

Conference Call transcript

13 May 2022

FY 2022 Investor Briefing Call

Zuri

Good morning, good afternoon and good evening to all Investors and Analysts on this call. Welcome to our virtual investor briefing for our FY22 results announced earlier today. Our moderator for this session will be Caroline Wambugu, our Head of Investor Relations at Safaricom Plc.

Caroline Wambugu

Thank you, Zuri, for the warm welcome. Good afternoon, good evening to all our investors joining us from around the world. We are glad to have you for this briefing session on today's results for the year ended 31st March 2022. My name is Caroline Wambugu. I'm the Head of Investor Relations and Financial Planning at Safaricom, and as Zuri mentioned, I will be moderating today's discussion. We have our CEO, Peter Ndegwa, who will make introductory remarks. Thereafter our CFO, Dilip Pal, will give his remarks before we open the session to field your questions, which will be answered by Peter with support from the rest of our leadership team.

Before we kick off the session, I would like to speak through a few house rules. Throughout the session any questions you have for our leadership team should be shared via the Q&A tab. Please type in your questions and we will read them out later and provide answers. At the end of your question, kindly remember to include your organisation name. please ensure you have joined the session with your full name for ease of identification when you post your questions. If you haven't, you can rename yourself now by hovering the cursor over your name and clicking 'rename' on Zoom.

In staying committed to our promise on diversity and inclusion, a live transcript has been made available for the comfort of anyone with hearing difficulties who has joined the call. You can access this by clicking the 'view transcript' tab at the bottom of your Zoom application under 'more options'. This will allow you to keep up with the conversation in a more comfortable manner. Finally, in case you require any assistance from us that is not related to the discussion, you can write to us via the chat platform, and we will help you from the back end. I now welcome our CEO, Peter Ndegwa, to kick off the session. Thank you.

Peter Ndegwa

Thank you, Caroline. Just confirm that you can hear me for the benefit of everyone.

Caroline Wambugu

Yes, Peter. We can hear you. Please proceed.

Peter Ndegwa

Okay. Thank you, Caroline and Zuri, our moderators this afternoon. And good afternoon, good evening to everyone from the investor or analyst community. This morning we released our results and also had a presentation. Some of you may have watched that presentation or some of you may have come across the results. Our intention this afternoon is that Dilip will summarise the key financial results and the drivers of that for about five to six minutes, and then we will go into Q&A. We believe that's the best way of utilising the time.

What I will say though is that we are pleased with the results that we've announced. It has been a strong year, especially in Kenya. We have seen strong financial performance and commercial momentum across the business and also are making progress on our Ethiopia operations, setting up for commercial launch sometime during this calendar year. We will go into the detail of the drivers of that. So that we don't duplicate the work, I'll ask Dilip to take us through the key highlights and then we'll go into Q&A. Dilip, over to you.

Dilip Pal

Thank you, Peter. Thank you, Caroline. Confirm that you can hear me well. Caroline, you can hear me?

Caroline Wambugu

Yes, we can hear you, Dilip.

Dilip

Thank you very much. Good morning, good afternoon and good evening, everyone. As Peter said, I'll be very brief, assuming that you have all seen our presentation or had a chance to go through our numbers. Starting with our top line growth, it's a strong set of numbers that we have reported, mainly attributed to our economic recovery and very strong commercial execution. Service revenue, as you have seen, grew 12.3% supported by an all-round growth across all revenue streams. M-PESA especially grew very strongly with 30.3% year over year growth.

On the back of our top line growth what we have also seen for Kenya standalone our EBITDA grew by 15%. EBITDA margin expanded by 0.7% to now 51.7%. And EBIT also grew by 19%. In terms of customer profile, we have seen customer growth across all segments, whether it is our 90-day customers or 30-day active customers. And we also celebrated our 15 years of M-PESA with a very important milestone of 30 million customers for M-PESA.

On the revenue side just to call out a few things, a few areas that we are very happy with. On Voice revenue we managed to still keep within a positive trajectory with a 0.8% growth, which was quite good given that there was huge price pressure mainly attributed to our CVM initiatives which resulted in usage stimulation. M-PESA, as I mentioned, was a stellar performer with 30.3% growth. This of course also on the back of or supported by the return to charging for previously zero-rated transactions, but more importantly the increase that you have seen in the volumes and values of transactions which has grown over 34% in FY2022.

As you have seen, M-PESA now is the biggest contributor. What is important here to talk about is that M-PESA's overall health of the business is very strong. We see our merchants growing by 60%, now close to 500,000. We

have 3 million businesses who are using our services and we also launched our super app and also the business app, which we will talk about in detail through Q&A session. And you have also seen our presentation.

Mobile data, you will recall in our H1 results we were not very happy. We were not satisfied with the growth profile that we have seen, but the growth actually rebounded in the second half with double digit growth, leading to a 13.5% growth in Q4, so quite satisfactory. Usage per customer reached 2.3GB, 60.5% growth. But most importantly, our ARPU profile, which is what we always spoke about, has grown by 10.4%.

Our device story is going very well on the back of a very good growth last year. We have also seen our 4G devices growing by 29% in this financial year, passing 11 million. Fixed revenue continued to perform well on the back of subscriber additions. On the cost side I think on the group performance you may have seen an increase of 20% year over year, but that is coming on the back of our opex of KSh 5 billion that we reported for Ethiopia. If we remove that, for Kenya we have seen an increase of 8.8%.

Capex, of course the group number is quite high, which was expected. For Kenya we also have seen about 12% growth in capex, but the capex was mainly in the areas that we all planned for. And just to call out a few things, last year we got new spectrum and we upgraded almost 70-75% of our sites with the new spectrum. We added close to 500 new sites. We are also modernising our energy infrastructure through IoT to solar and hybrid power. We added about 29,000 new homes and also added close to 500 new buildings. The CVM new engine that we procured last year is something we are very proud of, and will enable us in the future to propel our CVM initiatives in even a better way than what we have done before.

In terms of the balance sheet, I spoke during our presentation about our syndication closure of \$400 million bridge loan, and we are very happy with the outcome that we have seen. Our net debt to EBITDA closed at about 0.2. In terms of the Ethiopia funding, we have funded about \$540 million during FY2022. You have seen our guidance. As Peter mentioned during this presentation, we have surpassed our guidance and we are very happy about what we have seen for the outcome of Kenya both on EBITDA and also on the capex side.

From an Ethiopia perspective I'm sure you will have questions that we will address, but just to say that we are making good progress in terms of the commercial launch within calendar year 2022. And the entity is well funded. From a FY23 point of view we also spoke about headwinds in terms of regulatory, especially MTR, which is in court process, and of course the macroeconomic factor influenced by the UK/Russia war which is something to watch out for.

