Conference Call Transcript

24 July 2014

QUARTERLY UPDATE

Operator

Good afternoon, ladies and gentlemen, welcome to the Vodacom Group Ltd quarterly update conference call for the period ended 30th June 2014. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel Joosub.

This quarterly update for Vodacom Group Ltd for the period ended 30th June 2014 contains forward-looking statements with respect to the group's financial position, results of operations and businesses and certain of the group's plans and objectives.

In particular such forward-looking statements include statements relating to the group's future performance, future capital expenditures, acquisitions, divestitures, expenses, revenues, financial conditions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the group's businesses by governments in the countries in which it operates, the group's expectations as to the launch and rollout dates of products, services or technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the quarterly update it is available on the investor relations section on the website which is www.vodacom.com. There will be an opportunity for you to ask questions today. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please note that this conference is being recorded. At this time I would like to hand the conference over to Vodacom Group CEO, Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon and good morning to those in US. Welcome to the Vodacom quarterly update conference call for the period ended 30th June 2014. I am joined by our CFO, Ivan Dittrich, and our Group Executive of Investor Relations, TC Ralebitso. Please be aware that today's session is an update for our revenue performance and customer indictors for the quarter only.

Before I go into detail I would like to highlight that we have had steep MTR cuts and even weaker than expected economic growth in South Africa in addition to intensified competition in all our key markets. These factors restricted revenue growth in the quarter, but we continued to execute well on our areas of strategic focus. Data growth remains strong and we increased the contribution of the international businesses including M-Pesa to the group.

Here are some of our highlights at the group level. Service revenue increased 1.8% to R14.9 billion, up 5% if we exclude the cut in the MTR rate. Our data revenue increased 23.2% to R3.6 billion. Data is now 24% of service revenue. Our revenue increased 4.3% to R18.3 billion or 2.7% if we look at constant currency. And this was supported by a 17% growth in our equipment revenues.

Our active customer growth was quite pleasing. It grew 15.6% to 59.6 million. And our active data customers grew 36.7% to 25.3 million. Importantly, 42.4% of our group customers are now using data.

In South Africa our service revenue declined 2% due to the MTR cuts. If we exclude the impact of MTR service revenue grew 2%. International service revenue is up 17.3% supported by a strong growth in customers and in M-Pesa. In constant currency it is up 7.8%.

If we take a look at the two reporting segments separately, in South Africa our service revenue growth was impacted in a 50% cut in the mobile termination rate, which includes 120% asymmetry and also the intensified competition that we experienced. We did see a dramatic reaction to pricing by MTN in the quarter.

Service revenue declined 2% mainly due to a 44% reduction in interconnect revenue. So although MTRs came down 50% we did see an increase in volumes, and therefore the impact landed up being a 44% reduction in the interconnect revenue.

Excluding the impact of MTR our service revenue grew 2%. The growth reflects the success of our pricing transformation strategy. The appeal of our integrated plans in the prepaid bundles is reflected in our active customer numbers. We attracted 996,000 new customers in the quarter to reach 32.5 million customers, a growth of 11%.

Secondly to our pricing strategy we reduced the blended effective price per minute by 25.3% to 68 cents. This further stimulated usage, increasing outgoing traffic by 26.1% and showing a good elasticity.

If we look at the prepaid customer segment revenue is up 3%. The lower price point and the lower effective pricing of our bundles increased our resilience against price cuts by our competitors and the economic pressures faced by our customers. We attracted over 6 million unique bundle users selling more than 40 million bundles per month.

If you look at our contract customer revenue it declined by 2% as we continued to move our customers to move to integrated plans. Encouraging is that 63% of our voice customer base is now on our new integrated plans compared to 35% a year ago. We have also reduced churn to 10.8%, the lowest churn in two years, and our ambition is to reduce this even further.

Additionally, 68% of our contract customer revenue is now in bundle, in line with our strategy to provide a worry-free experience to our customers, which also protects against the over-the-top players. As a result our contract ARPU declined 3.9% to R372. The underlying ARPU declined 2.2% if we exclude interconnect.

Our handset sales continue to boost our revenue growth. Our revenue growth in South Africa grew 1.7% supported by a 16.9% growth in equipment revenue which now constitutes 21.4% of revenue from 18.6% a year ago. The strong growth in equipment revenue is underpinned by our handset financing programme to support our data growth strategy.

