thank you, Peter. I think as we move into more credit propositions, savings propositions we're looking at broadening our financial services portfolio into areas of wealth management, insurance and then deeper products and services for our SME and our micro SMEs. So when you look at, as an example, in our merchant solution which we have over 200,000 active merchants, we are providing capacity planning for them and support, we are looking at providing better products and services from the transacting till business app and putting this all under the under the SME platform. And then we're looking at how do we empower them by providing them with working capital going forward. So from an SME standpoint for financial services, broader financial services provider, we're looking at that. The second bit in it, on the pillar is also looking at M-PESA as a super app and we are working to build, if you've seen what AliPay have done, it's the same concept we're looking at, and putting M-PESA as a super App for both merchants as well as for the consumer side of it. The third part of it is also looking at how our open API strategy is in terms of enabling opening up our APIs more. Today we have about 28,000 developers on our platform we're looking at having a more open API to encourage more partnerships, as well as leveraging our partnership, such as Visa and so on. Then the fourth part of it is on our technology infrastructure, ensuring that it is fit growth that it is scalable, is secure. We are putting active sites microservices and its cloud ready so that we're able to take advantage of all the opportunities that come with regards to be a fully-fledged financial services provider. Thank you, Peter.

Peter Ndegwa

Thank you Sitoyo, just to reinforce, I know you probably heard me say that in the last quarter when we interacted with you, that M-PESA has been primarily focused on individual customers the

reorienting of M-PESA into the Enterprise space especially micro and SMEs. Has a huge headroom for growth and we've seen it during covid that SME's plays such a central role to how our economy operates to the level of employment. So even, in terms of empowering the country, we can do a lot more by just ensuring that we are much more specific and focus on innovation that empower SMEs. So of course on the personal side we're continuing to push the boundaries. But you will see a lot more focus on SMEs and micro SMEs. In terms of whether we would intend to spin M-PESA as a separate business from a structural perspective, that's something that we will continue to review as the business evolves. As Safaricom evolves we will continue to review, which is the most optimal structure, corporate structure that we should have and shareholding structure and as we bring in more partnerships and potential M&As. We may consider other structural options organization wide that would make more sense. I do not want to say too early, what we will do with M-PESA, but as you know, as you've seen from our strategy, it is about focusing on broadening it to be a financial services provider how that eventually shows up in the structure. We will come back to you at an appropriate time.

Cyndia Nguli

Thank you, Peter. It's 5.01pm or 5.02pm Kenyan time. We still have a couple more questions to go. I don't know how you'd like to carry this forward if there is no more time. We can always respond to them.

Peter Ndegwa

I think we should take those that have already been put on the board.

Cyndia Nguli

Okay, so I'll just very quickly move on to Sunil's question. Will the company contemplate a cut in M-PESA fees from previous levels to retain their volumes?

Peter Ndegwa

Yeah, it's a great question, and actually, it's an interesting one that we are considering, but we would want to see how consumers respond to volume before we make a significant judgment on that. But it is something that we are looking at and we would intend to reduce our costs, I mean, our transaction cost over time. How quickly we do that is something that we need to judge, but certainly directionally we would want that to be the case, but we haven't decided yet at this stage.

Cyndia Nguli

Thank you, Peter. The next question is from Fred and Felipe. They're both asking about FTTH, Fred says you have made very good progress in the FTTH market. Can you provide an idea on what you view as the target market in terms of number of homes in this segment? And then Felipe's question is closely related; what size do you expect for FTTH business as a percentage of service revenue in, say, five years? And what is the Capex intensity for this business currently in the long term?



Peter Ndegwa

Sylvia please feel free. Can you still hear me?

Sylvia Mulinge

Yes, we can hear you. During our 20th anniversary celebrations Peter did announce that we have a big ambition around FTTH and delivering fiber to homes. I think we are very clear that the way people work going into the future will dramatically change due to what we have seen with covid. A lot of people want to work from home or they at least want to have the option of remote working and therefore that presents for us a big opportunity in the area of delivering broadband connectivity to homes. So we are focusing on that and from a strategic perspective, the ambition is to ensure we cover a million homes with our fiber connectivity within the next five years. So we are going to be resourcing for that, I'll let Ilanna speak to the Capex intensity for the same, but even from a consumer perspective, the way we look at this is while not every home may be covered by a fiber connection, there's also a big opportunity for us to be able to leverage the wide and extensive 4G network to deliver a 4G wireless solution as a last mile connectivity option, which then enables us to be able to scale and reach a broader base of customers and, therefore, that means that we are looking at people who are young adults who are working from home or people who are also running their own enterprises, small businesses and are looking to see how can I be able to do that from the comfort of my home. So a broader base of customers from what we have traditionally had in the past, which is exciting because it means the demand is there, but the challenge for us that we have to figure out is how do we do this in a way that is scalable and also in a way that is affordable so that we do not then, increase the costs to the end users in line with the affordability maxim that I spoke about earlier. Ilanna if you could take the question on Capex intensity.