With those things keeping in mind, you have also seen our guidance, but I just want to highlight that our guidance doesn't take into account MTR, as you know, MTR is still going through the court process. And my last comment to all of you, we are planning for an investors' day, which if you recall we spoke about last year, but finally we plan to host this within June 2022. With that, thank you very much, and I hand over back to Caroline for questions and answers.

Caroline Wambugu

Thank you very much, Peter, Dilip. Now, investors and analysts, this is your moment to ask your questions. I'm yet to get any questions. Now they are coming through. Just a quick reminder, for those who would like to ask questions, just ensure you type in the name of the organisation you're representing so that we can identify you well.

We do have a question here from Madhvendra Singh from HSBC. And the question is, why did voice revenues decline in H2? How much of that came during Q4? The second question on Ethiopia plans. You have not shared any plans on targets within Ethiopia in terms of subscriber numbers or revenues. Any help you can provide in terms of understanding revenue trajectory in the market? Another question on Ethiopia. In terms of capex spend, at what FX rate are you able to buy the equipment at? Is it at the current FX rate, or are you buying the equipment outside and directly bringing it in? And lastly, on Ethiopia, how focused are you on maintaining EBITDA / EBIT loss levels at minimal levels in the market? Still on Ethiopia. Over to you, Peter.

Peter Ndegwa

I would suggest, Dilip, you go ahead and answer the questions.

Dilip Pal

Thank you, Peter. On your first question on voice revenue, you are right. Our H2 was negative. The primary reason for that is if you recall we were on a recovery path in FY21, so we are of course lapping a better performance than FY21. But most importantly, voice revenue has been on decline, and we managed to arrest the voice revenue growth. And the decline was coming on the back of the rate rationalisation that we are doing. The affordability was an issue, and of course we are at a premium to our competitors. And we needed to address that, and we have done that. So, I think your point is valid that our second half performance probably was not as good as what we have seen in H1. But as I mentioned, overall, we are very happy with the voice performance that we have seen in FY22 because we have seen use stimulation and our CVM initiatives really paid us well in voice revenue.

On Ethiopia numbers, in terms of our disclosures, we have provided based on your request and based on some of the conversations, more information than what we had done before. And we will continue to improve our disclosures in this area. But let's keep it in mind that Ethiopia has still not started generating revenue. It is not a steady state operation that we start giving those kinds of numbers. We still don't have the first customer or subscriber in our network. So, I'm sure as we progress, as we go along, you will see more of Ethiopia information coming in.

Now, from a capex perspective I know you have asked quite a few questions. In case I missed out something, Caroline, just remind me. So, the way we have done the major capex, the deal is those are in foreign currency. And then we have vendor financing wherein at the time of the receipt of our equipment we fix our vendor financing for the period. So, it's fixed at the time when we are doing the vendor financing after which it gives us the cost of financing which is pretty attractive. So therefore, it kind of protects us for the future volatility when we shall actually make the payment because we are fixing at the time when we are doing the vendor financing.

But what I wanted to highlight here is what Peter also mentioned during the presentation. The forex volatility is a cause of concern and we have been watching out very closely. And what we are also trying to do is, for the payments that we have to make locally we maximise our payments through our local funding, whether it is short term or long-term debt we are working on. Short term is done, and mid to long-term funding is currently work in progress. So, I think the way we are managing is through a combination of foreign debt and the local currency will hedge that to some extent, but this is something we cannot fully rule out on currency. Caroline, let me know if I have missed out on the other questions that came in. I think there were quite a few questions that came in.

Caroline Wambugu

You have addressed them, Dilip, but there are more questions still on Ethiopia which I will read out. This one is from Maurice Patrick of Barclays. In Ethiopia can you please talk about timing of launch of services and what needs to be completed before launching? How advanced are negotiations with Ethiotel regarding wholesale? Press reports indicate talks are advanced. That is from Maurice Patrick of Barclays.

Peter Ndegwa

Okay, Caroline. I'm happy to answer that one. Yes, we are making progress in Ethiopia. I suppose the key elements to consider in terms of our ability to launch is there are two components. One, is considering the political and economic space. You know we had to withdraw our team sometime November/December. So, we knew to some extent the launch would be delayed, given that there was a period that we were not in the market, both ourselves and also our vendors. The biggest task is to build the towers that we need for full commercial launch. We expect that we will have between 800 and 1,000 towers by the time we launch. We will start with towns that are ready from a capacity perspective and then make sure that we deliver our commercial launch by the time we get to about 1,000 towers. That is underway, and we are making quite some progress.

In addition to that, we have entered into negotiations with Ethiotel. The press releases are correct. It took quite a bit of time. Both of us are learning the market. But we have been able to get into a place where we can now agree on interconnect, on transmission, leasing but also on tower sharing in future. We are just currently going into the detail of that. We believe that by the end of this month we will have the signed agreement between ourselves and Ethiotel. Some of the arrangements will not be in line with what we expected at bid stage, but they are commercially acceptable to us and will allow us to make sure that we launch on time. We've been pleased with the way the negotiations have gone in terms of being mutually beneficial for Safaricom Ethiopia but also Ethiotel across all those lines.

So, it's about building towers. It's about agreeing on the key commercial components with Ethiotel. But also, it is ensuring that the commercial side is also ready. We've recruited distributors, close to 30 dealers. We have identified the outlets, the commercial shops that we will use. And then we have a team of about 305 people with an office already set up. So, we are ramping up and we believe that we will be able to have a strong commercial launch in this calendar year. We don't want to be specific because we are waiting for some of the agreements to be completed and for us to make an assessment about our ability and how many sites, we will be able to lease, and also complete some of the build phase ourselves. So that's all I want to say. Dilip, if you want to add anything to that, please do.

Dilip Pal

No, Peter. Thank you. I think you captured everything.

Caroline Wambugu

Okay. Thank you for that, Peter.

Peter Ndegwa

Sorry, Caroline. The one thing I missed out is one positive aspect that has also come through is that remember the government at the time when we got the license, we were expecting that mobile financial services would be allowed within three years. The Prime Minister made a commitment that it would be allowed within one year. I was in the market early this week and it is quite clear that the government is putting in all the legislative measures, changing the laws, getting approvals through the cabinet but also eventually through parliament so that we are allowed to operate mobile financial services.

We are still not clear what the terms of the license are going to be because the Ethiopian government has told us there will be some money to be paid. But we will have clarity within the next two weeks. Within the next few weeks, we believe we will be in a position to tell investors that we have the ability to be able to launch mobile financial services. We will have the right to launch mobile financial services, and of course after that it will take us a few months to be able to put the right infrastructure and the right commercial arrangements to be able to launch. At this stage we cannot say that that is concluded, but it's a very positive development so far.

Caroline Wambugu

Thank you very much for that, Peter. We missed out a question, the one from Madhvendra Singh of HSBC. This is for you, Dilip. Still on Ethiopia. How focussed are you on maintaining EBITDA / EBIT loss levels at minimal levels in the market? We can combine it with a question from Jaynesh Bhana from Mazi Asset Management. What will the Safaricom dividend policy look like with the additional cash drag of Ethiopia and the expected drag on earnings at the Safaricom Group level? Over to you, Dilip.

