

INVESTOR BRIEFING CONFERENCE

CALL TRANSCRIPT

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Cyndia Nguli: Good morning, good afternoon or good evening, depending on where you are joining us from. Welcome to the Safaricom investor briefing with Safaricom CEO, Peter Ndegwa, Outgoing CFO, Sateesh Kamath and Interim CFO and Head of Investor Relations Ilanna Darcy. I am Cyndia Nguli, Senior Manager- Investor Relations. Peter and Sateesh will give brief opening remarks and we will turn to your questions.

I would kindly request that you submit your questions on the chat, providing your full names and the organization that you represent. I would also request that you submit your details in the Investor Brief registration link that we have provided on the chat and with that, Peter, I hand over to you. Thank you.

Peter Ndegwa: Thank you, Cyndia. Good afternoon, everyone. I hope you can hear me. I meant you to Cyndia just to confirm that you can hear, you can hear me.

Cyndia Nguli: Yes, we can hear you Peter.

Peter Ndegwa: Good afternoon, everyone and it's great to have this call. We are looking forward to answering any questions that you might have. As we've said in the past, when we have had conversations with investors, as Safaricom given the current situation we are faced with during the COVID era, we are not going to be giving any guidance at this stage in terms of our results.

However, we are willing and ready to share the status of the key aspects of our business as an update to you as a group and answer any questions that you have. For those of that I have not met, Peter Ndegwa is my name, CEO fourth month now, just over my hundredth days. So clearly verses when I initially spoke to you I have a clear understanding of the business and some of the opportunities and challenges that we are dealing with. I handover to Sateesh to say a few words and we shall take it from there.

Sateesh Kamath; Thank you so much Peter, good day, ladies and gentlemen. First and foremost, I just wanted to say thank you so much for all the kind messages that I've received since my announcement of the new role. I have really enjoyed interactions with you over the last few years, and I will continue to be available for Safaricom through the transition phase. The good news is Peter has very modestly said that he has understood a bit of this business, to be honest he taken almost like duck to water, I have not seen many people picking up so much about this company in such a short period of time. So, in whatever its worth, I just wanted to reiterate the fact that we are very fortunate to have Peter take over the reins of

the company and when he speaks I am sure you will understand and feel like he has been in the business for two years or more and nothing less.

Peter, just checking with you do you want me to give a general overview or you want me to give your back to you?

Peter Ndegwa: Why don't you go ahead with a general overview.

Sateesh Kamath: Yeah, sure, sure. Happy to do that. The general overview in terms of macro-economic situation is not any dissimilar with many of the countries. COVID specifically, we have now just over 10,000 cases, reasonably low death rates compared to what some of the other countries have seen. So, at this point of time, the pandemic is an issue, but health issue-wise still reasonably contained. And I'm saying relatively reasonably contained, the larger issue is economic, and it is manifesting in many ways. To start with tourism industry is impacted, a lot of SMEs are impacted along with the tourism industry. None of which should be a surprise for you, but I just thought I should call it out anyway. In terms of the currency and Forex, reasonably range bound, we've seen like a 5% volatility in currency over the last three months. Sometimes going up to 108 shillings to a dollar and then stabilizing to 104, and then moving in that range bound territory. So, no significant depreciations in the currency.

I'll speak a little bit more in detail about the line wise for what we're seeing. So, I pack the impact for what does it mean for Safaricom till I finish one or two more overall updates.

In terms of competitive space, the merger between Airtel and Telkom has been delayed and we've got understanding that it will be delayed a little bit more. As we always said, we are not against the merger. We are happy to have stronger competition if some of those clauses that we want are satisfied for. But we do understand that the merger is not delayed because of questions that we have raised. It is delayed because of shareholder reasons between the two companies, which they're trying to sort out.

Moving on to another important topic. Ethiotel, sorry I meant Ethiopia, I am so sorry, don't pick any meaning from what I said, I meant Ethiopia. So, Ethiopia process is underway. We have participated in the expression of interest stage. The current understanding of the timing is that it is more likely to get concluded towards end of the year and if there's a bit of delay possibly towards early part of next year. In terms of expression of interests, it was interesting to see the people who have come up with the expression of interest. If you have questions there, we can speak a little later in the call.

One aligned comment there, the current version of what the government has issued is without mobile money, however, as you know, our interests would be significantly enhanced if there's mobile money and what we would be willing to put in down as license fee would certainly be different if there's mobile money and lesser, if there is no mobile money.

So, we would continue to lobby in that direction. At this stage. I don't think we will be able to give more details because it will impact our competitive bids in the days ahead.