Ilanna Darcy

Yeah, thank you. Sylvia so fiber to the home Capex intensity is not something we track. The biggest reason for this is, we were investing in our fiber network for redundancy purposes. The fiber to the home part is like our way of trying to sweat that asset or like monetize it further by then connecting it to homes, the fiber wasn't laid specifically not all of it for connecting homes it was laid for redundancy and we connected homes to increase their monetization. So for that reason we don't track Capex intensity on that specific revenue line.

Cyndia Nguli

Thank you, Ilanna. Thank you. Sylvia

Peter Ndegwa

Can I just make one additional point just to say that, given that home and generally what Sylvia describes as fixed whether that fiber at home or fiber to business will become a lot more important. We will pay a lot more attention in terms of both the way we invest, but also the way we serve, service customer the customer onboarding processes the way we service them and the level of automation. Because at the moment as you know, our business was primarily focused on mobile. And that's why we did not set targets as to what contribution home or fixed would have in the



future. But just to say there's a significant opportunity that can complement our mobile business, but also that we allow customers to feel that they have a home connection but is a kind of an always on connection whether they are at home or on the go or in the office. And so we will be putting a lot more structure around that. In terms of how we manage that business in a more focused way than potentially done in the past.

Cyndia Nguli

Thank you, Peter. Dilya please allow us to get back to you on email on your M-PESA question. Jaynesh asks the 6% decline in Opex is that predominantly due to Covid how should we look at Opex growth?

Ilanna Darcy

Do you want to take that Peter or you would want me to?

Ilanna Darcy

Okay, so thanks Jaynesh.

Peter Ndegwa

You would expect I would want you to respond to that.

Ilanna Darcy

Thanks for that. So predominantly due to a decline in Covid, we've seen some Opex savings as a result of Covid travel as an example outside meetings, conferences, etc., and what we've also seen an increase from point of view of PPE equipment for our frontline staff, you know, facilitating work from home, etc. And we've also made some decisions in terms of, you know, prioritizing spend for the year. We're also obviously conscious of the fact that there is always some form of pressure. So publicity expenses as an example, you can see a decline year on year. Now some of those savings, I think, you know, will probably stay with us in future periods as we look to ways to digitize more and for example, our route to consumer versus the way we have been doing it. And if you're asking in terms of how you should think about Opex, for this financial year, I would say half one is, on an underlying basis, is a fairly good guide and for next year and the years to that follow that. I think we'll see some Opex growth, which you'll see continued Opex intensity reduction because we do need to fund the new revenue streams as Peter called out regarding our strategy, you know, health, Agriculture, expanding into newer verticals is very much part of our strategy that does require some resources to be put behind it to really ensure that it comes to fruition and we can really safeguard the future sustainability of the business. So from a longer term perspective expect to see our Opex growth with a reducing Opex intensity.

Cyndia Nguli

Thank you, Ilanna. Jacqueline asks, please speak to what guided their investment in Circle Gas?

Peter Ndegwa

I just have a very brief reason why we invested in Circle Gas. Circle Gas as you know and through Circle Gas they control a company called M-Gas here in this country. It is to avail LPG gas on a pay as you go basis for families that struggle or for households that struggles, to cook with the right type of cooking. So they might use firewood or use environmentally kind of dirty fuel, so to say, Kerosene so on and so forth and so Circle Gas allows us to get into an area that is very similar to some of the ways that we have transformed lives in the past and enable households to be better and also to use a more environmentally friendly cooking method. The initial response so far has been very good. In the partnership we hold less than 20% shareholding, but we are learning a lot about those customers and through that learning we can be able to innovate. As you know that is also using IOT-Internet of Things, which is a platform that we want to utilize to enable better ways of operating business operation and so on and so forth. So, it is in line with our intent to transform lives and also, it's a big opportunity given the number of people in this country who would be eligible to use this kind of method into the future. So that's the reason why we've gotten into it and it's a very exciting area and we'll keep you informed on how it goes.

Cyndia Nguli

Thank you, Peter. Willis asks on SMS and M-PESA revenues. What are your projected gaming revenues? Do you anticipate any increase in revenue, especially with the anticipation of re-entry of Sportpesa?

Ilanna Darcy

Thanks Willis, for the question. So betting revenues from the point of view of total M-PESA revenues by 4% of the total currently. The point of view of SMS share of it comes through something that would pass as both SMS and which doesn't sit within the messaging line it sits within other service revenue and in terms of its overall contribution. From our point of view betting is not something that we actively track or target, as a means to increase revenue be it in M-PESA or in SMS. We were, I suppose, the beneficiaries of the payment method of choice for betting when it really took off in Kenya, a few years ago and since its decline, we've always kind of messaged that our view is, it was never really a sustainable revenue stream, such that it didn't form part of our targets in terms of trying to drive it further. So if you know something happens with Sportpesa where we happen to be the beneficiaries of them then well and good, but it's not something that we would factor into our own internal targets and something that, you know, potentially impacts the economy will ultimately be an impact or so it's not an area that we drive or try to follow. Peter, Sitoyo do you want to add anything on to that?

