

SAFARICOM TELECOMMUNICATIONS ETHIOPIA PLC (STE)

Quarterly Update- 1 April 2023 to 30 June 2023

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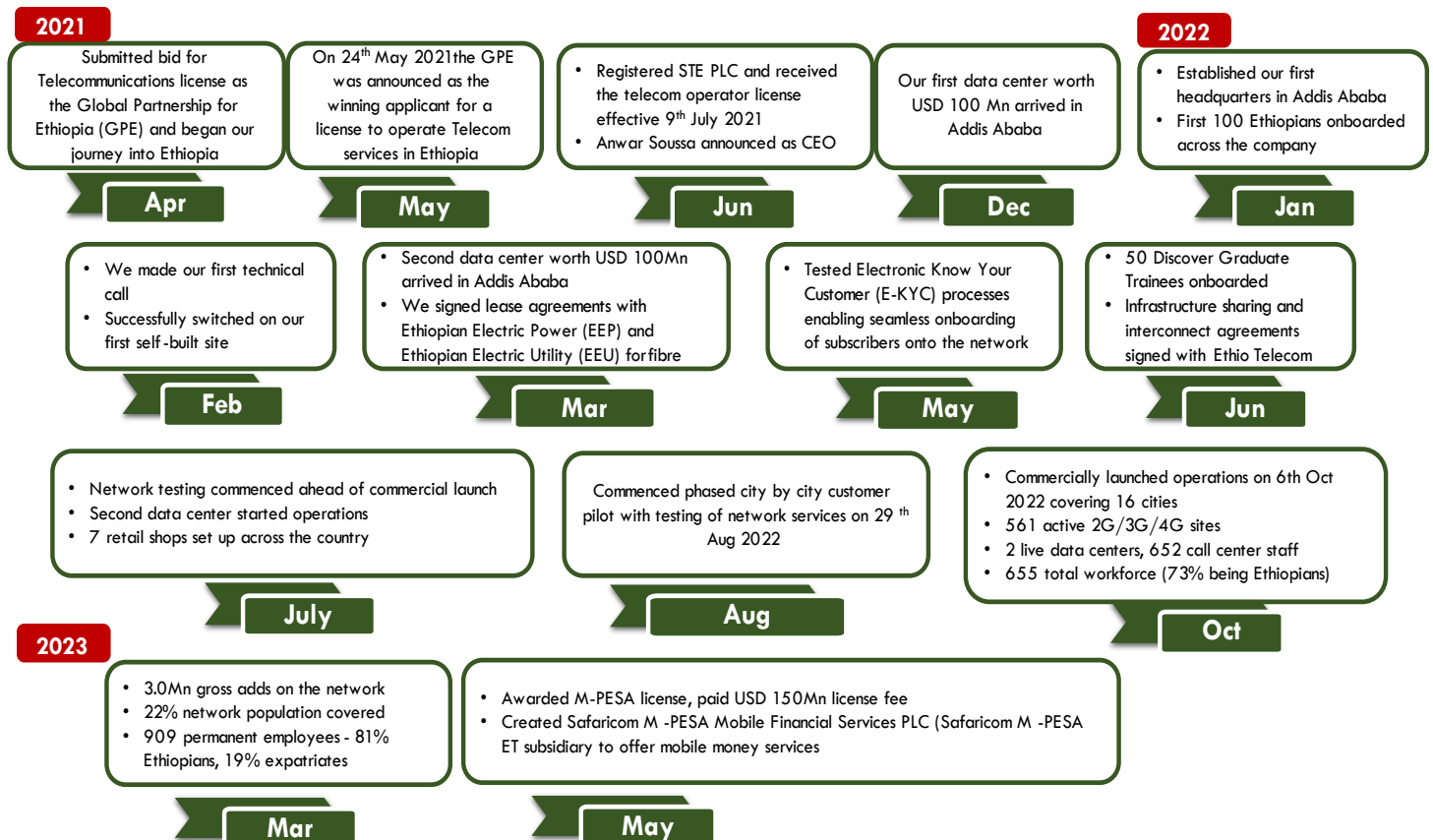


Safaricom Plc, Chief Executive Officer, Peter Ndegwa - Overview

We are pleased to share with you this inaugural quarterly update on the progress made so far on our operations in Ethiopia. Since the commercial launch in October 2022, our brand has become visible, deeply rooted in Ethiopia and is quickly becoming the fabric of the society. We are optimistic of the potential for Ethiopia, and we remain committed to fast tracking network roll out to the rest of the country.

Commercial momentum is gaining pace in the nine (9) months we have been in operations recording 4.5Mn gross customer additions since launch. We have seen very encouraging usage levels in mobile data and voice, levels seen in Kenya after close to 10 years of operations. The average minutes of use per subscriber for the first quarter ended 30 June 2023 has grown from 55.4 minutes as of 31 Mar 2023 to 70 minutes. Average data usage per user has grown from 1.5GB per chargeable customer as at end of FY23 to 2.0GB as at end of quarter one.

Our commitment to enhancing mobile connectivity services and introducing mobile money in Ethiopia to drive financial inclusion in a country of over 110 million people remains on course. We have received great support from the regulators in Ethiopia, the citizens of Ethiopia and the customers we have onboarded thus far, and we are keen to continue introducing cutting edge technology services to drive digital financial inclusion to the promising economy of Ethiopia.

Evolution of our journey in Ethiopia

Executive Leadership Changes



Anwar Soussa, Chief Executive Officer of Safaricom Telecommunications Ethiopia (STE) PLC, will be leaving the business effective 31st July 2023 once his secondment comes to an end. Anwar joined Safaricom Ethiopia in August 2021 to lead the establishment of the organisation, set-up business operations and roll out a high-quality network. As the first CEO of Safaricom Ethiopia, Anwar has overseen attainment of significant milestones in a highly dynamic environment, including onboarding the team and successfully launching commercial operations of the second telecommunications operator in Ethiopia. Under Anwar's leadership, Safaricom Ethiopia also secured a mobile financial services license, paving the way for the launch of M-PESA services.

Anwar has steered Safaricom Ethiopia to acquire over 4 million customers, with the network now covering more than 25% of the population and spread across 50 cities/towns.



Wim Vanhelleputte has been appointed as the Chief Executive Officer of Safaricom Telecommunications Ethiopia PLC effective 1st September 2023. Wim brings extensive leadership experience and deep industry knowledge, having worked in the telecommunications industry across multiple markets in sub-Saharan Africa for over 25 years.

He joins Safaricom Ethiopia from MTN Group, where he was the Operations Executive – Markets since August 2022 and he was responsible for the performance and governance of four operating companies in West and Central Africa. Immediately before this, he served as the Chief Executive Officer of MTN Uganda, a role he held from 2016.

We extend a warm welcome to Wim and thank Anwar for his contribution as the first CEO of Safaricom Ethiopia.

Macro and political environment update

We are encouraged by progress the Ethiopian economy is making despite the global shocks affecting many markets across the world. Like many other economies in emerging and frontier markets, the economy in Ethiopia remains promising with significant business opportunities for growth.

According to the World Bank Group, multiple conflicts combined with historic drought and other shocks have slowed down economic and social development progress of the country. However, they project a GDP growth of 3.1% in 2023 a slight drop from 3.6% in 2022. The annual inflation rate eased to 29.3% in June 2023, the lowest reading since July 2021. The ETB/USD rate by end of June stood at 54.59, which is a 1.3% devaluation in the quarter from end of March at ETB 53.90. We are hopeful that the government's efforts to financial liberalization will continue to bear fruit as the economy opens up to support mobile money and the banking sectors.

The Northern Ethiopia region, Tigray, has greatly stabilized and it's encouraging to see the peace restoration talks bear fruits. The region has opened up and commercial flights have been operational along with basic services such as banking & Telecom. We continue to monitor the security situation as we roll out our network prioritizing the safety of our staff and vendors.

Commercial & technical readiness to launch M-PESA in Ethiopia

Safaricom M-PESA Mobile Financial Services PLC, (Safaricom M-PESA ET) was incorporated specifically to deliver and provide mobile financial services in Ethiopia. On 10th May 2023, the National Bank of Ethiopia (NBE) granted the payment instrument issuer license to the Safaricom M-PESA Mobile Financial Services PLC (Safaricom M-PESA ET) upon fulfilling the set conditions i.e., incorporation of the subsidiary, proof of payment of USD 150M for the investment protection fee and the paid-up capital of ETB 50M. The license allows the Safaricom M-PESA ET to issue payment instruments and use of agents in its mobile money business. Safaricom M-PESA ET is a wholly owned subsidiary of Safaricom Telecommunications Ethiopia PLC, apart from a nominal share held by the Consortium holding company, Global Partnership of Ethiopia BV.

We are on course with our commercial and technical preparations for commercial launch of M-PESA in Ethiopia in Q2 FY24. We switched on our M-PESA systems on 22nd May 2023 and kicked off testing of the system readiness and functionality with Safaricom Ethiopia staff. The key objectives during the testing phase were to test end to end system readiness, product functionality, call centre preparedness and end-to-end onboarding and product journeys for our customers, agents, and merchants. We have successfully tested all the products and services for launch on USSD and consumer and business app channels.

We have onboarded and contracted master agents and the process of recruiting M-PESA agents across the country is ongoing. We are also in the process of finalizing partnership agreements with local banks who will offer retail and super agency services in addition to mobile banking services to M-PESA customers and agents. Piloting of the M-PESA system had undergone end-to-end system readiness testing with Safaricom Ethiopia staff.

We are very pleased with the optimism that M-PESA has evoked in the youthful population of Ethiopia, and we look forward with great excitement to the transformation M-PESA will bring to financial inclusion in Ethiopia.

IFC & MIGA Partnership with GPE

Through a partnership with International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), the Global Partnership for Ethiopia BV (GPE) Consortium, comprised of Safaricom PLC, Vodafone, Vodacom, Sumitomo, and British International Investment (BII), has received support for a full equity, debt, and insurance package to drive digital connectivity in Ethiopia.

IFC will make a USD 157.4 million in equity investment into GPE and a USD 100 million A-loan to its wholly owned subsidiary, Safaricom Telecommunications Ethiopia PLC (STE). Following this transaction, IFC will hold a 7.25% equity stake in GPE, while Safaricom PLC remains the majority shareholder at 51.67%.

With IFC's equity investment, the new shareholding structure will be as shown in the table below.

SHAREHOLDING STRUCTURE FOR STE		
	Before	After
Safaricom Plc	55.71%	51.67%
Vodacom	6.19%	5.74%
Sumitomo	27.20%	25.23%
British International Investment (BII)	10.90%	10.11%
IFC	0.00%	7.25%
TOTAL	100.00%	100.00%

Funding of Safaricom Ethiopia

Safaricom Ethiopia continues to be funded through shareholder equity, vendor financing and third party borrowings. Shareholders of GPE had contributed USD 1,497Mn by June 2023, in proportion to their shareholding; this funding includes the license fee of USD 850Mn. Safaricom PLC's contribution amounts to USD 834Mn, which was partly funded through a USD 400Mn loan borrowed from a consortium of local and international banks during FY22.

Below is a summary of the contributions made by all shareholders to date excluding license fees of USD 850Mn which was paid directly to the Government of Ethiopia.

USD Mn	Q1 FY24	FY23	FY22
GPE shareholders funding excluding the USD 850Mn license fees	259	269	119

The operating entity has also borrowed from the local market and is leveraged as below at varying interest rates. Also included in the table below are the closing outstanding amounts for the periods under the vendor financing agreements.

KES Bn	Q1 FY24	FY23	FY22
Local Debt	0.55	12.81	0.00
Vendor Financing	30.89	26.16	0.52

**Conversion of ETB to KShs is done at a closing exchange rate of 1ETB to KShs at 2.5625 for Q1 FY24, 2.4459 for FY23 and 2.2443 for FY22.*

Sites rollout

As of 30th June 2023, we had launched 1,700 base stations (1,041 own built & 659 collocated) in 22 cities and other 49 large and medium towns. This represents 25% coverage. Our focus now is to densify connectivity to continue enhancing quality of connectivity as we create a contiguous network. Our FY24 CAPEX guidance of KShs 40 – 45Bn remains unchanged. We are on track to achieve our targeted 3,000 sites by end of FY24.

Financial/Non-financial update for Safaricom Ethiopia

1. Key Performance Indicators (KPIs)

Key Performance Indicators	Q1 FY24	FY23
90-day active customers	2.74	2.14
90-day active total customer ARPU	82.67	62.56
One month active customers (Mn)	1.93	1.44
One month active customer ARPU	118.98	78.02
Voice		
90-day active total customers (Mn)	2.49	1.96
One month active voice customers (Mn)	1.72	1.24
One month active voice customer ARPU*	35.98	21.33
Mobile Data		
90-day active total customers (Mn)	1.73	1.43
One month active mobile data customers (Mn)	1.21	0.92
One month active chargeable mobile data customers (Mn)	1.21	0.92
One month active chargeable data ARPU*	117.86	76.19
Messaging		
90-day active total customers (Mn)	1.00	0.68
One month active Messaging customers (Mn)	0.67	0.37
Base Stations		
2G/3G/4G base stations	1,700	1,272
Population coverage	25%	22%

*Average revenue per user (ARPU) is in KShs excluding hyperinflationary impact. Conversion of ETB to KShs is done at an average exchange rate of KShs 2.5545 to ETB.

2. Total Revenue

The breakdown of unaudited total revenues for Q1 FY24 are as shown below and are not prepared on IAS 29 basis- which caters for hyperinflationary economies. This is for information purposes only. FY23 audited numbers remain as were previously reported.

KShs Mns	Safaricom Ethiopia Q1 FY24	Safaricom Ethiopia FY23
Voice Revenue	152.1	135.8
Messaging Revenue	2.6	3.9
Mobile Data Revenue	361.3	356.5
Mobile Incoming Revenue	60.1	66.2
Other Mobile Service Revenue	1.4	0.0
Service Revenue	577.6	562.4
Handset revenue and other revenue	397.1	676.6
Other Income	0.0	595.5
Total Revenue	974.7	1,834.5

*Conversion of ETB to KShs at an average exchange rate of KShs to ETB of 2.5545 for Q1 FY24 and 2.335 for FY23.