Our data revenue continues to offset voice revenue decline. It is now a quarter of our service revenue. Data revenue grew by 18.4% driven by data traffic growth of 70%. We added 1.8 million active data customers in the quarter to close the quarter on 17 million customers using data, which is now 52.2% of our active customers.

We also continued to drive down the effective price per MB by increasing the data allocated in our bundles. This has increased usage, but it has also led to a 5 percentage points basis reduction in our out of bundle spend. We have laid a strong foundation for further growth in data. The number of active smartphones and tablet in our network grew 19.3% to 8 million devices and the average usage increased to 312 MB and 848 MB per device respectively. That is for smartphones and for tablets. This is a growth of 44.5% for smartphones and 28.5% for tablets.

If we move on to our international business we have maintained strong customer growth, higher voice and data usage and wider M-Pesa adoption. Service revenue grew 17.3% boosted by forex to increase the international segment's contribution to 23.4% of group service revenue. We achieved underlying growth of 7.8% despite the continued intensified competition in our key markets. In Tanzania, for example, service revenue grew by single digit numbers.

Our strategy of offering more value to customers through bundles attracted 1.1 million new customers in the quarter to increase our base to 21.7 million, an increase of 21.7%. Our minutes of use also grew by 26.3%. Our mobile data grew by 51.1% or 69.5% if we exclude M-Pesa, reflecting strong demand for mobile data services in all our markets. This was supported by the increase of 69.5% in active data customers to 8.3 million customers. 30.7% of our international customers are now using data.

We have continued the momentum with M-Pesa, especially in the well developed Tanzania market where it contributed 21.3% of service revenue. Overall M-Pesa revenue grew 33.9% driven by a strong rise in the number and value of transactions processed as we continue to build the ecosystem. We also achieved 27% increase in M-Pesa users to 6.6 million across the group. The growth in the number of M-Pesa users in the markets where we recently launched is on track with our Tanzanian experience. Nearly 50% of our new M-Pesa customers are now from the DRC, Lesotho and Mozambique.

In conclusion I would like to give you some update on our capex programme and pending transactions. We are on track with our accelerated capex programme. In terms of our rollout plan we are ahead of our internal targets. It is important to note that this year is the start of our investment phase, so we do not expect material incremental revenue and margin improvements during this financial year.

On Nashua we submitted our application to the Competition Commission in the quarter. We expect the process to be finalised by the second half of this financial year. On Neotel we have made all submissions for approval of the proposed transaction to the regular, ICASA, and the Competition Commission and we await feedback on the Neotel submission.

I will now hand back to the operator to assist with any questions you may have.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one on your touchtone phone. If you then decide to withdraw your question please press star and then two. Our first question comes from JP Davids of Barclays. Please go ahead.

JP Davids

Good afternoon. Two questions please. Firstly on your contract churn. Can you give a bit more colour on what you think the outlook is here, particularly in light of a growing divergence between prepaid and contract hybrid pricing? I.e. it is a lot cheaper to make voice calls on prepaid. The second question is on M-Pesa and around interoperability. Your competitors, guys like Millicom, are saying this is a game changer and the way the industry needs to move. Can you provide your thoughts on interoperability and whether you think it is going to be a market disruptor in Tanzania and what your view is on it? Thanks.

Shameel Joosub
Okay. JP, we start with the churn question. We would like to see it come down below 10% and we are working aggressively towards that. But one is quite pleased with the current result. If we are able to bring it down a few more points then that would be great. But I think we are targeting to get to below 10%.

On the second question on interoperability I think we are working with the different parties to ensure interoperability on M-Pesa. We don't see it as limiting us in any way. Basically I think what we will find is it just gives us more access to a bigger customer base if you like.

JP Davids
Sorry, just two quick follow-ups there. On the contract side specifically you don't see any risk at the moment of guys spinning down from contract hybrid to prepaid? And then just a follow-up on interoperability. Can I confirm that you are planning to make yourself an interoperable operator in Tanzania? It's just a question of time.

Shameel Joosub
Yes we are. Obviously within certain rules and so on, which we are still negotiating. And on the contract and prepaid one has to realise that contract is very much based on subsidy. That's the first thing. If you take your levels of subsidy out then your prices are much lower on contract. The second thing that we've done and why we are convinced that t won't have a big impact is basically we've allowed our hybrid plan access to all the prepaid promotions. So whether it is your time-based bundles and those types of things, Power Hour, all these things can be accessed on contract via a hybrid plan.