In terms of coming back to Safaricom if I can call out the bad news first and then get into the better news. On voice, we are seeing pressure, a good amount of pressure. We're seeing that consumer wallets are constrained and so they are really into a deal seeking mode at this point. So, we're seeing good number of customers using, but they're using lesser from their wallet on voice. That's the phenomena that we're seeing and it's consistent between the three months that we've seen in the year between April, May and June. As a result, do expect voice to decline in this current year compared to the previous year. The other bad news that I want to speak about and the most significant bad news is the free P2P. The initial request from the government and the alignment with the Central Bank was for 90 days, which ended end of June. The Central Bank has asked us to extend up to December.

We obviously are not happy with that recommendation and decision. We are continuing to have conversations with the Central Bank. In fact, Peter spoke to the Central Bank as late as this morning and while we are not able to tell exacts of how it will pan out what I would like to assure investors is that we are working closely with the government. So while we do appreciate that, we need to be supporting the country in some form or other over the next few days. The next six months we find is on the higher side, possibly in a safer environment, I would call it excesses. So, we're working on it at this stage, given the negotiations and conversations are happening, I would pause there and say, we would give you a more accurate update when we have one. At this point of time, we are working with the government on that, Peter would you like to add anything there before I go ahead?

Peter Ndegwa: Just to re-echo what Sateesh has said, at this stage, I would say, we are working closely with the central bank and we are not able to say anything until those discussions concluded. I wouldn't look at the issue either way but just to say that currently we are working with the central bank to see the best position that we can end up with.

Sateesh Kamath: Moving on to other streams, sorry, let me complete, M-PESA excluding the free P2P, we are seeing some interesting trends in M-PESA in the last call, which was mid may, I did call out the fact that we are seeing customers enhancing their confidence in M-PESA and instead of keeping money for rainy days in the more traditional way, more and more they're choosing M-PESA as the way of doing business. We saw a 20% increase in M-PESA balances pre and post COVID and by this time we are seeing closer to 30% increase in customer balances pre and post COVID. Now quick reminder, when people keep money in M-PESA, till they transact, we don't make money. So, what this indicates is that customers have confidence in us and are more and more getting used to M-PESA as a way of life, even more than what it was and when life starts becoming normal in the new normal, we expect these to translate into stronger loyalty, stronger revenues for M-PESA. So underlying M-PESA performance excluding the free P2P is strong and encouraging. Within this we had a tougher April, we have seen a lot of activity returning in June. So June compared to April is better. Just to give you a feel of the direction of travel, not necessarily giving you numbers at this stage, because numbers are volatile.

Moving on to mobile data, we're seeing mobile data continuing to be strong. Mobile data is growing volume-wise high, like 30 to 40%, which is a plan that we've seen. We have got into

device financing, which I'm sure Peter will explain a little bit more in a few minutes time that we think will fuel the next level of consumption in mobile data. We are excited about device financing because it's a unique partnership and something which combines the capability of our company as a telco, as well as M-PESA together and the uniqueness of it is something that is not easy to replicate. So, we are optimistic about device financing as a key differentiator in taking mobile data consumption and what my marketing colleagues call truly democratizing mobile data.

Moving on to fiber on fiber, on FTTB or the businesses, we initially saw a decline when businesses started closing and starting either not operating or operating from home. Over time from April to June, what we are seeing is most of the small businesses, which had negative impact because of COVID are switching on the alternate modes of using, and a lot of them have moved into fixed LTE using 4g into temporary spaces where they are currently operating for. Overall over time, while we saw a decline in April, we're seeing that fiber to the business is kind of now with the flattish space. Fiber to the home on the other hand has accelerated pace we're seeing significantly better space in this year compared to the previous year and no brainer It is with more and more people operating from home and using Safaricom as their service provider of choice.

Peter already mentioned about the fact that guidance is something that we would stay away from now, given the volatility and at this point of time, along with half year results, we think we'll be in a better position to guide for the rest of the year.

With that, I just want to hand over back to Peter to see if he wants to add anything. And then we can go to questions and answers. Thank you.

Peter Ndegwa: Thank you Sateesh. Just one additional point with respect to mobile data. I think Sateesh did reference that we have seen a robust growth in terms of volume and in terms of usage, that does not necessarily translate into a direct into revenue because of the mix of customers or offers that allow customers to access better value at a lower price. The second aspect that I wanted to mention, and I think we, we messaged it in the previous calls is that as the economy got challenged, we saw a significant negative impact on SMEs as smaller medium sized enterprises. As you know, we have a significant number of them using our Lipa na M-PESA and therefore we could see those sectors that have been impacted by the economy being affected more, however, we've seen some level of recovery, but the SME sector is still the one that is most hit.

We do see an opportunity for us, both in terms of supporting, the country as the COVID crisis evolves, to support the SME sector, whether that is on providing better connectivity, providing solutions, but also working with others to see how they could restart their business. So those are the two points I wanted to add but I will hand over back to you, is it Ilanna who is facilitating or Cyndia?