Dilip Pal

Thank you. Let me first start with Jaynesh's question. Our dividend policy which we have reconfirmed from time to time is to pay out 80% of the net income of the year. That doesn't change. As I mentioned during my opening speech, our leverage position is still quite comfortable at net debt to EBITDA of 0.2x. So, we don't see a challenge in terms of cash availability in order to support our dividend. That's not an issue, and I don't think that's changing. You will also notice that the dividend that we paid is based on consolidated net income after netting off the minority interest for Ethiopia. That way Ethiopia's performance is already part of the net income based on which we pay our dividend.

The other question that came in, how focussed are we. This is a serious business. This is a big investment for us. It is the largest investment that Safaricom has ever made, with a big bet on the country we saw a huge opportunity in. So therefore, we are doing everything to make sure that we stay focussed on turning this around and making that business a successful one. I think keeping a focus on our business plan to deliver certain outcomes I think is very important. That is what we are doing. If you recall, we spoke about that, and I spoke

about during our presentation our medium-term outlook of EBITDA breakeven by year four. That hasn't changed. We are still making sure that we achieve that. Back to you, Caroline.

Caroline Wambugu

Thank you very much, Dilip. The next question is from Maximillian Sporer. I don't think he has indicated the firm. The question is how much are supply chain issues slowing down the expansion in Ethiopia? Which are the critical components? And, the second question is which products are expected to contribute most in Ethiopia and can we provide an estimate on the split between voice, data and SMS? Peter, over to you.

Peter Ndegwa

That's a Dilip's question. Go ahead Dilip.

Dilip Pal

All right. Thank you. On supply chain I don't know if you are referring to any headwinds in terms of the Ukraine Russia crisis. I'm hoping that's not what you mean. If that's what you mean, then we could say that we are still assessing it and there are various headwinds around that. Ethiopia is not an exception. We are not facing any specific problems relating to that in Ethiopia. But just to let you know that the supply chain and importing process in Ethiopia is quite onerous. We knew about it but knowing something before you go there and actually trying to execute it is very different. So, we did face those issues. A start-up of that magnitude where that country has not imported the magnitude of imports that we have done, we needed to really put a lot of focus and effort to fine tune it.

I'm happy to say that it took a while for us, but the process has now streamlined quite a lot and it's going in the right direction. And therefore, what I'm saying is that it's not to do with something special for Ukraine-Russia, that I think all countries are facing in some way or another. But for us in Ethiopia it was very specific to the country simply because there was no another telecom operator that has come in or there has not been an import of that magnitude that has happened before, and we are addressing it quite well now. Caroline.

Peter Ndegwa

There was a second question, Dilip.

Dilip Pal

I addressed that I thought. Please, sorry, I am hoping that you are talking about a business which is running, a business split that we can provide and which we have actually provided. So, you have all the revenue split of Kenya and there is no revenue in Ethiopia, and therefore there is no split. Of course, when you have the revenue next year, we will provide the split.

Caroline Wambugu

Thank you very much, Dilip. I think more questions still for you on Ethiopia. We have one from Kudakwashe from Kela Securities. You guide on operating loss of KShs 30 billion to KShs 33 billion for Safaricom Ethiopia. Is that correct? What are the key costs expected for Ethiopia over that period? We can combine that from a question from Admire of Terra Partners Asset Management on Ethiopia revenues. Surely you have some estimate or

target for the first years of operation. We just want to know what numbers we are working with, maybe even target contribution of Ethiopia in the first two years. Over to you, Dilip.

Dilip Pal

So, on the first question I think you are right on our guidance that you have noticed for Ethiopia. The main operating cost for Ethiopia would be the cost related to network. Basically, we are building our own sites and therefore the fees that we pay for hiring those sites, the power and all associated costs. And for the shared sites of course it's similar. It's another type of cost but also relating to sites. The majority of that cost would be network related cost, followed by people related costs. People related costs is something that in the initial years as we are building there will be more people helping and supporting from outside going there. I think as Peter mentioned, we do have currently 305 people. We have more locals than people joining from outside. But on the cost side that would be it. Then there are the costs related to advertising and promotion costs, cost relating to interconnect and all those. I think the major cost would be the cost relating to network, and that's what you will see in the FY23 numbers.

Then I know you still want us to talk about revenue, but as you know, even for Kenya we don't guide on revenue. We guide on EBIT, and we guide on capex. Unfortunately, I'm still not able to give you revenue numbers for Ethiopia. I think the best way to do this would be when we start actually generating revenue and we start reporting numbers. That's when you'll be able to get a sense of the revenue numbers. But at this point in time, I'm not able to provide you an estimate of revenue for FY23. Back to you, Caroline.

Caroline Wambugu

Thank you, Dilip. The next question is from Maurice Patrick from Barclays. Orange has seen a negative impact from Wave launch of mobile money. Can you talk about how defensive mobile money is for Safaricom? Over to you, Peter.

Peter Ndegwa

Happy to do that. But, I can see that Sitoyo has also joined us. Sitoyo, do you want to answer that specific question? I'm happy to answer more general questions on M-PESA, but the specific one on how defensive M-PESA is.

Sitoyo Lopokoiyit

Yes. Thanks, Peter. Thanks, Maurice, for that question. We do know Wave quite well with what they're doing in West Africa. I think for us it's the resilience of what we've built from the two-sided ecosystem as you have seen in the presentation. We have built a very strong and robust business proposition with over 3 million businesses running on M-PESA and over 500,000 merchants that run on it. We have built the right products on the business side that empower businesses with the business super app as well as the transacting till that businesses have embraced from an empowerment perspective to enable the businesses to grow.

From the consumer side of it we've continued to innovate and roll out new products and services. We have also rolled out the M-PESA super app with mini-app capabilities. We've enhanced our API capabilities with about 42,000 developers of our ecosystem. And with regard to the new financial services, we're soon going to roll out

wealth management, insurance, the Visa proposition for virtual card, M-PESA junior card for customers between 10-18 years old. So, you can see the way we have built this digital ecosystem is about empowerment of the business customer as well as ensuring we have an underlying technology that enables our third parties explore innovations outside M-PESA but within the M-PESA ecosystem.

And if you look at the results, the profile of our revenue is shifting. We've got a great slide of how that is happening. That just demonstrates the opportunities. Also, from a target addressable market there is still huge opportunity in Kenya. When you look at Wave relying on free fees, in Kenya we know some of the competitors are free. But the way we've built the ecosystem with partnerships and open platforms sets us up for a very resilient business for the long term.

Caroline Wambugu

Thank you very much, Sitoyo. The next question is from Flora Chesang of Securities Africa Limited. Why was EPS higher yet attributable income was lower? I will combine that with the second question from Jake Ward. On your mobile data ARPU you mentioned better growth. However, looking at your mobile data revenue and one-month active mobile data customers in the results booklet, it only implies 2% growth. What is limiting this growth rate? Over to you, Dilip.