JP Davids
Thank you.

Operator
Our next question comes from Chris Grundberg of UBS. Please go ahead.

Chris Grundberg
Thanks very much. Just a couple of quick ones. I wondered if you could give some indication of what you think from here your sustainable data growth is for the next two to three years. I wondered if you could give an update on what you think it would look like, and if you could break it out by what volumes and pricing would be doing. And then a second one on the SA MTR process. Clearly we're waiting to hear any update there on what ICASA are doing. I wonder if you could give some views on what you are expecting and what the timeline would be there. Thanks.

Ivan Dittrich
Chris, just on the data side our sustainable data revenue growth rate over the mid-term should be north of 20%. So there is no change in the expectations there. And on the ICASA matter at this stage they have all the material information from us to construct a bottom up model, a top down model and an asymmetrical rate. And we are waiting the draft regulations from ICASA and all further consultation if there is going to be any.

Shameel Joosub
And then just to comment on the data strategy and why we think we can sustain it, effectively if we look at where we are standing today 52% of our customers are using data. So there is still a lot of room to go. And there are 17 million customers using data. Of those 17 million customers only 8 million have proper data-capable devices. So what we are doing is obviously pushing more data-capable devices into people's hands. As we convert and continue to grow the amount of smartphones we are also able to escalate the market data. So data traffic is currently increasing by about 80%. And we think we will be able to sustain data traffic growth in the 80% plus category for the foreseeable future. There is still a lot of growth left from the perspective that if we look at our numbers and compare to Europe the numbers we are achieving are quite impressive but still almost half of what Europe is achieving.

Chris Grundberg
That's really helpful. Just to confirm though, just on the ICASA point, do you have any sense on the timeframe for that? Have they given you any indication of when they expect to give you a publication of the draft or any consultation period?

Shameel Joosub
No. Having said that they've got to complete the process by September. As Ivan mentioned they are taking different approaches. There has been a drop down approach where effectively they are looking at higher levels to try and justify some of the rates. They have got all the details from us that they required. And then a benchmarking exercise as well. So there are three different levels of benchmarking that they are doing. They have to complete the exercise by September, failing which they have got to either approach the court for an extension or convince all the parties to it that we are okay to extend the matter.

Look, I think what we will find is that they will be working to justify the 20 cents. That would be the one side. And I think to be frank from the numbers that we're looking at we don't think that the future declines will be dramatic, purely because if we look at the impact of MTRs on our numbers now this current cut would only constitute 3.5% of our revenues. So you can to a large degree say this big drop has taken the sting out of the tail if you like.

Chris Grundberg
That's really helpful.

Shameel Joosub
And if we're looking at the rates, and obviously we can't pre-suppose ICASA, but we don't think the rate will be much lower than that 20 cents that they're going to have to glide down to.

Chris Grundberg
Got it. Thank you.

Operator
Our next question comes from Thato Motlanthe of Citi. Please go ahead.

Thato Motlanthe
Hi. It's Thato Mothlante. Good afternoon everyone. Just two questions both on South African please. The first one is just on competition. Given that it is now MTN leading the charge rather than Cell C where there were question marks around their ability to sustain the pressure how has your assessment of the competitive outlook changed as well as expectation for top line growth? Obviously MTR were effected but there was a broad-based slowdown in the third quarter.

Shameel Joosub

Okay. So I think basically some of the impacts that we are seeing at the moment have got more to do with the MTR cuts. And I would say overall economic growth and competition. Thus far we have been able to manage the competition issues quite smartly. So I think a lot depends on how MTN reacts going forward. We suspect that the impact of the recent move will be quite negative on their results. Maybe that will bring a bit more sanity to the process. Having said that, the way we have reacted to it is we've continued to execute our strategy of making sure that more and more customers are engaged in the process. MTR has contributed slightly towards most of the impact of the -2% service revenue growth.

If we just look at customer revenue or rather service revenue growth it would have been 2% positive. If we look at the last quarter it was 2.7%. So effectively you've had a weakness of 0.7% coming through from trading conditions, which is intensified competition and probably weaker economic behaviour. The other thing that I think we are seeing more and more of is I think the MTN strategy of going for pricing is very much putting them in a similar kind of hole that Cell C dug themselves into, which effectively is your base is re-priced to the lower price and you don't necessarily get the elasticity.