Ilanna Darcy: It was supposed to be Cyndia, but I think she's having some IT connectivity issues, so I can do it in her place. Thank you, Peter. Thank you Sateesh for the update.

And we've got one question so far on the chat, so it's from, there's another one. Sorry, let me scroll up from Karanja from Faida Investment Bank. According to the Central Bank of Kenya data there was a decline in the value of mobile money transactions in the second quarter of the year because of COVID-19 containment measures. Can you confirm this from your data, the magnitude of the decline, if any, in the last three months, compared to similar period last year, which M-PESA segments, P2P Lipa, have been most affected, do you notice changes improvements when containment measures are eased?

I can take that one myself, if you want. So, the information that the CBK is quoting, we do submit a lot of information to the Central Bank of Kenya. Understanding when we're trying to seek guidance from them in terms of what they're reporting is the Agent related transaction values. So that's withdrawals and deposits and yes, we me concur that we have seen a significant decline in withdrawal especially in April, as, people were encouraged to stay away from Cash and deposits because of restrictions in movements. So, we can validate that. We have seen that run rate improve through may and into June as the economic activity has picked up, but withdrawals are under pressure as people are restricted in movement and staying away from cash. I hope that answers that question. The next one is from Christine.

Sateesh Kamath: I would just add one point to it. You're right in calling out that what the central bank reports is the agent related one. When we look at it, we look at transactions happening through agents, as well as transactions happening through banks and the overall, which is a combination of transactions from agent plus banks Is better at this point of time when compared to same time last year.

Ilanna Darcy: Yes. Thank you. Thanks for Sateesh. Um, the next question is Anh Hoang from Wasatch. Many countries are talking about open loop and interoperability in any payment network. M-PESA has been a great closed loop network, what is the possibility that Kenyan regulators will move toward an open loop model? What are the risks to M-PESA if that happens.

Peter Ndegwa: Sateesh I'm happy for you to answer that one.

Sateesh Kamath: Sure Peter. Great question. Um, so if we step back and look at what M-PESA already had pre-COVID, it was a great open loop model. M-PESA is interlinked with pretty much all the banks in Kenya, I think more than 40 banks or so, so people can easily move money from banks to M-PESA and M-PESA to banks as well. As far as our competitors are concerned, like Airtel and Telkom, we are interlinked with their money wallets as well. So, you can send money from M-PESA to Airtel and vice versa as well. At this point of time, we don't need to make any urgent changes to the way we operate because of COVID and thanks to the fact that this interoperability was established systematically over time, what we're seeing is in the space of COVID, customers have got maximum convenience of what they can or what they need to.

Cyndia Nguli: Okay. Our next question is from Jaynesh Bhana from Mazi Asset Management and it's to you Sateesh. When does the Sateesh officially and effectively leave Safaricom and to Sateesh when did you officially start your new role at Vodafone?

Sateesh Kamath: Jaynesh thank you so much. I was not expecting you to be in a hurry for me to leave. So, I will hang around for some time. That was on a light note I know you mean it in a very good sense. Ilana started acting in the role from 1st of July and I started taking responsibility for my new role from 1st of July. However, I will continue to double hat and provide support where necessary. So, a lot of, time-consuming operational elements have been thankfully taken over by Ilanna but for places which are strategic in nature, Peter, Ilanna and I are from the constant conversation with each other. So, we'll continue to provide support. I would provide the support as long as I can. It's an informal arrangement to given I start 1 July but given the fact that I'm going within the group and not into an external company, there's a lot of flexibility of how we can operate with each other. I can see Peter smiling. So, I would like to think he wants to add something.

Peter Ndegwa: I was smiling Sateesh by saying that I am holding your passport. So, you are not going anywhere. Yeah. But I agree with the summary and as soon as we are able to get a substantive CFO in the future, we will announce it at an appropriate time.

Cyndia Nguli: Okay. The next question is from Robert Silgado of Westwood International. Can you provide us with some color on a M-PESA commissions and how you see that evolving over the next few years? With respect to your margins is there risk to the government providing support to M-PESA agents somehow?

Sateesh Kamath: Robert, good question. Just to build on what we have disclosed in the past. This M-PESA agents' ecosystem is something that we have built carefully, nurtured carefully and during this time, and for the days ahead, this is going to be an important partnership as far as Safaricom is concerned. We have continued to pay our agents the level of commissions that we will always had. However, because we add more and more products, which require lesser human intervention, M-PESA commission as a percentage of M-PESA revenue has come down over time. So, it is more of the new product lines, which are digitally more efficient, resulting in margin accretion, while balancing the need for having a strong channel and making sure that they're healthy and make money.

This is a careful balance that we will constantly evaluate. At this point of time, we do not see a necessity for the government to interfere, but if the government wants to interfere and subsidize some of those agents, we will never say no, though I would say that's more of a wish than a possibility.