Dilip Pal

Thank you, Caroline. I think on EPS it's just the calculation which is creating this confusion. So, if you look at our consolidated income including Ethiopia and then consolidated net income when we exclude the minority interest, that number is actually higher compared to last year. So, I think it's quite nicely explained. Therefore, you see the change. Earnings per share is higher because consolidated income net of minority interest actually grew 1.4% compared to last year, after adjusting for minority interests. And that's what probably is creating the confusion. That's the number to look for. It's a growth of 1.4% net income.

On the question relating to mobile data ARPU, the ARPU I can confirm is not based on one month active. It is based on the distinct chargeable data users. So, based on the distinct chargeable data users, the growth of 10.4% is correct. And to your question on how we can do better, yes, that's the intention. We keep talking about expectation to grow our usage and of course we want to see a monetisation part of that and we know the pressure on the pricing we have seen this year as well, the decrease in the rate per MB and that pressure will not go away. And what we said before is the number to look at is ARPU profile and ARPU growth. That's what we will be improving as we go along. As I mentioned, this is something that we are very happy with. We have seen growth in H1, and we have seen growth in H2, as I mentioned before. Back to you, Caroline.

Caroline Wambugu

Thank you very much, Dilip. Our next question is from Silha Rasugu of EFG. How would you describe the impact of FX volatility, particularly Kenya Shilling on the FY22 numbers? And then the second question is Safaricom Ethiopia OpCo was roughly 9% of group opex. How would you expect this to evolve as the group reports consolidated numbers going forward? Over to you, Dilip.

Dilip Pal

Thank you, Silha. So, on FX impact on our FY22 financials, you can see the impact actually in our interest income and interest expenses where we have given details of forex losses. As you know, we have taken the \$400 million bridge loan. As we started syndicating, we did finally conclude the syndication in Q4, so because of the forex volatility we have recorded losses. The amount if I recall correctly is over KSh 2 billion. That's the one impact that you see directly in our income statement. The other one is also to look for... if you see our comprehensive income there one more line where we look at our investment in Ethiopia and then see the forex change from the day of investment and the day of reporting. And that number is KShs 9.5 billion which is called as the forex revaluation reserve that you can see in the income statement. So, I think it's visible in the financial statement. One is the interest expense line, and that is in the comprehensive income line.

On the opex question, I know it's very tempting now to get into the details of it. First of all, FY22 numbers are not necessarily a reflection of a steady state business as usual in Ethiopia. All I'm saying is that please allow us more time. We need to get into a space where we launch, and we start seeing the reporting numbers. Then you'll get to see. It's very difficult to compare what opex we are seeing in the 2022 year-old operation versus an operation which has not even started. Please don't make those percentage comparisons yet. As I mentioned, Ethiopia reported about KSh 5 billion of opex. The majority of those costs relate to payroll costs followed by travel related costs and also certain consultancy and legal expenses that we've incurred relating to initial setup including fees that we have paid to IFC as part of the bid. So, I think for example the network cost, the site running costs have not yet hit. That will start coming in. Let's have a steady state operation in Ethiopia first then we start comparing then.

Caroline Wambugu

Thank you, Dilip. The next question is from Takeshi Kawamoto of Nomura Asset Management. Are there any one-off operating costs for the domestic business this year, or should we expect domestic operating costs to remain around these levels over the long term? I can give that to you, Dilip.

Dilip Pal

I'm assuming when you're talking about domestic business, you're talking about Kenya business. There are no material one-offs in the Kenya book. I can confirm that to you.

Caroline Wambugu

Okay. Thank you, Dilip. Another question from Sammy Kibet.

Dilip Pal

Sorry. I just wanted to add. If you have noticed, it's not a one-off, but if you look at our profit before tax and profit after tax, and you see a big increase in the tax, that is the tax rate changes that happened in FY21 where we had nine months of corporate tax of 25% because of the COVID relief. That has been reinstated to 30% from Q4 of last year. So, in case you're talking about steady state, just keep in mind that tax rates during this financial year have changed. Keep that in mind. Otherwise, it's fine.

Caroline Wambugu

Okay. Thanks, Dilip. Another question here from Sammy Kibet on taxation. GSM excise duty is considered a headwind. To what extent did this affect the bottom line, and what is the taxation outlook for 2023? Dilip, over to you.

Dilip Pal

Thank you, Kibet. I think we spoke about this in our H1 results release if you recall. And we spoke about that in the context of our slowdown in mobile data because we decided to absorb the cost of that excise hike last year. So that of course has an impact in slowdown of mobile data. If you recall, our H1 growth was around 6%. But on the voice side we passed on to the customer. So, what we need to keep in mind is any excise change, any tax change which happens is normally passed on to the customer. And if it's passed on to the customer, there is always this concern around the wallet size of the customer. At the end of the day customers spend on mobile or communication is more or less determined by the customers.

So, when there is a tax impact, we do see some challenges. And this is something which we need to keep in mind. If you have noticed the gap, the balancing of the books, and that gap is actually going up. Therefore, the government is always on the lookout for more tax opportunities. We have seen last year, and there are some proposals also part of the current Finance Bill actually. We are following that as well, although the Finance Bill has not been finally approved. I think all that gives you an area to focus on, an area to keep in mind that it could impact the wallet size of the customer and therefore something to watch out for in terms of revenue profile. This is nothing new. I think this has been there and this I don't think will go away in future.

Caroline Wambugu

Thank you, Dilip. The next question is from Danesh. Can you please discuss FX shortage and impact on the business in Kenya? Also, sensitivity to the Kenya Shilling on EBIT. Any views on the NPS draft updated. Any change to breakeven timeline on EBIT in Ethiopia? And he also does request that we give the latest on the mobile money license and terms and conditions. Maybe, Peter, you can answer the last part. Then maybe Dilip can do the FX.

Peter Ndegwa

No problem. So, as I said earlier, we were in Ethiopia this week including myself on Monday/Tuesday. We are pleased with the progress that the government has made on changing the law to make sure that mobile operators can operate mobile financial services. The Minister said to us that in a couple of weeks we should get a view of their expectation of the terms that we could pay. So, at this stage until the government is clear with us what they feel is appropriate, then we will go into some conversations, we can't definitively say what that will be. But all the other elements are being handled. We expect in the next few weeks that should be complete ahead of the parliament going into recess. But on the terms, that is up to the government to tell us. And then we will come back to investors and be clear what that is.