I think what we have done by creating bundles and customers moving into bundles, and also the launch of the time-based bundles has been very successful. That has helped us to counter. While the market is making noise about 79 cents and 66 cents and so on, our effective rate in bundles is as low as 7 cents or 8 cents in our time-based bundles. And we are getting the desired elasticity that we wanted. So I said broadly we're managing to manage the competitive scenario quite well. Having said that, we are also seeing MTN now change a little bit and trying to emulate our strategy and almost replicate everything that we are doing, or similar kinds of products and services, which I think just reaffirms that our strategy is the better one in the market at this point in time.

Ivan Dittrich

And I will just add to that. Obviously from a contract perspective we have done very well in this quarter in moving with regards to our integrated price plans with about 63% of our contract base now being on integrated packages, up from 35% a year ago.

Thato Motlanthe

Thanks, that is understood. The second question related to that, can you comment on the revenue growth that you are seeing now and possibly what you expect it to do in the context of your existing guidance for cost? If I'm not mistaken there is still upward pressure on direct costs into currency and [unclear]. There should still also be upward pressure on your network cost as you step up the rollout. Are you still confident of achieving that guidance of flat non-direct costs as well keeping your overall cost below revenue growth?

Ivan Dittrich

The guidance that has been given is medium-term guidance, so we put out three year guidance. And to re-emphasise we have guided low single digit service revenue growth and mid- to high single digit growth on EBITDA and then capex intensity of 14% to 17%. From a guidance perspective we are not changing our medium-term guidance at this stage. As we have continuously been emphasising, cost management for us is quite key so we have various cost programmes in place to make sure that we are as efficient as possible. That refers to both operating costs and direct expenses which would include A&R as well.

Thato Motlanthe
Just to clarify, if I read between the lines am I correct in understanding that in terms of the three year guidance it is possible that this year could fall outside of that guidance?

Ivan Dittrich
It's three-year guidance. What we've also said is that the three-year guidance is also predicated on our network project to accelerate our network investment. And this financial year for us is year one of the accelerated investment programme. This is pretty much an investment year, so you wouldn't expect in year one to necessarily see the full uptick in terms of revenue and EBITDA that we're expecting over the medium term.

Thato Motlanthe
That's understood. Thank you.

Operator
Our next question comes from Maddy Singh from Morgan Stanley. Please go ahead.

Maddy Singh
Yes hi. Thanks very much for the call. Just following up on the international operations. While Tanzania has shown good improvement, Mozambique and DRC certainly are showing a lot more weakness in the revenue trends. Could you please elaborate on the dynamics of the business and how persisting the pressure in these businesses could be? In the South African market your prepaid net adds were very strong. Your post-paid net adds were not that strong. I'm just wondering what is the driver for that and should we expect similar net adds going forward? Is this more a market-wide phenomena or do you think the market rewarding you for your strategy in terms of net adds?

Shameel Joosub
Okay. Maybe to start off with, I think if we look at the weakness in the international segment it is basically coming from Tanzania. The other countries continue to grow very well. Effectively what happened with Tanzania is that revenue slowed to single digit growth in local currency and low teen growth in Rand terms. Now, basically the issue that we're faced with in Tanzania was a pricing issue. It dated back into the last quarter where we had severe pricing challenges if you like. What happened through in the market is that there has been a readjustment of the bundles, specifically integrated bundles, and a bigger move back into voice bundles. And all the operators have basically been going through the process of adjusting the bundle sizes down because of the impact that it had to everybody's businesses.

We have seen that progressively happening, and in the last couple of months we are seeing a good recovery in the service revenue growth. But it has definitely created a weakness in the quarter. We see strong growth going forward as we get into harvest season. And so we are quite confident that we will be able to deliver better results than what we are currently seeing in Tanzania, which will then improve the overall performance of the international portfolio because of the size of Tanzania in the international portfolio.

On your second question in South Africa on contract net adds, effectively what we have been doing is not just chasing lines. We're making sure that we cut out all the bad elements of business if you like. And also we have taken a very aggressive stance on churn. There is a bit of a flattening out I would say in the number of gross adds market-wide on the one side, but I think we are also being more cautious in terms of attracting adds that are not profitable if you like. So specifically cutting off on-billers and those types of things, which anyway comes back in churn in the next two years. So that is one of the ways that we are addressing churn as well, to stop the inflow of let's call it bad, not profitable business. We have seen the rejection rates go up market-wide on contract as well, specifically as things have been tightened up in the market.