Peter Ndegwa: Let me add to what Sateesh has said. As we continue to digitize, we do see as reviewing a route to consume into the future, to make sure that both agents and dealers and frontline partners are supported. So, we expect withdrawals will continue to be under pressure as cashless becomes more important. We expect that the top up through M-PESA will continue to increase. We saw that you during COVID and therefore we need to look for

new revenue opportunities for our agents and dealers that supports the ability of that ecosystem to operate, because we believe that the SME infrastructure that we have is an important enabler of our business, but also touches every corner of the country. It is what gives our business and brand and ubiquity across the country, but also, it's available. We need to continue to support it. The second thing that we'll also do is to think about incentives that allow our dealers and agents to access more incentives for what they do rather than purely what they sell. As we think about new products, like we'll be launching the device financing we will as we increase penetration of 4G devices, we will look for roles that dealers and agents can play in the future to make sure that they are complimenting what they are earning today.

Ilanna Darcy: Thanks Peter. With the changeover of moderator, we might've missed a few questions. If I can just catch up on the ones that we missed. There was an earlier question from Jaynesh, which I think Peter, you addressed in terms of the search for the new CFO. So, we won't dwell on that one.

Christine Phillpotts from Alliance Bernstein. Can you quantify the revenue impact of the extension of free P2P through to December? Uh, also in Kenya, could a person divide up their P2P transaction to fall within the free range or is there a daily limit on the number of free P2P transactions per person?

Sateesh Kamath: Yeah, maybe I can, I can go for it and then Peter may want to add. Christine, the impact is roughly 1.5 billion shilling per month. However, it's a bit tricky as to how you calculate this impact. One of the things that we are seeing is that increase in volume in M-PESA as I spoke earlier on because of wage, we are seeing higher impact when the volumes are going up. A portion of that higher volume is because of exactly what you called out earlier, splitting of transactions. But a good portion of it is genuinely customers using more of M-PESA. So, I would say from a base revenue, the impact would be more like 1.5. However, when the volumes go up, we will start quantifying 1.8, 1.9 impact. But some portion of that volume may not have been there at all if it was not for free P2P. Indicatively, please use 1.5 billion per month as an indicator around rate number.

Ilanna Darcy: The other question was around the limiting, the number of daily transactions. So, Christine, now, there is no limit to the number of free P2P transactions that people kind of love.

Okay. I've got Ivo Luiten from NN investment partners. How is the Ethiopian market different from Kenya? What is your strategy to gain market share here? And what is the difference in expected profitability?

Peter Ndegwa: Okay, Ilanna I'm happy to answer the question. I will hand over to Sateesh at the end to talk about profitability, but in essence, why is Ethiopia important? We have messaged to, to the market that Ethiopia is probably one of the very last markets available for GSM license and therefore for us, it is about an attractive market with more than a hundred million people and, and with the only one player as well. A growing population with only one player and an accelerating GDP per capita growth given the work that the government has

been doing. Clearly, there are some challenges Sateesh spoke about in terms of the process of acquiring a license, a license that doesn't include a mobile money license will significantly reduce the level of profitability and therefore in essence, our bid price for the license but also our profitability and payback period. And of course, once you bring in competition with three players in the market you'd expect they're average revenue per unit to be reduced but in the long term the attractiveness of the market is intact. I think it would depend on how the economics relate to whether the license is issued with mobile money or not. Sateesh, any other points you want to add?

Sateesh Kamath: I think Peter, you have summarized very well. What I would just add to what Peter said would be to assure the investors in that approach. We are cognizant of the fact that within without mobile money, profitability will be different.

We are also aware of the fact that things like currency depreciation is something that we need to be really thinking about realistically. We would factor all of those in the business case and would look for a hurdle rate. Now I wouldn't be able to give the specifics of that here as those are part of the competitive bid that we would make.

But the approach that would be doing would be a very logical approach and it would be one, I hate using this word, but it will be brain ahead of heart and not the other way around.

Ilanna Darcy: Okay, thank you Sateesh. Ali Alnasser from Vergent; Interested in hearing about M-PESA business, what's been the uptake so far and what are some of the most popular use cases also interested in hearing from Peter and the team on the potential for this platform service. Many thanks.

Peter Ndegwa: I'll go on and answer the question. Sateesh feel free to add. I think M-PESA has been a very strong proposition or platform for us. Of-course started as primarily payments and withdrawals now expanding into loans and advances. We believe that in future subject to regulatory approval, we'll expand on the retail side the penetration of the product set to include a savings and wealth, but that is subject to regulatory approval and we would only announce that when the relevant regulatory approval has been achieved. So, on there, on their retail side, it is about expanding the product set that we can sell to a franchise of customers of about 25 million. On the business side, I believe there's a lot more headroom to utilize the M-PESA platform. We are already doing a lot of work in that area where, for example, if you are a Lipa na M-PESA merchant i.e. merchants who that allow customers to pay through M-PESA, we are starting to expand how they can use their till to do more, to pay employees, to pay suppliers, to transfer to bank. It becomes a universal kind of payment platform of choice for small and medium sized businesses, but also even for large enterprises, but certainly, we believe that there is a big opportunity on the business side to use M-PESA as a payment platform of choice. As we improve functionality of M-PESA both for retail and business customers, they will be able to do, do more with the platform.