Dilip Pal

Okay. Danesh thank you for the question. I think I can take the rest. On forex I think more than the shortage, what I wanted to highlight is a lack of a developed market where you can do proper hedging. That's where I think the challenge comes in. There is not enough opportunity to go for a long-term hedging here in Kenya. It doesn't exist today. If you want to do something, it's very expensive. So, this is something that we always evaluate when we look at our funding. In terms of the forex, the Kenya Shilling versus US Dollar, I think you would have noticed during the current calendar year itself we have seen about 2% decline on top of the 3.5% decline that we saw last year. I think on a comparative basis I won't say this performance has been worse than others. I think in some ways it is better than some countries that you have seen. But this is new for Kenya. The Kenya Shilling has been stable for a long period of time. And it started depreciating and of course, the Ukraine Russia conflict has also potentially escalated the depreciation.

We keep watching this. In terms of impact, I spoke about how this has impacted our financials. I have already given input on that. I think for us what we are looking at is more for the future. Some of those contractual obligations we have taken, we are consuming from things we have already bought. But things that will come in future are the things to watch out for. That's something I spoke about when I talked about the guidance. Macroeconomic changes are things we are really watching to see how that plays out. But that's a very valid concern and we are aware of it.

On central bank NPS, Danesh, I think we spoke about these many times. This was unveiled after a long period of consultation with the industry, and as part of that the interoperability which came in. And we have already launched. You have probably already seen our announcement on that as well. I think what we have observed on a positive side from that NPS reconfirms some of the belief that we had. Kenya is already on the top of financial inclusion. I think the Central Bank's ambition to make it even better is something that we applaud. Central Bank's desire to look at some of the unregulated and unstructured lending is something also quite credible, and we applaud that. We do believe in terms of the pricing principles and all that, it is something that we do. For us it is more of reconfirming what we do. I think the way we are opening up our M-PESA ecosystem to the broader base is very much in line with what NPS confirms. And merchant interoperability is a good starting point.

On EBIT guidance, Danesh, unfortunately I'm not able to provide you more than what I have spoken about. So, it's EBITDA breakeven that we are talking about. And we also provided guidance for FY23. So, I think we will stay within what we have already mentioned to you. Peter, you already addressed the mobile financial services license portion. Back to you, Caroline.

Caroline Wambugu

Thank you, Dilip. Thank you, Peter. There is a question here from Paul Robinson. This is to you, Peter. Regarding Kenya capex specifically, what is the longer-term outlook? Are you happy that you're spending enough capex in Kenya, or is there still room for some catch up to come?

Peter Ndegwa

Okay. On capex I'll ask Dilip to talk about the numbers. The way we look at capex is to say what are the areas of growth we need to get into. We will continue to support the connectivity business, especially voice from a maintenance perspective. On Data there is still quite a bit. We have now rolled out 4G everywhere. We keep

getting to congestion levels in certain sites which we keep pushing further. So, on the connectivity business there is still opportunity especially on the data side to continue to spend. I think the key is how do we expand in other areas that are new and require to power our growth. We have spent a lot of money. Morten is on the call, who is our CTIO. He can speak about some of the way we are investing in the IT infrastructure and capex on the M-PESA side but also to power the tech elements of our business.

But also starting to think about how we can partner with others in new areas that we are going into. You will also have seen we recruited a new Head of Business Development, Michael, who comes from a bank. The key is to make sure that we continue to fuel growth. That's one of the reasons why we believe that capex in Kenya should grow in line or slightly below the top line growth. So, we did give some forecast for FY23. Dilip, if you can remind the team, and also anything else that I've left. Morten feel free to talk about some of the key areas we're investing in.

Dilip Pal

Thank you. I think the way to look at capex which I spoke about, on absolute basis, after a long time we actually accelerated our capex in FY22 in line with our growth ambitions. Safaricom is a growth company, so we will ensure that capex is prioritised for the growth. That's why you've seen a 12% increase in the capex in FY22. But the other way to look at it is we're also extremely efficient in terms of our capex to sales. We are probably one of the benchmarks in terms of the telcos in terms of how the capex to sales is managed. We are about 13%. And this has been maintained over a long period of time.

As Peter mentioned, I think we touched it during our presentation, we have seriously looked at our capital allocation methodology principles on how we allocate. We know the slowdown in the connectivity business that still requires capex. But how do we ensure that we do the balancing in a way that allows us to invest in the new growth areas? This is our ambition. This is our new growth strategy, accelerating new growth areas, delivering superior customer experience in order to become a purpose-led technology company by 2025. So, our capex profile and capex spend is pretty much aligning to our ambition to become a purpose-led technology company by 2025. So, that's what I would say. We definitely ensure that the growth priorities and therefore also the balancing in a way to make sure that we still remain within the ballpark of capex to sales that we spoke about. I don't know, Morten, if you want to add anything.

Morten Bangsgaard

No, just to mention that obviously we are heavily increasing our fibre footprint. As we all know, that's capital intensive. We are doing it both from a consumer perspective but also from an enterprise perspective. On the mobile side, mobile continues having to increase, but we also acquired some spectrum last year which means we can roll out the mobile capacity more efficiently with additional spectrum. The final area is to continue to invest in our M-PESA ecosystem both in our core capacity but also building capabilities around our core M-PESA is the purpose for the growth this year.

Caroline Wambugu

Okay. Thank you very much, Peter, Dilip and Morten. Three questions here from Rohit Modi of Citi. Please could you give more colour on slowdown on M-PESA growth rate in H2? The second question: what kind of impact do

you see of merchant interoperability so far? And the third question from Rohit. Your medium-term/long-term guidance on Ethiopia could change if there is no third operator. I guess he is asking whether it would change if there is no third operator. I'll hand that over to you, Peter, maybe to start us off.

Peter Ndegwa

I think I should ask Dilip to talk through it, because I think you explained it during the presentation. And then the merchant interoperability, just based on the few weeks we've been in play, Sitoyo, if you can just give some texture on how we are doing.

Dilip Pal

Thank you, Peter. I think on M-PESA slowdown obviously the numbers would look that way, H1 versus H2, so that's really not a slowdown. If you recall, FY21 we had the free P2P less than KSh 1,000 till December. So, in our H1 we were having free fees, so the lapping effect which was showing higher growth. But in H2 we had three months of charging. We started in January. So, the way to look at it is, the overall growth momentum is still very strong by growth in volumes and values that I spoke about. The overall chargeable transactions per customer is very healthy and crossed 20. We have seen all-round growth not only in the traditional withdrawals and the deposits. That of course has grown, but we have seen the rest of the business, which we are calling the fintech ecosystem, also has grown significantly. So, I think the way to look at it is just taking that into account, that there were free fees in FY21. So, in the second half we had three months of charging. That's how it is impacting the second half of the performance. It's really not a slowdown. As I said, the health of the business is very strong.

Maybe I will finish the other question you had on the Ethiopia guidance, and then I will give it to Sitoyo to talk about the merchant interoperability. On guidance I think we do have a position as of now that we know the third operator issue of license is delayed. So, what we have given you as the medium-term outlook factors in that, that there is a delay in coming in. But this definitely also factors in that the third operator will come in at some point in time. Just to confirm that it doesn't change what we have already given you as the medium-term outlook, because we do consider the delay and that has been factored in. Thank you. Sitoyo, on the merchant interoperability.