Sitoyo Lopokoiyit

Thank you Ilanna from my side you have captured it.

Peter Ndegwa

Yeah, same here.

Cyndia Nguli

Thank you, Ilanna. So the next question is from Kishan and all group that with Sruti's question is Safaricom planning any announcements on 5G in the near future? What are your thoughts on possible 5G spectrum costs in Kenya? And then Sruti asks says congratulations on 20 years we are seeing some operators across SSA selling their towers what is Safaricom's strategy here?

Peter Ndegwa

On 5G, It's a question that was asked by the media earlier this morning and my response is that there's still so much headroom for us to exploit and fully utilize 4G, even before we go into 5G. Of course 5G has relevance in this country and it will be part of our plan for being purposely a technology company over the next five years. So we will go into 5G we've tested it in this country, we will go through the conversations around spectrum with government in the background. But in terms of immediacy we are not intending at this stage to go big on 5G in the near term, but it will be part of our five-year strategy. Stephen, I wouldn't want to go into the delicate issue about spectrum fee levels for 5G because that has not been determined. But I'll leave it to you to see if there's anything you want to say on that front.

Stephen Chege

Okay. The pricing of spectrum in Kenya has been very predictable and it tends to happen through a direct pricing methodology by the regulator. We don't go through auctions and such, which tends to push up the cost of frequency for operators. The administrative pricing methodology that has been used in the past has ensured that the highest costing spectrum band has been \$25 million. So we suspect that a similar methodology might be applied when the regulator is ready with 5G and at that time, we shall have the discussion. But I wouldn't want to go beyond that. What I would rather say we are also very grateful to the regulators for their support during this Covid period. When they have made additional resources available to us to be able to carry the capacity that we have seen increasing during this Covid period.

Peter Ndegwa

Steve, I agree with you. I want just to reinforce what Steve has said in terms of support. We've had a very positive working relationship with the Communication Authority, with the ICT Ministry and also generally in the industry in terms of support during this period with additional spectrum. We've had to carry a lot more capacity both on our voice, but also data in particular so we have been grateful by the partnership that we've seen from the regulatory authorities in terms of supporting us during this period and we hope and do know that this will continue going forward.

Cyndia Nguli

Thank you.

Peter Ndegwa

Cyndia, we had intended, not to, because we're 18 past the hour, so unless they are some burning questions, I think we do need to bring the call to an end at some point, just to respect everyone's time.

Cyndia Nguli

The last question is actually from Sunil, can you please comment on the network vendor strategy. What are you seeing in terms of pricing environment? And if there's anything you would highlight? I think that is our final question for the day, Peter.

Peter Ndegwa

Sunil I'm not sure I understand unless Ilanna, if you understand the question. Vendor strategy and I'm not sure I understand the question on the network side. Steve, do you understand the question.

Ilanna Darcy

I can only assume is relating to quality versus... yes Steve.

Stephen Chege

I thought about it along those lines as well and this should be up your street in terms of who we rely on as our main suppliers.

Ilanna Darcy

Yeah. So in terms of our network vendor strategy we are predominantly Huawei. We're not 100% Huawei we do have other network providers. There weren't any particular changes to that Peter we'll let you comment. Not aware of it in terms of pricing environment and the highlights. Now I'm not entirely clear on that on the nature of the question from the client am trying to read between the lines, but I suspect it's relating to Huawei versus the other provider.

Peter Ndegwa

We do have a policy of having two big suppliers, just so that we do not rely on one. In terms of pricing, we have continued to demand more value from our supply base and we've seen that in terms of being able to get more value. We are also sensitive because we have reframed the way we think about technology so that we're investing a lot more on the IT, the proportion of IT has increased, which is important, especially with the M-PESA but also data centers and so on and so forth. The IT infrastructure is important. But nothing major has changed with respect to our vendor strategy or major pricing changes. We have started as a pattern as you have seen from our strategic pillar number four which is we want to be a cost leader in the future and of course Capex and smart investment becomes part of that cost leadership. So, we'll put a lot more scrutiny in terms of the way we source and of course Capex is a significant part of our sourcing every year, so you can expect it more from a proactive approach rather than because it had been a major change in terms of our vendor strategy.

Cyndia Nguli

Salome. We will get back to you on email. Other than that, Peter. Thank you very much for the additional time that you and the entire EXCO team have given us. I think that is it from our end unless you have any closing remarks.



Peter Ndegwa

So it is just to thank everyone who has been on this call. Great questions that we have received today, our team and I are ready to provide any additional input. As you know it's a tough time. It's an uncertain time we've seen signs of a second wave. We are encouraged by where our business is in terms of health and also in particular some of the recovery that we have seen in quarter two our intention is to continue to push the boundaries around execution and you'll have seen a new strategy. We'll soon start to execute based on those key four pillars, but also focus on the strategic enablers. So, I will end it there and thank you for a great call and if there's any further feedback you want from us, very happy to receive the emails. Thank you very much and have a great afternoon or great day depending on where you are. Thank you very much.

END OF TRANSCRIPT