Maddy Singh
Your prepaid was quite strong as well. What is driving the net adds there? And just to follow up on the international business as well, my question was regarding the deceleration in the growth you have seen in DRC and Mozambique.

Shameel Joosub
Okay. Let's deal with the international segment quickly. Basically in Mozambique the growth has come off slightly, but obviously off a bigger base. But that's basically as expected, so nothing overly dramatic in Mozambique. In the DRC the growth has actually been better in the DRC than it was for the full year last year.

Ivan Dittrich
If you look at the Q1 revenue and customer numbers that we reported now and you compare those to Q4 last year, the Q4 growth in the previous financial year was boosted as a result of certain revenue recognition adjustments that were made in the prior year Q4. On a like for like basis DRC has been quite solid.

Maddy Singh
Okay.

Ivan Dittrich
And then the question on prepaid.

Shameel Joosub
The prepaid net adds were strong in South Africa. And I think it has really come from a couple of things. I think really the deepening of our emerging segments strategy and also the products that we've created specifically that speaks to that segment. So we are quite encouraged that the prepaid growth rates have worked quite nicely. I think it is fair to say that we have probably taken some share from MTN and Cell C in this quarter.

Maddy Singh
Okay. Thank you.

Operator
Our next question comes from Jonathan Kennedy-Good from SBG Securities. Please go ahead.

Jonathan Kennedy-Good
Good afternoon. Just a quick question on your comments around the Neotel deal where you state there could be substantial cost and capex synergies should the deal go ahead. I'm just interested to hear what your definition of substantial is and how we should view that. And also my understanding was that the group capex guidance would be unchanged even if Neotel didn't go ahead. So I'm just trying to understand how you frame those capex synergies.

Ivan Dittrich
Jonathan, this is really unchanged from what we said before. At the early stage we said we expect cost and capex synergies of approximately R300 million before integration costs in the fifth full year from completion. And we also said on a net present value basis the value that we would expect for cost and capex synergies would be about R1.5 billion and just under R1 billion, about R900 million,

for revenue synergies on a NPV basis. And we have also indicated that the acquisition of Neotel will not shoot our capex intensity beyond the 14% to 17% range that we've indicated, and that still stands. So nothing new from what we've reported at the full year.

Shameel Joosub
Maybe just to add, Jonathan, if you think about it why the capex guidance doesn't change is that effectively what you will be doing is revising some of the Neotel fibre investments. We will be able to redirect some of that investment to other areas. So that's the one side. The other side is that you also apply to the additional revenue that we gain. So capex guidance will be applied on a bigger number which includes the Neotel number. We will be optimising the fibre investment if you like and basically channelling the Vodacom transmission investment via Neotel.

Jonathan Kennedy-Good
Okay, thanks. That's clear.

Operator
Our next question comes from Franca di Silvestro from the HSBC. Please go ahead.

Franca di Silvestro
Hi. Good afternoon. Just two questions please. The first one is on the MTR process per September. In the event that there is no agreement between the operators and the regulator, or alternatively they haven't finished the process, is there a new rate that's going to come in being, or do you just extend the rate, or do you go back to the old rate? If you can just clarify that. and secondly just on the finalisation of the Neotel transaction, I mean with industry comment looking like it is still going to take some time when they finally agree to ask for it, are we looking at finalisation of this deal effectively a year from now?

Shameel Joosub
Let me start with the MTR process. Effectively if they don't meet the deadline then in fact the MTRs fall away which leaves us in limbo. That's why it is important that the process is completed. The second thing is there is an opportunity for them to approach the court and ask for an extension to the deadline.

Franca di Silvestro
Okay, but if they ask for an extension does that mean that they are allowed to extend on the current September effective rate, so the existing rate?

Shameel Joosub
They would have to ask for it to be extended. All the information has been given, so it is how they process the information that they have at hand and how quickly they can process it. They have obviously appointed people to help, so they have got people to help with the process. The information has been given in all the level of detail. So one hopes that we do fall within the deadline.

Franca di Silvestro
Okay, thank you.

Shameel Joosub
On Neotel, effectively we have put in the submission, so basically both to ICASA and to the regulator. There will be a timeline in terms of when we have responses from both. So we wait. We think that the deal should be completed before the end of the financial year. We are hoping for a nine month process at max. And we are pushing obviously for shorter than that. We have submitted

in a lot of detail, so we have taken time to submit a very comprehensive document. So everything has been given through.