Sitoyo Lopokoiyit

Thanks, Dilip. Thanks, Peter. Thanks, Rohit, for that question. I think for us it's very much in line with our strategy of being the merchant till being the universal acquirer. So, we're enabling third parties paying into the merchant till. And this is the strategy of money coming into the M-PESA ecosystem. So, the till will become the standard default till, and that's how we want it to be. And that means competitor wallet can pay into the merchant tills, meaning money coming to the ecosystem but also what I discussed earlier about what we're doing for merchants, what's right for the businesses.

The aim is to have one consolidated till that aggregates all the money. It's still very early days. Our market share is very large so we're seeing customers paying into the merchant tills, but the values are still very low. But we are still looking at pushing our strategy of opening other wallets to pay into M-PESA accounts. It's still a few weeks old, barely a few transactions coming into it but out of that we could say the average transaction is about

KShs 600 that we're seeing going through from the other wallets. And roughly about 8,000 merchants have received payments into it in terms of volumes, values and number of transactions. Thank you.

Peter Ndegwa

And probably what I should add colour to Sitoyo's point is it is still very early days from an awareness perspective. So, we know that Airtel and Telkom Kenya are going to drive a lot more awareness so that their customers know this exists. Sometimes when you hear the pressure on interoperability, when you open it up you don't find a lot of updates, which is interesting. But certainly with more awareness we will see penetration because our merchant base is close to 500,000. So that penetration of less than 10,000 is quite low at this stage. But it's still early stage, so I'm sure by the end of H1 of this financial year we should see some more momentum.

Caroline Wambugu

Okay. Thank you for that, Peter, Sitoyo and Dilip. More questions on M-PESA. This is to you, Sitoyo, from Benjamin Gitonga of NCBA. Do we expect resumption of charges for money transfer from and to banks? And you can also answer another one from Solomon Kariuki of AIB AXYS Africa. Please provide guidance on why KCB M-PESA and M-Shwari disbursements declined. Over to you, Sitoyo.

Sitoyo Lopokoiyit

Thank you for the question. When COVID measures were put into place we had the P2P of KSh 1,000 and below as well as bank to M-PESA and M-PESA to bank transactions zero rated. We've worked with central bank as the COVID relief measures are being reduced. We have seen the P2P come on board and we are working together with the central bank on what happens next with regards to bank to M-PESA and M-PESA to bank transactions. We are seeing financial institutions are advocate for it, and for us we are engaging the central bank. I cannot provide a timeline on it, but it is something we will engage with them with regards to resumption of fees.

Solomon, to your question on KCB and M-Shwari disbursements, this is also related to some of the COVID containment measures that the government had introduced with regard to not listing defaulters on the CRB. That had an impact, and the banks were tightening their disbursements with regards to this. We have seen a reversal of this, and I'm sure by the time we release the half year results you will be seeing a lot of growth in this area. So, its just banks being more conservative with regard to the listing on the CRB. But overall, even for M-Shwari we are still seeing continued customer growth, and we are working with them on enhancing limits as well as enhancing the population that actually accesses this credit facility. Thank you.

Caroline Wambugu

Thank you very much, Sitoyo. A question for you, Dilip from Ali Hussain from FIM Partners. The first question is an estimate of opex that we expect from Ethiopia in FY23. Then the second one is based on competitor analysis on Ethiopia, do you have a sense of what ARPUs are in Ethiopia and how they compare to our Kenyan business? Dilip.

Dilip Pal

Yes. I think the opex question I already answered in relation to the question that came in on what kind of opex profile we saw. What I have tried to give you is the type of opex that will come in FY23, which we don't have

now. It's mostly in terms of the network related cost, the site related cost, transmission, interconnect and all of those. We are not able to provide you with an estimate of that exact amount for opex, as I mentioned to you before. We don't guide on opex, as you will appreciate. On ARPU, yes, we do that. We do research. When we went to the that market there was a full study done in terms of the customer profile and the ARPUs they have, the products and services that the existing operators are offering. And based on that we put in our business plan, so it's part of the benchmark case for what made us prepare that business plan. I can confirm that to you.

But what you need to keep in mind is the full bouquet of digital services that customers in other markets' are experiencing, Ethiopia is still yet to get there. So, as much as we say that a sim is a connection, but the services you provide with that SIM is what is important. Our belief and our focus and our intention is to make sure that we're able to bring in those services, which will make the digital life of the Ethiopian customer much more enhanced than what it is today. We are also banking a lot on that.

Towards that we are building a brand-new network. If you ask the existing telcos' CTIOs – you have one on the call today, Morten – if you ask him what he would like, he would always say I wish I could do this, I could build it from day one, whether it is the IT stack, or it is the network. That is our great opportunity of getting the latest technology, getting the latest IT systems and processes to make sure that you get the best out of it. It's to do with the ARPU also because we need to find a way to make sure that customers are given this opportunity they are currently not enjoying. That is our intention and that is our belief. I think I addressed the two questions, Caroline.

Caroline Wambugu

Yes, you did, Dilip. Thank you very much. the next question – and this is for you, Peter – comes from Admire of Terra Partners. The question is; the regulatory issues keep coming up. What has been the latest on the move to split M-PESA from the mobile network business? And the second part is should Safaricom lose the MTR case, what is likely to be the impact in terms of loss of revenues? Peter.

Peter Ndegwa

Okay. Thank you. I wanted to add to what Dilip said on the ARPU in Ethiopia. Whilst not commenting on the specific ARPUs, one of the elements that we are starting to notice is as Ethiotel awaits our launch they have started being quite aggressive on pricing. So, we are starting to see downward pressure on pricing which will certainly affect where we place our pricing compared to what we had thought before. That we are watching. To Dilip's point about how we position our brand, value-add, quality of service and experience will be important, and also ensuring that we launch mobile money as quickly as possible. That would be a big differentiator in terms of customers.

Yes, from a regulatory perspective, for those who have been investors in Safaricom for a long time will know this has been an issue and it's not going to go away. The whole point about our size and whether we are dominant or not will continue to play. One of the elements that we always talk about is the impact that Safaricom and M-PESA has on Kenyans, customers but also society both in terms of financial inclusion for M-PESA, in terms of enabling business, but also just ensuring that we bring everyone into accessing the internet on the GSM side. There is a continued discussion within the senate and national assembly about dominance and so on. Clearly, we

continue to engage various stakeholders to ensure the narrative about our role is understood, and also that we don't abuse the size that we have.

In terms of MTR there's an immediate risk that showed up, as you know, at the end of December, beginning of January. The process was actually not followed. MTR is a normal thing. Mobile termination rates are changed. Usually, you would go through a network cost study and then eventually a process of engaging the players and then eventually fix the MTR rate. And that's one of the reasons why we went to the tribunal. I won't comment too much on what will happen after the tribunal hearing. We hope that we can find a way that allows the industry to operate with the right MTRs that are based on where the costs are. But also, we worked on scenarios that anticipate various outcomes. But until we go through the tribunal case, we do not want to go into what those scenarios are.

But we continue to engage various stakeholders including the Communication Authority as to how to navigate our way out of the current situation. If we could agree on a position, that would be great. But I don't want to speculate about how much it would be. I would rather if there was a direction that was given then we will do a proper briefing of investors. Clearly you can work through the impact if it went to an extreme of 12 cents. Usually, it's not just flows of exchange of value between the MNOs. It is usually the impact on pricing, and that depends on how aggressive the various players want it to be. So, there are still a lot of moving parts, and we hope that the tribunal case can be concluded in a way that benefits the whole industry. Dilip, any comment you might want to have on that? Yes, I should have said that we have not included any impact of the MTR in the guidance because if we did, we would be speculating, and we would be anticipating how the tribunal matter will be arbitrated.

Dilip Pal

Nothing more to add. I just wanted to say what you've just mentioned. I mentioned during the opening remarks that MTR is not factored in our FY23 guidance. You already mentioned it. Thank you. Caroline.

Caroline Wambugu

All right. Thanks for that, Peter and Dilip. Peter, another follow-up question here from Silha of EFG. He says that in the presentation there was mention of M&A as part of group outlook. Could you please give us a sense of where you see opportunities for inorganic growth?

Peter Ndegwa

We have said during the presentation that our mission this year is to accelerate new growth areas. And growth areas don't necessarily mean completely new growth areas. It means that even expanding existing areas beyond what we are doing. So, content within connectivity, fibre, as Morten said there is a lot of opportunity there. We are only at 200,000 homes. We believe there is anywhere between 750,000 and a million. So, there is quite a lot of opportunity to expand to provide fixed wireless. On the M-PESA side we are going into areas that we are less familiar with, wealth management, insurance and those with new partnerships. And we need licenses in those areas for us to operate, but we need regulatory approval if we were to go for any licenses.

And then on the enterprise side the IoT, ICT, managed services, there may be opportunities to go for partners or acquire specialists in some of those areas. So, we are in an exploratory phase, but it is to push the boundaries in terms of expanding participation between our core business and connectivity and payments business in M-PESA. And that's one of the reasons why we've recruited Michael with the experience in deals and also structuring so that he can support the business to make sure that should we have opportunities for inorganic we have the skills internally to be able to execute those.

Caroline Wambugu

Okay. Thank you very much, Peter. Dilip, there are follow-up questions here on EBIT. Maybe you could help give more colour. Two from Tracy of SBG Securities. The question is why is FY23 EBIT guidance for Kenya business much lower than FY22? The second question is to clarify on the same EBIT guidance. Do we actually imply a growth rate of 8% for FY23? And the third one is on guidance from Shritesh. Please can you talk us through your 2023 guidance and what assumptions have been made on voice, data and M-PESA specifically for Kenya, and what is the cost outlook?

Dilip Pal

Okay. Thank you. Tracy, I think you asked the question, your second question answers the first question, what is therein. I think you have a way of calculating the growth. I'm sure what you have done gives you a figure of 8% that you have mentioned about. I think if you look at what we are talking about here, based on the service revenue profile and the cost structure that we have we come to a point where we need to guide you. And that's how we do it every year. So, I won't say this is low or high. I will say that this is our management estimate. This is our management view about what we see on a steady state absolute EBIT number in the range that we have spoken about. That's where I will leave it. I don't want to comment on low or high. This is the management conviction at this point in time.

Shritesh, I think the way to look at the guidance, which I think Peter has actually taken you through in the presentation as well, the guidance has two parts as we have started from FY22. One is the Safaricom Kenya core business, and then Ethiopia because we consolidate our Ethiopia business fully. For Ethiopia what does our consolidated number look like? In terms of what we guide, that has not changed. We still guide on EBIT. We still guide on capex. Now, just to unpack those numbers, for Safaricom Kenya we are guiding an EBIT range of KSh 120 to KSh 123 million. And a capex of KShs 40 billion to KShs 43 billion.

And then we are guiding group consolidated including Ethiopia EBIT which of course goes down because Ethiopia will have losses. It goes down to KSh 87 billion to KSh 93 billion. And the capex of KSh 100 billion to KSh 108 billion, implying there on consolidated numbers roughly an EBIT range of KSh 30 billion to KSh 33 billion EBIT loss for Ethiopia and about KSh 60 billion to KSh 65 billion capex for Ethiopia. That's how to read through and unpack the guidance number. You may have seen a similar way of guiding our FY22 numbers. Peter spoke about how we have performed in FY22 on similar lines.

Now, on the question on revenue and cost profile, I think without giving very specific numbers you have seen our growth momentum in some of our focus areas, which is mobile data, which has really shifted pretty well in the second half and most importantly in Q4. We believe that's something that will continue with mobile data.

We are very confident about delivering growth momentum that we see. M-PESA, Sitoyo explained how we are looking at the two-sided network, one on the consumer lifestyle and then on the business side. There is huge opportunity. If you see our presentation in our slides, we have spoken about where we are today and where we see the big opportunity. That's still there.

We started our super app, and that has done quite well in FY22 in terms of the downloads, the active customers and what they are doing even when they started using the app. And we have spoken about attraction of the customers in terms of the improvement in ARPU, in terms of the days of usage, and also chargeable transactions per customer, even the customers who are using the app. And the business side is actually even more encouraging as we have seen from the results. Fixed fibre, as Peter mentioned, continues to be our growth area. That's something that Morten also mentioned we are accelerating even faster in FY23, which means we can sustain a good momentum in our fibre growth as well.

And in addition, you probably have noticed a slide that we added this time around some areas which are small but a growth profile which is very encouraging, for example our IoT business, our ICT business, the cloud and security, and also our content business. I think these are growing quite well on a small base. So, we will continue to provide more input on those areas as part of our accelerating new growth areas. That's the background. In terms of cost profile, we don't see a big shift. We are a mature organisation in terms of what we do, and we continue to drive efficiency.

In fact, in FY22 also we have delivered KSh 4.3 billion productivity savings. And of course, we also keep talking about that we reinvest. We reinvest in areas that we believe will give us benefits and growth opportunities in future. So that's what we continue to do. I think that's where I will leave it at in terms of the growth profile. Sorry, just to mention, we do believe that voice and messaging will continue to be under pressure as we are accelerating mobile data growth, and that will not change in the near term. Back to you. Have I answered all, or is there still more?

Caroline Wambugu

You have answered all on the guidance, and thanks for the clarity, Dilip. A follow-up question from Tracy of SBG Securities. This I will direct to you, Peter. Please also give more colour on the deployment of Visa card for M-PESA usage in country. And you can tackle that together with a question from Tracy again. What impact will the central bank digital currency have on M-PESA's future? Over to you, Peter.

Peter Ndegwa

Thanks, Caroline. I think on the Visa one, given that we have not launched, it's very good news now that it has been approved. And Sitoyo can talk about our plans for launch, but also the context around digital currency, even the regulatory component. Sitoyo, do you want to go through that?

Sitoyo Lopokoiyit

Thanks Peter. Thanks, Tracy, for those two questions. I think for the first one in regard to the Visa virtual card, it's not for domestic use. Actually, the strategy is to open up e-commerce and opportunities for Kenyans to buy products and services online, whether it's Amazon, Netflix and so on and so forth. So, it makes it much easier to

do that. We are looking at launching it sometime next month, and we're excited about the possibilities of what else we will do with the virtual card. If I travel to London, as an example, I will be able to pay my shopping with the virtual card by using the Visa rail. So, it's more about expanding the global opportunities for Kenyans.

With regard to central bank digital currency, this is a new development globally. I think very few central banks have implemented it. Central Bank of Nigeria rolled it out. For Kenya they are investigating it. They are looking for feedback from people on it. I think if you take what the Central Bank of Kenya governor says, it is what problems are they trying to solve. And if you go with that, if there is a need for central bank digital currency from that perspective, then for us we will be able to look at it and see how we can optimise and take advantage of it. At the moment we have a stronger focus on growing the digital ecosystem and we will be looking at what central bank does and engaging with them with regard to what the next steps will be. I think it's still very early for central bank digital currency anyway. Thank you.

Caroline Wambugu

Thank you very much, Sitoyo. We are almost coming to the end of this session. Just a few minutes to go. We do have about two or three questions to complete the session. The question from Maureen Kirigua of Kestrel Capital is on spectrum. There were reports that Safaricom Kenya was granted 60 MHz spectrum in the 2600 MHz frequency band by the CA. Can we confirm this, and how much was paid for the spectrum? Would that be to you, Peter?

Peter Ndegwa

I'm happy to answer the question. So, the answer to the question is the CA has been considering how to issue 5G spectrum, which 2600 is one of them. And so, it's running a process that will allow it to do that. We are going to participate in that process. It's not yet concluded, so at this stage we cannot confirm any allocation or payments that have been made until that process is complete. But to say clearly, we are interested to make sure that we secure spectrum that allows us to be able to expand participation in 5G, and 2600 is a very attractive spectrum.

Caroline Wambugu

All right. Thank you, Peter. More questions here from Eric. Eric is asking, are there plans for growth beyond Ethiopia or Kenya, or perhaps buying one of the banks in Kenya to expand coverage? Are these areas you are considering as opportunities for growth? As you answer that one, Peter, you can also answer this last question from Solomon Kariuki of AIB. Do you foresee any inflationary effects given the current rising inflation on data and voice consumption? Peter, over to you.

Peter Ndegwa

So, on potential acquisitions, especially on the financial services area, they are quite sensitive because of the regulatory implications for us. Of course, as Sitoyo has said, we are expanding our participation into areas that we are not in. That will require either a license or continued partnership with financial institutions. To the extent that a potential target comes into play, we will let you know. But at this stage we do not have one on the table. But clearly, we are ensuring that we have the skills that are necessary in the future. And we are keeping very close to the central bank in terms of what we would be allowed to do, because also we need to make sure that

even as we enter into these areas, we are not considered too big and too dominant, so to say. So, we have to be sensitive about the regulatory implications of participation into those areas in an inorganic way. So, whatever we do would have to benefit customers and Kenyans, not just purely benefit our business.

In terms of expanding beyond Kenya, let us get Ethiopia right first. We have enough on our hands as far as Ethiopia is concerned. We are really looking forward to a successful commercial launch this year. Once we launch, the business will gain a lot of momentum like all telcos do, because it will fuel itself in terms of additional sites, additional dealers and so on. And we believe that will require a lot of focus from our perspective.

In terms of the M-PESA side, remember we have M-PESA Africa which Sitoyo leads. There is an opportunity with respect to financial services beyond Kenya in the markets that Vodacom is in. M-PESA Africa would lead that. But for now, we are focussing primarily on ensuring we get the tech right in the M-PESA Africa markets so far, but also the product creation and launch right, rather than going into new markets. And also, it's problematic generally if you do not have a GSM business to really be able to establish really credible financial services. But that doesn't mean it can't be done through partnerships. But at the moment we want to optimise existing markets first, get the tech right, and eventually be able to expand beyond that. M-PESA Africa is also supporting what we are doing in Ethiopia with respect to getting mobile financial services off the ground.

Caroline Wambugu

Thank you very much, Peter. I see we have another question here, but I think in the interests of time we will endeavour to answer that offline.

Peter Ndegwa

You can ask that one.

Caroline Wambugu

All right. This is a question from Lisa Kimathi of SIB. If a mobile money license is issued in Ethiopia this year, would that change the breakeven timeline?

Peter Ndegwa

Not really, because by the time we did the business plan we had already factored in that the Prime Minister had already announced last year in May that within one year they would allow foreign operators to operate mobile money. And also, there are some trade-offs between the launch of the GSM business and the fact that we only have two players versus three, because there are benefits and risks of those considerations. But we have already factored in that mobile financial services would come earlier.

Caroline Wambugu

Okay. Thank you for that, Peter. Thank you, Dilip. Thank you, leaders, for the engagement. Thank you, investors, for the questions. In the event that you missed any part of the discussions today, we shall have the transcript loaded onto our website from next week. And of course, we will have continuous engagement as we kick off our

road shows from next week. So, let me now hand back to Peter for closing remarks as we close the session. Peter, over to you.

Peter Ndegwa

Thank you, Caroline, and thank you team, Dilip, Sitoyo, Morten and the rest of the team. Just reiterate that we believe we've had a strong year in Kenya, strong momentum in terms of growth. We feel that the recovery path is evident, and the commercial execution momentum is showing up. We do have some risks that we are managing, especially on the regulatory side. But of course, a big one, not from a risk perspective but in terms of business expansion, is to make sure we have a successful commercial launch in Ethiopia.

I know we don't have as much information as we should. We believe by when we do the investor presentation at the half year, we should be able to provide a lot more clarity on Ethiopia because most of the milestones will be well in play. Hopefully bear with us in terms of our ability to be able to guide you better for the year. And then secondly, also, if we do get any significant development on the MTR side, we will be able to call a session with you to be able to tell you how that will impact the business. So, for now, I hope you found this useful. If there is anything else, please reach out to the team. Have a great remaining part of the day. Thank you very much.

Caroline

Thank you, Peter. Now I hand back the session back to Zuri. Have a good day.

Zuri

Thank you to all who joined this call, and we wish you a good day ahead.
Twende Tukiuke {Lets Go Beyond}

END OF TRANSCRIPT