User functionality is an important driver of uses and we are already starting to do that. Last weekend we did a big upgrade of the M-PESA platform that allows us to deliver better

functionality, create greater resilience and when we are making maintenance efforts, we can do it without having significant service impact.

We are excited about what we can do with M-PESA on the retail side but also on the business side. During COVID we have also seen that the actual wallet size has started to grow as Sateesh has said, partly because customers were unsure about how the economy will pan out but also because they believe and trust the platform. And that's one of the reasons why we believe that even cash today is still a significant proportion of what is transacted in the country at 60% plus. There's still a lot of headroom to grow the business through M-PESA. Sateesh any additional comments?

Sateesh Kamath: Very well summarized to Peter. Just one observation for the moderators. I've seen a similar question from Dilya and it looks like this answer answers both questions.

Ilanna Darcy: Okay. Thank you. The next question is Kuria from SBG. I'm sending congratulations to Sateesh and I. Number one, with the reduction in gaming taxes, are you seeing the gaming M-PESA of revenue begin to come back? And number two, what makes your device financing approach different and unique? I'm happy to take the first one and Kuria it's already days, but yes, we always see a little bit of a knock lift I suppose there is still an impact from what's going on with coronavirus around the world and people's ability to bet so I still doubt it will come back to the level that it was. But we are seeing a little bit of an uplift in the early days, and Sateesh maybe I'll let you or Peter talk with the device financing?

Peter Ndegwa: I'm happy to, so, on device financing, we believe that it's an exciting opportunity for us. We haven't launched it yet. We believe we will be able to launch it in the next week to 10 days. It is unique because it allows a customer to pay \$10 or a thousand shillings as deposit, and then pay 20 shillings which is 20 \$ cents, every day, until they're able to pay for the full cost of the phone, which is about 6,000 shillings, which is about \$60, 55 to \$60 over a nine a nine-month period. A lot of those customers would be to 2G phone holders and there's a lot of interest because through the pilot, we have seen a lot of interest from customers who cannot afford to get a 4G enabled phone and this financing scheme would allow, allow that to happen.

Ilanna Darcy: Thank you, Peter. The next question is from Sunil from HSBC. We've heard the impact on data volume trend, any light on the revenue trends?

Sateesh Kamath: What was that question again? Impact on data trend?

Ilanna Darcy: The revenue trend for data, not just the, the volume trend.

Sateesh Kamath: I'm trying to figure out how do I exercise the best choice of English words so that I make you feel like I have answered but I have not violated anything by giving an answer. Historically you would notice that our volumes increase and when the volumes increase, the revenue don't increase at the same pace. The reason for that is a lot of volume increases happen with much more, for more type of offers with a customer base a little bit more to get a lot more of data. Data volume explosion is the way we would earn revenues and it is less

likely that the volume increase, and the revenue increase will ever be proportionate. So that's how the trend would be. The trend that you can expect this year is kind of like the trend that you saw in the second half of last year. So that should give you an indication of what we are looking at. The only thing that I can further confirm is we are seeing an increase in ARPU of low single digits which again is like the trend that we saw last year. Thank you.

Ilanna Darcy: Thank you Sateesh. The next question is Dilya from Citi which I think we've already answered in terms of the M-PESA piece. Dilya If there's a follow-up question, please just post it through, but I'm going to take that one as being answered.

The next one is Ali from Vergent. Would management consider it a good outcome to come to an agreement with the Central Bank on capping the number of zero-rated P2P transactions or continue to have that zero waiting in place past December 2020. I'll let you answer that and then go to question number two.

Peter Ndegwa: I'll answer that Ilanna. On the whole piece around Central Bank and P2P transactions, I would suggest that we leave it with the answer that I gave, which is we are currently in discussions on the timeframe and limiting of transactions. It's unlikely in a way that we'll get limiting of transactions, but I would say at this stage, we leave it until we guide you on how the Central Bank can answer once we get a conclusion on that on that piece.

Ilanna Darcy: Thank you, Peter. Ali, I think your second question Peter already covered. It was with regards to M-PESA business on the business side. So, if there's any further questions, maybe send them through to us, but I'm going to take that as being covered. I'm now going to hand back to Cyndia and who's going to take back up the moderating.

Cyndia Nguli: Thank you Ilanna. The next question is from Linet Muriungi from Absa Securities. Could you please give a bit of color on DigiFarm? i.e. product rollout, uptake impact on M-PESA transactions, uptake of insurance related products and what growth prospects we see for it in the medium term. I believe Peter, this is yours.

Peter Ndegwa: Happy to answer that one. DigiFarm and generally the area of agriculture and health is an opportunity given the number of people involved in agriculture and in health. So, they are opportunities for the future if we could find a business model that allows us to digitize their operations, And therefore, as we have guided in the past, this is a four to six-year horizon in terms of ability to make money. We are still testing the model that we must make sure that all components are working. All the way from giving inputs to farmers to agronomist support through the value chain, into offtake contracts. The financing aspect is of course, a big component of that and we are working with partners to test the model as there are interests within the banking system. But at this stage, we do not want to give any guidance. I'm sure, probably by the time for the half year or the full year results we'll be able to have a slightly better view about the model we want to adopt in this area.

Cyndia Nguli: Thank you, Peter. The next question is from Ola El Shwarby from VanEck. She says congratulations to Sateesh and Ilanna on their new roles. And her question is we are seeing an acceleration in E-Commerce across most markets, particularly considering COVID.

Can you provide an update on what you're seeing in Kenya and how you could position Safaricom to benefit from this trend?

Sateesh Kamath: We've got two roles to play as a payment service provider. We are very happy for eCommerce companies to flourish. So, whether it's competitors like Jumia or Ali-express or whoever it is, when they flourish we are happy because our core M-PESA business also grows. In terms of Masoko, it has been deprioritized because we are accelerating our focus on M-PESA and some of the other product lines that we need to do. So, while a small team is continuing to work on it, at this point of time, the focus is to get a core product that's up and running and maximizing the customer loyalty around it.

As Peter explained earlier on, SMEs is our focus, so we are looking at how we can tailor some of those core products for SMEs and things like that and to ensure that we do that correctly as an organization, some of the other things have been deprioritized and Masoko is one of them.

Cyndia Nguli: Thank you Sateesh. The next question is from Mubi Khwaja from Aberdeen. Congratulations to Sateesh on his move and thank you for the update call and her question is, is there a limit on how much can be invested in Ethiopia in terms of an absolute amount and minimum expected IRR? Could you lose interest altogether if competition for license makes cost too high. If a license is achieved as part of a consortium will this significantly increased Capex spend as at Safaricom level. I think we'll start with that one first.

Sateesh Kamath: Very typical of Mubishira to ask six questions in a row. Very happy answer. The answer for the first few questions is, I can give you directionally that it will be brain ahead of heart. So, any licensing process, big process is emotional, so you will have a lot of emotions, rigor and heat on it. But we are very clear that it needs to make long term shareholder sense. We will factor that in the thinking. While I won't be able to disclose how much we can in bid, what are IRR we are looking at because obviously that is competitively sensitive information, I can only give you the reassurance that it will be a good place where we will not make rash decisions. So that is in terms of directional thinking.

In terms of what it means to Safaricom, a lot depends on what is a bid price, et cetera. So, I won't be able to guide you at this stage, but what we've done is sensitivities to see if we need to bake for Ethiopia, do we need to do drastic things like significant reduction in dividends or so on and so forth? The answer is we did not see that. We see marginal moments depending on what is the outcome but nothing substantial like for three years we won't pay dividends so nothing of that type is anticipated at this stage.

Cyndia Nguli: Sateesh, before I go on to Mubi's follow up question, there is a related question from Adam of HSBC and he says, he'd be very interested to know your thoughts on the other bidders on the Ethiopian process.

Sateesh Kamath: We were expecting everybody who could spell telco to be part of the process. It looks like the steam and heat has changed over time and the list is now closer to 19 people also based on the expression of interests. Some of the people that we were

expecting are there, like MTN the people from the Emirates and so on and so forth. We would like to think of every one of them as credible competitor, we would not look at any one of them lightly, but we bring unique strengths as a consortium and a global player, which has got strong international experience, strong African experience and strong East African experience and tailor our story accordingly. So, that's how we will be looking at it. I won't be able to give you more details at this stage, but I hope this gives you a flavor of how we are approaching it.

Cyndia Nguli: Okay, thank you Sateesh. Mubi's follow up question is around M-PESA, what sort of margin declines shall we expect due to the free transaction? And can you realistically go back to charging as before after December? That's if customers get used to it.

Peter Ndegwa: Yeah. Although I'm not the CFO I'm happy to answer that question. I think the way I would put this is to say Sateesh has already signaled the monthly level of loss in absolute terms, I don't think at this stage we want to go into per transaction piece, but he has given an indication of the level of loss we would be incurring depending on the level of free transactions we are seeing on a monthly basis and I don't think we can add more to that. In terms of what happens in the future, I have stated many times I would prefer that we have the conversations and engagement we having at this stage and then when we have a definitive position we are able to come back to investors but at this stage it will be a speculative for me to give you an indication of how it will pan out.

Cyndia Nguli: Thank you, Peter. Our next question is from Baiju from Apollo Asset Management and he's asking about unit trust services that we are planning to implement and whether these can be done through an asset manager or through unit trust management. I believe this is more of a commercial question.

Peter Ndegwa: Is this related to the Mali question?

Cyndia Nguli: Correct.

Peter Ndegwa: The question is the Mali product has not yet received regulatory approval so at this stage we do not want to comment on their commerciality of the proposition. At the time when we spoke about it was being tested and when we do get the right regulatory approval we will come back to you on how the total work and the kind of partnership model that we'll have, certainly in terms of the intent would be to go through partners who are licensed in this area. But at this stage we don't have regulatory approval, so we would not want to comment further on it.

Cyndia Nguli: Thank you, Peter. The next question is from Karim of Sayani Investments. They say congratulations on the resilience of the business in the present crisis. The question is how will the Central Banks propose to regulate digital lenders affect Safaricom?

Peter Ndegwa: Yeah, I'm happy to answer the question about a regulatory framework. We have a strong regulatory framework within the country, whether that is on the GSM front with the communication authority or indeed the oversight from the competition commission but also the payment system, the money transfer or mobile money by the central bank, under the

Mobile Money payments act. So, we have been under regulation for us we do not see a major change. However, we keep the, we keep track of the evolving nature of regulation. We are keeping very close to the latest thinking by Central Bank but also what has happening in other countries to ensure that we have ahead of the curve.

I think the key for us is to make sure that M-PESA continues to be relevant to the Kenyan society and continues to meet the needs of both retail customers and now really accelerating to meet the needs of business customers, especially SMEs. If we do that, I believe we'll be able to navigate through the regulatory environment that we face going forward.

Cyndia Nguli: Thank you, Peter. The next question is from Louise Pillay of Investec securities. She's requesting for an update on competitive intensity in the markets. She has the feel that Airtel is a bit more aggressive on data in recent months. Her next question is how does your current churn rate compare to other months? Then how are you managing network Opex and Capex given the increasing traffic demands and lastly, on cost management, are there any specific cost items that will be easier to control in this environment?

Peter Ndegwa: I'm happy to talk about the competitive environment. Sateesh I'm sure you pick up a couple of those questions. Kenya is a competitive market I know that a Safaricom with a large size we are in a competitive environment Airtel is intensely very competitive. We see in its pricing, in its activities on the root to consumer side. So, we as a business look at competition both within the GSM market with Airtel being the primary focus area, but also on the mobile money by looking at much more broadly, including other financial services providers.

I wouldn't want to comment on Churn rates. What I would say though is that in some cases we've seen because of some of the initiatives that we've had around how we acquire customers with more stringent KYC requirements have meant that sometimes our acquisitions are lower. However, that's not to say the other competitors are acquiring the wrong customers. I'm just simply saying that we take competition seriously. We continue to strengthen our product offering. We know that we are more premium priced, that will always be a downside for us, but a big area that now we are focusing on is customer service and customer experience as a way of distinguishing ourselves from the market.

In terms of network we have invested 4G. We have gotten to a 77% coverage of 4G by now we have put more than 400 sites of 4G during this COVID period. We want to ensure that by the end of the year we have 4G coverage across the country. Our network has been generally resilient. We've seen a bit of pressure on our fiber but that is more from the service side rather than from an infrastructure side and from availability of routers, which was affected by the supply chain challenges during COVID which have now been overcome. On the network side, we are generally stable and, and we believe that we have the infrastructure to support the growth. Sateesh, do you want to pick up the cost one and I think there is one more.

Sateesh Kamath: Just in terms of the guiding philosophy of how we have realigned the organization, one of the things that Peter keeps saying is that people may forget COVID in a

few years' time, but customers would not forget the way we made them feel at this time of crisis. And that's been the guiding philosophy of how we have realigned the organization. So, we did not, did not do any cutting off edges but only continued with structural efficiencies that we've been driving from last year. So classic example is today our call centers can answer more calls than what it was, lesser abandon rate than what it was pre COVID as we focus on giving customers and SME customers a lot better service. In Capex and OPEX Peter answered this, the fact that we had invested in advance has helped us really in this tough space. So, what we are doing is sweating of assets, rather than having to ad hoc, do something on the network. On cost management, you would have seen the good work that we did the previous year. That's an area of focus that is an area which will be a strategic pillar for us going forward as well. So, we will do what is structurally necessary. But we would not do short term things like asking people to leave when so on and so forth, we will do what is right for the company in the long run. So, continue to expect us to run more on cost.

Cyndia Nguli: Thank you Sateesh, just conscious of time we've got six more questions on queue. I don't know if you're happy for us to close out with those.

Ilanna Darcy: I suggest we pick the ones to answer here and Cyndia you and I will revert on the other ones. My suggestion is, Amos, let us come back to you on your query. Tracy, Sateesh Peter, a question from Tracy is Safaricom still going to consider Huawei for 5G?

Peter Ndegwa: We are looking at the future of 5G in terms of our plans and once we are clear on what we want to do with 5G given that we still have a lot of headroom to utilize 4G which is just about being completed at this stage, we will make a judgment around the supplier in terms of who provides the 5G infrastructure. Now we are also considering handsets given the penetration of 4G handsets is still very low and that's why we are going with financing of handsets and we are just completing the infrastructure for 4G.

Ilanna Darcy: Thanks Peter. Tracy, I think Peter answered your second question earlier with regards to Mali and visa. We'll have more to announce when we've got something approved by the regulator. Robert and Lee allow the IR team to revert to your queries and I'm going to jump to Soji from Rencap. Number one, an update on the equity bank partnership and number two plans to decouple and deploy and M-PESA across Sub-Saharan Africa, and do you envisage a future where you curve out and list M-PESA separately from the classic telco business?

Sateesh Kamath: On the Equity Bank partnership as we have called out in the past, these are two large organizations with large ambitions both digitally advanced and we will continue to explore options. We have worked on a few options, but nothing of a size and scale for us to call it out for investors. But the good thing is that the relationship between the two companies has significantly improved and we will continue to see opportunities with each other, but nothing, no one silver bullet to call out now. Ilanna, what was the second question, please?

Ilanna Darcy: The second one was about M-PESA decoupling and spreading into sub Saharan Africa.

Sateesh Kamath: I'm not very sure decoupling means? I'm assuming you're talking about splitting up M-PESA as a separate company?

Ilanna Darcy: No, because there's a third question there about considering splitting M-PESA and listing separately.

Sateesh Kamath: The answer to that is we now have a lot of benefit of running as one single unified unit, a lot of congruence in number of things that we do at this stage, we would not be thinking of a decoupling or delisting or this it separately.

However, as one says, never say never as a prudent company, we look at several options around listing of towers separately is this the right time or not, should we list M-PESA separately or not? We will continuously evaluate but at this stage, there's nothing concrete for us to guide the investors on. So please assume we will continue to operate the way we are until we give you an update.

Ilanna Darcy: Kishan and Christine allow us to come back to you on email I think the last one, then that will take from Linet from Absa. Can you give color on spectrum allocation and lighter 4G expansion?

Sateesh Kamath: Lynette, I'm not very sure what the exact question is, but let me try to guess and give an answer. The spectrum that we are using for 4G is what we currently have. We did acquire a small piece of a spectrum, but substantially it is a reforming of an 1800 spectrum and then combining it with an 800 spectrum that we had acquired a few years ago. So, we're not making any significant additional spectrum acquisitions for 4G per se. It is optimum optimization of a spectrum. Having said, as we have always stated, every opportunity to acquire a spectrum as, and when the regulator opens is something that we will really look forward to with spectrum as a long-term asset, and really helps in making a difference in the quality of service that we give to customers. So, we will continue to look for, but now, there is no additional spectrum that is being made available other than a small piece that we can speak about at the time of half year.

Ilanna Darcy: I think that's the end of the questions. Apologies to anyone who had questions we didn't get to answer in the call but in the interest of time, I just wanted to cover and questions that hadn't already been asked and we will come back to the specific ones that are outstanding on email before the end of this week. Peter or Sateesh any closing remarks before we close the call? I know we've already gone over

Peter Ndegwa: Ilanna, I just to say thank you to everyone who made it on the call. There was at one point more than 140 very happy to keep connected. I know it's some challenging times, but we'll do our best to keep you informed about how the business is going and hopefully at half year we will can be able give you a much firmer direction on how this year will pan out. And as you wish as success for Sateesh, I will continue to hold his passport, just so that to make sure that he remains on this call in the future. But on a lighter note, I want to take this opportunity to thank Sateesh for everything he has done for Safaricom. But that's not to say is Sateesh won't be on the next call.



Sateesh Kamath: Well, thank you. Thank you, Peter. Just by way of conclusion, I just wanted to say, this year, I'm not sure if Roman is on the call at all, but Roman you know the way I say it, this year is a wash out it's a bad year. A year that I would like to forget in life. So, this year the results will be impacted by the free P2P. So, what we are looking in as management is what is the underlying things that we are strengthening in the year so that post COVID, we would be in a stronger place. On an underlying basis we are strengthening our capabilities on mobile data, which is the future, on an underlying basis we are building a strong M-PESA which is the future. So, while I would like to think this year could be better, but this year is what it is. So, what we're really focusing on is making sure that the future of this company is in stronger place once we get out of COVID. I am looking forward to giving you more updates in the half year season.