Franca di Silvestro
Sorry, Shameel. Can I just ask does this MTR process delay the people that are able to look at the Neotel transaction, or have they separated the duties from the ICASA side?

Shameel Joosub
No, it is completely different. Its two very different things.

Franca di Silvestro
Okay.

Operator
Our next question comes from Mike Gresty of Deutsche Bank. Please go ahead.

Mike Gresty
Good afternoon guys. Just a couple from my side. First of all, we saw quite a bit of a deceleration in out of bundle spend, and I was just wondering if that was due to the maturity of your contract cycle, that we've got a much greater number of contracts coming up for renewal in the last quarter, or if there was something else behind that. The other thing is if you look at the rate of descent of the South African voice revenue, it has accelerated. I hear all your comments about elasticity and what have you, but I wonder to what extent you're seeing negative cannibalisation of your business through the bundles that you're offering. Certainly you're giving more value, but you are just not managing to pick that revenue up. So can you comment on those two?

Shameel Joosub
Sure. I think firstly on the out of bundle spend and the descent that has come through, a couple of things happened in the quarter that we needed to react to which is basically MTN moving towards integrated but then trying to add more value to the bundles, which we then responded to and obviously increased the value of our bundles as well to remain competitive. That was the one thing. And then obviously it decreased your out of bundle spend. The second thing was the transformation in MBB, which is your dongles if you like. Effectively we did see some weakness come through from the dongles growth where we saw a lower level of growth. That has actually dragged down a bit the data growth. If it wasn't for that the data growth would have been in the 20s. So we did see some weakness come through from the dongles. That was specifically we increased the size of the bundle a while ago and held on to the ARPU. So we haven't seen the growth on MBB. And in some small instances a little bit of optimisation, but as I said the bigger part has not come from the growth. You held on to the spend and you gave people more data. So you did give up a little bit of growth as they grow into those bundle sizes if you like.

Ivan Dittrich
What this has obviously done is it has reduced churn. So it had a retentive aspect, and this is obviously in line with our strategy to move customer spending to in bundle and giving customers a more worry-free experience as a result. Your second question was cannibalisation through bundles.

Shameel Joosub
We're seeing a little bit of weakness. So the elasticity has been good. We would have preferred a little bit better elasticity, but just slightly. So there has been a slight deterioration, but not too much. And in fact I think the big thing has been how we approach the bundles. So the process of white list and effectively making offers available to customers has been very good. What we have also done

is pushed the price up in certain instances. So for instance the power bundle, one of the ways that we've reacted to competition is make Power Hour available every day of the week. But we also increased the price from R5 to R10, but then made it available fully. So we have seen the growth coming through there. I think prepaid customer revenue growth is still up 3%. So yes, we are coping with the competition by pushing bundles more aggressively. And we probably gave up a little bit of growth in the quarter. If you look at the previous quarter I think it was 3.7% so you've given up about 0.7% of growth in customer revenue on prepaid because of intense competition.

Mike Gresty
Thanks guys.

Ivan Dittrich
We probably have time for one more question.

Operator
Thank you. Our final question comes from Richard Barker of Credit Suisse. Please go ahead.

Richard Barker
Thank you very much. It's quite a simple one really. There seemed to be a bit of a slowdown in the rate of growth in terms of smartphone adoption. I don't know how to describe it. I just wanted to ask if you've got any comments on that. And two, do you think this year you will be able to get down towards the $30 per handset price level for a basic smartphone that has talked about in Asia? I just wondered how realistic that is and whether it will have a positive impact on performance. Thanks.

Shameel Joosub
Your growth in prepaid still remains very strong. Smartphone growth in prepaid is up 25%, overall growth up 18%. And effectively what you are seeing especially on contract a lot of it is now smartphone to smartphone conversion. So it is not so much feature phone to smartphone. It is smartphone to better smartphone conversion. We obviously track the active number of smartphones, and that is up 17.8%. I think what is encouraging is that the quality of smartphones are getting better and the volume of handsets that we are selling has not let up. So that's quite encouraging. And we are putting better devices in people's hands. We current have a $42 smartphone which we are launching. A quality, low-cost android device. So that will help to drive up volumes as well. We are progressively working to get it below the $40 mark. We keep working to try get the pricing lower and lower. What does not help, to be frank, is the exchange rate.

Richard Barker
Thank you.

Operator
Ladies and gentlemen, that brings us to the end of the conference. On behalf of the Vodacom Group Ltd thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT