

Conference Call Transcript

3 February 2016

Q3 RESULTS ANALYST CONFERENCE

Operator

Welcome to the Vodacom Group Ltd interim results conference call for the three months ended 31 December 2015. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will now read the forward-looking disclaimer before handing over to Mr Joosub.

This announcement which sets out the third quarter results for Vodacom Group Ltd for the three months ended 31 December 2015 contains forward-looking statements which have not been reviewed or reported on by the group's auditors 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 positions, 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 and 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 results announcement and presentation it is available on the investor relations website www.vodacom.com. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you need assistance from an operator please signal by pressing star and then zero. I would now like to turn the conference over to Mr Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those in the US. I'm joined by our group CFO, Till Streichert, and Belinda Williams who is our Finance Director in South Africa but also helping us with investor relations. Before we look at the numbers let me tell you what really stands out for me in what I would call a really excellent set of results. The two biggest highlights in the quarter are the accelerated service revenue growth of 7.2% in South Africa and the 6.8% increase in the group customer base to 65.2 million.

I think what is also really great is in South Africa the take-up of our personalised offer and this whole conceptualised private pricing, Just 4 You, was excellent and contributed to the 15.9% reduction in our effective voice rates, but also helped us to bring down the reduction in the voice decline to about 2%, underlying about 4%. The international segment also delivered robust service revenue growth of 15.2%. If we normalise that in constant currency it is about 10.1%. Our substantial investment of R9.5 billion enabled us to extend our network coverage and also increase our data speed.

Let's take a closer look at the highlights of South Africa itself. We continue to execute well on our strategy and are seeing the benefits coming through in our results. We know it was a well-planned three-year strategy and I think what is really encouraging is we are now seeing that culmination of

the strategy coming through. Our service revenue increased 7.2% supported by a continuous growth that we're seeing in our customer base, and we also managed to stem the decline in the voice revenue that I explained earlier. We added 2 million customers in the nine months, increasing our active customer base in Q3 by 8.7% year over year to 34.1 million customers.

I think it's important that we have also made significant progress in our price transformation with 83% of all our contracts now on our integrated plans, and our prepaid voice bundle adoption increasing particularly through the new Just 4 You offer which supported customer acquisition but also improved our voice revenue trend. Remember in the first half we were saying that we sold 500 million bundles in the first half. That accelerated in the third quarter with us selling 310 million bundles in the third quarter alone.

Data revenue momentum also continued, up 27% off a bigger base, due to the sustained demand for data services as customers continue to upgrade from 3G to 4G services. Our active data customers increased 14% to 19.1 million customers, which means that about 56% of our customers are now using data services. However we still see a big data opportunity in accessing the remaining 44% of customers that don't use data as yet. Here we are giving free data until we get them used to it, and then obviously monetising it.

We continue to expand in the enterprise market as well. Our enterprise business is performing very well and we see double digit growth as compared to our consumer segment due to the customer wins for ICDC and connectivity solutions as well as growing demand for our cloud and hosting services. Our revenue grew 7.1% boosted by strong service revenue growth and a 7.7% growth in equipment revenue from higher device sales.

I want to spend a little bit more time just focussing on how well we executed on our data strategy in South Africa. We made excellent progress on all four pillars of our strategy, which I will comment on now. We drive our strategy of growing data firstly by increasing 3G and 4G population coverage, thereby increasing our addressable market. You will also remember that we front ended a lot of our investment during the year so that we could get the benefit throughout the year. Our 3G coverage now covers 98% of the population and 4G is now sitting at 54% of the population. So we have increased the number of people that we have to sell. Also it's important to note that as you're migrating customers to 4G you are getting about 17% to 18% uplift in ARPU. So that is the one side, but you're also improving the service to the 3G customers.

The second part of our strategy was access to more affordable data devices. That is absolutely key to us. The number of active smart devices on the network has increased by 28.2% to 13.5 million supported by offering handset financing and more affordable devices through our Vodafone Vodacom landed device programme. The launch of daily and hourly bite-size data bundles, for example R3 for 50MB and R10 for 100MB has led to data bundle sales doubling from last year to 91 million in the quarter alone. The average data consumed by customers on smartphones keeps increasing and in the period was up 20% to 587MB per customer on a smartphone. The ARPU uplift that we are getting is between 18% to 20% as customers migrate to 3G and 4G devices respectively.

So that's the South African highlights. Now let's move into the highlights for international. The international operations delivered a solid performance and maintained double digit revenue growth as well. Service revenue increased 15.2%. Normalised in constant currency this is a 9.8% growth. The international division now contributes 26.6% of group service revenue, up 1.5% year over year. Our customers in international have grown by 4.9% to over 31 million customers. 36% of these customers are using data, so there is lots of growth potential still left. Data users were up 15.2% and data traffic increased 64.2%.

M-Pesa is also progressing well with a 28.6% increase in active customers to 9.7 million customers now using M-Pesa. It is fuelled by our expansion in the distribution channels and growing our ecosystem. In Tanzania M-Powa the savings and loans product is gaining traction with 1.5 million customers actively now using the service. We have also recently launched international money transfer and we are seeing good uptake on this.

On the network side of things we continue to execute on our accelerated capital investment programme and spent 22.6% of revenue in the international segment. That has given us 27% more 3G sites and 23% more 2G sites year over year.

Let's take a look at the outlook for the remainder of the year. I think it is fair to say we had a very strong three quarters thus far, but we do expect revenue growth to taper slightly into our last quarter of the financial year due to a stronger prior period comparison and a weaker outlook for the consumer in South Africa due to the weak exchange rate, high inflation and interest rate increases. We do see a dynamic. We have plans in place to obviously address that and make sure that our pricing is more on the button and so on. But we are concerned about the outlook for the South African consumer. We hope that the government initiatives will help in improving the macroeconomic climate.

If you look at our international segment it is important to note that in the DRC, Tanzania and Mozambique the market will temporarily slow down because of customer registration, so you will experience some slowdown there as the market gets used to customer registration. We had the same thing in South Africa when we first launched our customer registration. However we are looking back on another quarter of strong performance and we believe our strategy of offering small-sized bundles to consumers and aggressively increasing data growth is even more relevant going forward.

That concludes my comments. Till and I are ready to take your questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Our first question is from JP Davids from Barclays. Please go ahead.

JP Davids

Hi there. I will start with two please. Firstly on Neotel, can you give a little bit more colour around the changes to the transaction structure, and if possible what the revised price is, the revised timetable for deal completion and why you've moved towards this structure for the spectrum i.e. moving to a roaming deal? And then separately, Shameel, you mentioned that 44% of your customers don't use data at this point. At what stage does affordability of handsets become an issue because of foreign exchange? How are you looking to mitigate that in terms of still getting low-cost devices into peoples' hands? Thank you.

Shameel Joosub

Okay. Let me start with the Neotel question. I think essentially what we've done with Neotel is we've basically modified it to the extent that Vodacom now acquires the majority of Neotel's assets, which relates to fixed business but excludes its spectrum and licenses. The reason we did that is because we basically tried to make the deal a lot simpler. What will happen is that the value of the transaction obviously goes down in terms of what we put forward. And the level of objection that relates to the fixed transaction, the fear of the competition commission was that no one really has

issues when it comes to the fixed business. The issue that needs to be discussed is the issue around spectrum.

So this deal hangs in the balance based on spectrum. I think where we are at the moment is essentially the deal will be structured into two parts. One is we buy the fixed assets. The remaining spectrum remains behind. And essentially that spectrum then gets offered to all the players. So Neotel will come up with a roaming offer – that is what is being envisaged at the moment and what was explained at the competition commission – to all the networks. They are busy finalising that as we speak and hopefully in the next couple of weeks they will put the offer through. People will then have the opportunity to say they are either interested or not. For example if all four players take up the spectrum it gets split four ways. If three players take it up, it is three ways. If two players then it is two ways, and so on.

If it ends up being only one player, being us, is interested then it goes back to being the same deal and the competition commission then doesn't have to do anything. However if it lands up for argument's sake being two players what the competition commission has got to do is look at... what has been agreed with the tribunal is that the tribunal said it will hold the commission to a set deadline of 40 working days before it makes its recommendation. What needs to kick it off though is this roaming portion of the deal needs to be finalised and then put to the commission. So I think that is where we stand.

The other part... Sorry with the acquisition obviously we take all their people, the employees, the fixed business and the rest. The second part, the idea is that it is a less complicated transaction as such. It also becomes less dependent on what happens with ICASA which obviously has the ability to delay the transaction. I think fundamentally what we're trying to do is to see whether we can speed up the transaction or not so that we can reach finality one way or the other on this deal.

In terms of devices obviously foreign exchange does play a role. Basically where we stand is we are continuously managing to negotiate better prices and to create lower-cost devices and so on. Some of that benefit is being lost because of the exchange rate. Now, as the price points go lower the demand increases. So if the price points go up the demand does decrease. So you've got to manage that carefully. And it is one of the competitive elements in the market as well. When the Rand declines do you pass the full impact of that to the customer? Do you absorb part of it? Sometimes networks have different modus operandi for dealing with that issue, and that causes its own competitive issues in the market if you like.

JP Davids

Thanks. Just one quick follow-up on Neotel. Do you expect that to still have the capex obligations that the competition commission proposed as part of the deal to be finalised?

Shameel Joosub

Look, I think all of that will be open for discussion, but I think the capex part doesn't worry us. The investment part doesn't worry us, because we are not buying the business to sit on our laurels and do nothing with it. I mean we are buying the business to grow it. I think it requires capital investment. If you're going to buy the business you best be willing to put money into it. And we see the opportunity. So I'm less worried about the commitments around that because I think if you're really going to unlock the fixed business you're going to have to put some money in.

JP Davids

Thank you.

Operator

Thank you very much. Our next question is from Chris Grundberg from UBS. Please go ahead.

Chris Grundberg

Thanks guys. Just a couple from me if I may. Just firstly obviously strong revenue trends in the quarter that you are talking to tapering into Q4. I wonder if you can make any comments on the cost trends that you've seen in Q3 and maybe into Q4. You obviously made some comments in H1 around what you were expecting, but I'm keen to get an update on that front. And then on the second question just in terms of the macro climate. You mentioned obviously that you're concerned about that. But have you seen any evidence of that to date, and how is that coming through in January? Thanks.

Shameel Joosub

Let me start with the macro trends. I think from a total cost issue I think from a macro perspective we haven't seen a big deterioration yet in customer spend. We think it is going to be progressive in terms of as the consumer comes under more pressure you will start to see that coming through. I think it is as things start to [unclear], your food prices go up, your interest rates go up, all of these types of things. And then it is the cumulative effect of that. Just to put into perspective as well, what we have done because we have seen this thing coming for a while is we are trying to make sure that our pricing is more on the button, that we do mobile price transformation, that we are proactively dealing with it. And we have created value bundles where people can buy more hand to mouth. And that strategy is working well. I call it our recession-proof strategy. Now, how much that gets impacted going forward I think is a little bit of wait and see on the one side. But we are worried about how this impacts into our numbers going forward. I don't think anyone in South Africa is immune to the fact that the consumer is under pressure.

Till Streichert

Hi Chris. Talking now about the question in terms of trend, number one I think a very strong set of results that we've had in the last quarter. If you now ask me how is the outlook for Q4 let me start first with a view on service revenue and then I'll answer your cost question. In terms of Q4 we said we expect that revenue growth is tapering slightly down. And I really want to comment on that from a comparative point of view. Just remember that last year Q4 was already quite a bit stronger with data revenue growing quite nicely. Second is more a technical point. Don't forget about the [unclear] that we had last fiscal year in Q4, R154 million that we actually brought in. And that naturally would give you your growth rate comparative a little bit of a factor to normalise. And of course there is the unknown, the drought, weaker currency, the interest rate hike. We do expect generally the consumer to come a little bit more under pressure. But actually I think we've got a good strategy in place to actually tailor offer hybrid [?] pricing, make it affordable and so on. But of course that is the unknown for Q4 and perhaps going forward.

On the cost side I would like to refer back to what we said in half one. We control our costs very well and we guide to actually higher costs in the second half this fiscal year. Higher marketing spend, publicity that we plan for our product launches. We've got the lapping effect in our direct costs, acquisition retention costs from Nashua which we have got in this quarter in full in the comparative. The last thing on cost in South Africa is we obviously continue to be absolutely on track on our accelerated capital investment programme and our network delivery and that incurs obviously higher G&A in the second half more than in the first half. That's in South Africa. If I just comment on the international side, again strong growth, robust growth that we've seen there. Really for me there is one comment around exchange rate in the international which is a factor in Q4, obviously from translation but equally on revaluation or re-measurement of monetary items. A weaker Metical or Tanzanian Shilling would impact us.

Chris Grundberg

That's really helpful. Thanks very much guys.

Operator

Thank you very much. Ladies and gentlemen, a reminder if you wish to ask a question please press star and one. Our next question is from Richard Barker from Credit Suisse. Please go ahead.

Richard Barker

Thank you. Two quick ones from me. Shameel, you've mentioned in the release a little bit of detail around license renewals in a couple of your markets. There weren't any numbers in there. I wondered if you could quantify the likely spend level that you're going to be committed to in relation to those licenses and spectrum. And secondly just a little bit of clarification around the whole SIM registration disconnection process. You make it sound a little bit in your introductory remarks like this will hit your subscriber growth rate over an extended period. I just wanted to clarify whether that was right. Is this something that is going to be a drag through 2016 and 2017, or is it just going to be a couple of quarters and then we are through it?

Shameel Joosub

Okay. Maybe just to comment on the different spectrums that we've acquired. What we've done is we have put a big focus on spectrum throughout the group to make sure that we secure spectrum in the different markets. So in Lesotho basically we have just gone through a license renewal process. We have got confirmation that the license will be renewed. There is no money that is going to be changing hands there. In the DRC we just got a ten-year renewal of our 900 and 1800 spectrum which was due to expire in 2018. We have renewed it until 2028 but we have also managed to get additional spectrum which we needed which is 2 x 5.8 MHz of 1800 spectrum. We managed to get 2 x 15 MHz of 1900 spectrum. It can't be used for LTE as yet, but it is a very worthwhile asset to be holding in your bag when LTE comes on. Basically when LTE or 4G is licensed we will have some spectrum in the bag. In Tanzania we have made an acquisition. We bought a small company for about \$18 million which we are currently getting regulatory approval on. So that really is already done, but we are also waiting for spectrum to be allocated there. We expect that to be auctioned next year. We anticipate an option for 800 spectrum this year. It previously came out with a reserve price of \$15 million. Nobody has bid for it because it was too expensive. So we are expecting a lower reserve price to come through there in terms of spectrum.

Till Streichert

And finally Lesotho the regulator has expressed his intention to extend the license as well from mid-2016 onwards. Now commenting on the subscriber registration question in terms of its expected impact. My view is the following. Actually subscriber registration is a healthy thing because it basically structurally cleans up the market. I think there will be an effect in Q4, so this quarter, and perhaps into Q1 as well as subscribers get registered and we are compliant. So I think the effect is limited to a certain period where everyone is significantly focussing on subscriber registration.

Richard Barker

Okay that's great.

Shameel Joosub

I think obviously what will happen is the growth in the market will slow during this period from a customer growth perspective. But I think the important thing is that you don't lose share. But at the same time your churn will also slow because people will hold on to their SIM. So from a customer base perspective you hope to ensure that you have still got some [unclear] coming through.

Richard Barker

Sure. Shameel, could you say anything about the DRC spectrum in terms of what you paid? I think you gave some numbers for the others but I missed out on that one.

Till Streichert

On what we paid for the spectrum in the DRC, look, we will disclose it at the end of the year with our annual financials and then give a precise figure on that. We are obviously pleased with the extension of the license and the spectrum that we acquired there.

Operator

Thank you very much. Our next question is from Madhvendra Singh from Morgan Stanley. Please go ahead.

Madhvendra Singh

Hi. Thanks for the call. A very good set of numbers. Can you please give some colour about performance in Tanzania, why the revenue growth has gone back to be... I think it was negative in the third quarter. Do you expect an improvement in the coming period? And also a bit of outlook on the overall trend in the rest of the international operations. Thank you.

Till Streichert

I will start on Tanzania's performance. Performance is a bit suppressed. Let me first start with what we are happy with. For customer growth in Tanzania actually we are 7.7%. It's healthy, so we are pleased with that. We are equally happy with the data customer growth that we've seen in Tanzania. That speaks to our strategy and our strategy execution to focus on data as a growth driver going forward. What you can see in our numbers is in essence still an ARPU erosion which is coming through. We put through a price up on our pricing structure and have driven rationalisation of bundles in Tanzania. I would expect that actually going forward we will see improved results in Tanzania, but there is heightened competitive pressure in this market undoubtedly.

Overall in the international segment performance I would clearly call robust, I mean on a reported basis actually accelerated, constant currency really robust growth of 10% to 12%. We are actually quite pleased with that. And in particular we commented on it in terms of customer base growth. The two markets DRC and Mozambique that are currently going through subscriber registration have reported a little bit lower subscriber growth, which is pretty much sitting on the inflow side as customers and channels are familiarising themselves with the requirements of subscriber registration. But underlying good performance in those markets. So I'm happy with that.

Madhvendra Singh

All right. Thank you.

Operator

Thank you very much. Our next question comes from Mike Gresty from Citi. Please go ahead.

Mike Gresty

Good afternoon guys. Just a couple from my side. First of all you've chatted to the spectrum for a bunch of markets, but South Africa was conspicuously absent. Is there any update in terms of where the regulator is on the award of new spectrum? And then just the other point is I obviously note your comment about the macro environment going forward. Have you done any analysis to isolate particularly what perhaps we should be watching in terms of particular macro issues that could really hurt you? I'm thinking maybe food inflation for example. What really worries you out there?

Shameel Joosub

Okay. Let me start with the SA spectrum issue. Basically where we stand is kind of not too much progress on the last time we spoke. Essentially ICASA came out with a document which reflects their thinking in terms of how spectrum should be allocated in the country. There were obviously positives and negatives in the document, but overall I think a very positive approach on how spectrum should be auctioned and so on. The problem is ICASA cannot act until such a time as they have a directive from the ministry to go ahead. So I think that's where it is kind of stalemate unless ICASA decides to go ahead without the directive from the minister. So that's not clear. That is obviously open to discussion in terms of asking for public comment on the document, which we have given. I think overall we think it is a step in the right direction. We obviously always have comments and things that we think could be better, but I think on balance it is a good piece of work.

The other positive around spectrum is that the digital migration has begun in that the [unclear] boxes are now out there and I believe there is some work being done. How long it is going to take for it to be completed, I think a two-year process I would say is probably a realistic path of how long it would take to do it. What we would like to do obviously is we are encouraging that the auctions are done sooner rather than later, even if the spectrum is awarded at a future date, because it gives us a chance and the industry a chance to forward plan and look at the potential revenue and impact that comes from that.

In terms of the consumer I think some of the things that we're watching... What we are doing is we've done a couple of analyses in terms of looking at what the potential impacts for the ARPU could be and where that could potentially come from. So we have done that. What would a 50 cent decline in ARPU mean? Those kinds of sensitivities analyses. What we have seen from the previous recession is that the consumer doesn't stop buying but he becomes more price conscious which means it is more important for your price to be on the button. And that's why we think Just 4 You with personalised offerings and understanding the consumer is under pressure helps us, and using on top of that our ability to have more hand to mouth bundles I think is extremely important. What we are doing is we are constantly monitoring the trend and we will adjust our product to be able to accommodate, especially in the low end of the market where we think the bigger impact will come.

On the contract side we are more resilient, and why we are more resilient is because a lot of your revenue is locked in. So that's an important part for us. Remember about 48% of our revenue comes from contracts. Now, the important thing there is that your revenue that is included in the bundle is basically guaranteed if you like. And so what we find is that when consumers really come under pressure they might reduce their out of bundle spend but they cannot reduce their in-bundle spend. Remember the price transformation that we went through was making sure that we locked in the in and out of bundle spend into the new bundle. A new out of bundle has emerged, and that could come under pressure if the consumer really comes under pressure. But remember this is now more your middle income groupings and so on, which we still believe will be more resilient against what's happened in the market and obviously the inflationary pressures.

From a cost perspective we are also trying to make sure that our cost programmes are more robust to deal with the fact that we will have some impact coming through from some of our expenses being foreign denominated.

Mike Gresty

Thanks very much, Shameel. That's really helpful. Thank you.

Operator

Thank you very much. Ladies and gentlemen, a final reminder, if you have a question please press star and then one. Our next question is from Ziyad Joosub from JP Morgan. Please go ahead.

Ziyad Joosub

Hi everyone. Just a question on prepaid voice please. On your migration out of bundle prepaid voice subscribers into bundle offerings how is that proceeding? I remember you had 47% of your base I think that was still out of bundle. Just looking at the traffic trend for prepaid voice it is very strong. It looks like it grew 19% which makes a lot of sense given the migration to in-bundle. But just on my estimates, which could be wrong, it looks like you're seeing positive elasticity in prepaid voice. What have been the price declines for your effective price per minute in prepaid? Have the declines been less than the 19% growth that you saw in traffic?

Till Streichert

Let me maybe start. Just one thing to clarify. It is more a technical comment because you are making reference to prepaid and what's in bundle and what's out of bundle. Just a reminder that the bundles that we are selling, the short-term bundles, daily bundles up to weekly bundles, we are effectively in line with Vodafone's definition to be called out of bundle. And a lot of progress and all of the Just 4 You campaign bundles are in essence short-term bundles where we've had a massive take-up which we have seen quite successfully. I think that's just important when you look at your in bundle and out of bundle to understand. That's number one. I think we are seeing quite positive momentum on the prepaid voice side. We are just looking at the actual elasticity...

Ziyad Joosub

Do you have positive voice revenue growth in prepaid, right? You do.

Till Streichert

We've got slight positive growth on prepaid voice.

Ziyad Joosub

Despite the migration to in-bundle. Okay.

Shameel Joosub

So basically what has happened is your prices have come down about 18% and your voice traffic is up about 26%, Ziyad. So we are definitely having positive elasticity coming through on prepaid. And that is proving to be very successful, and it is really driven off the Just 4 You and obviously your time-based bundles and your bundles in general.

Ziyad Joosub

Okay, thanks a lot. I just wanted to check that. And then quickly just in terms of the FX impact on stuff like Vodafone fees and also your bad [?] debt, how is that proceeding from a margin perspective? Have you seen any changes in bad debt levels?

Till Streichert

It has been all fairly stable and steady, so no surprises on that side. On the FX side let me just unpack that again. Look, clearly we've got foreign denominated spend. Typically when we've got foreign denominated spend we will take forward cover. We are basically hedging the volatility on the foreign exchange rate. We are fairly sophisticated and I would say effective on that. That's the one thing. But of course I have to admit at one point in time through changes in your price list of your foreign denominated on the terminal side, on the network equipment side you do get the higher cost into your numbers because any foreign exchange rate conversion formula that you've got in your supply change agreement all forward covers that you take cover you just for a certain period. That

we simply have to accept. Obviously what we are putting against that is simply our cost optimisation programme and in the end very carefully and diligently doing our capital allocation and managing tightly our cost programme.

Ziyad Joosub

Okay. Thank you very much. That's really useful.

Operator

Thank you very much. Our next question is from Sibu Nkosi from Momentum SP Reid.

Sibu Nkosi

Good afternoon guys. I just wanted to check if you've got any comment M-Pesa's performance in South Africa?

Shameel Joosub

Look, M-Pesa in South Africa is doing okay. You've got over 200,000 customers using M-Pesa now. We do about R48 million in transactions in South Africa. It is nowhere near what we're doing in the other countries, but growing every month. So what we're pleased about is the slow burn but it's coming and it is getting better. We are busy implementing a new system which will allow us to rapidly increase the performance, but it is going to take a couple of months to get the system fully in place. We call it G2 which we are basically migrating all the other countries to, which is the Vodafone standard for M-Pesa, which gives us a lot more flexibility and helps us to grow. We are also growing the services. We already have electricity on M-Pesa. So positive growth every month and slowly picking up.

Sibu Nkosi

Thank you.

Operator

Thank you very much. Our next question is from JP Davids from Barclays.

JP Davids

Hi. Just a quick one for Till on your funding rates and interest costs. Maybe you could give us a little bit of colour on what the impact of any sovereign downgrade would be for you guys. Particularly for your inter-company stuff with Vodafone, would there be any impact if South Africa is downgraded on the funding rates you pay there?

Till Streichert

I don't expect an impact. In essence what we actually see on our interest cost is really we have disclosed that. It is transparent. We have got a large portion floating. With JIBAR obviously that went up. We have got a portion fixed. So that is really what we see flowing into our funding cost. Actually that's a very important point. The funding that we've got from Vodafone is obviously Rand denominated. That is basically also not foreign denominated. I think it is just an important point to just remind. I think we've spoken about it before.

Shameel Joosub

We don't hold any foreign loans and so on. We don't have any dollar denominated loans at the group level.

JP Davids

Okay. And the JIBAR spread that you pay to Vodafone, that wouldn't change if our rating in South Africa changed?

Till Streichert

No, I don't expect that.

JP Davids

Thank you.

Operator

Thank you very much. Our final question is from Edward Pienaar from Tantalum Capital. Please go ahead.

Edward Pienaar

Hi guys. Thanks a million for the call. Just a quick one. If you wouldn't mind commenting on the Blue Label / Cell C deal and if you're concerned about the distribution channel and maybe Cell C paying a 2% airtime commission there. And furthermore would you be interested in leasing spectrum from Cell C should they make it available to you? Thanks a million.

Shameel Joosub

We are interested in spectrum from anybody, as long as it's legal. We want as much spectrum as possible. So yes. When I say that I mean we do need access to spectrum. Obviously if the Neotel deal goes through it does take the pressure off somewhat. It also depends on what people are offering, the rate it is being offered at and so on. But I think spectrum is important for cost and growth going forward. In terms of Blue Label, basically what has happened is Blue Label have always had a deal for Cell C for multiple years now where they have been paid rates on vouchers and so on. Our understanding is it is not more than the 2% that you're mentioning, above the normal market rate if you like.

However, where we stand with Blue Label, our agreement is very much performance based. So there is money paid to them based on a certain minimum level of performance that needs to be achieved. We have basically also exercised a clause in our agreement which effectively says that we can give notice should we want to change any of our terms going forward. It is a five-year period but we have basically exercised that notice and said to them that we may want to vary some of the terms in five years' time. For now it is business as usual. A lot will depend on what happens in the interim. But the agreements are very much performance based. So any decline in performance from Blue will basically trigger a clause within the agreement which then gives us the right to take certain actions.

So I think what we're seeing is very much a... I think they have their reasons for doing the deal. I think a lot of it has got to do with protecting the situation they have and the advantage they have in Cell C's airtime. But they are also a very effective channel for us. To put it into perspective most people think that Blue is the biggest channel for us. It is not. It's the third-biggest channel on prepaid specifically. Channels like [unclear] and Smartcall are bigger than Blue Label for us. I would say we have a fair spread of distribution as well. Let's say we are taking a watchful eye on the situation, but we are also encouraged that it will be business as usual and the agreements do speak to that.

Edward Pienaar

Perfect. Thank you very much, Shameel and Till. Have a good afternoon that side.

Operator

Thank you very much. Gentlemen, it appears that we have no further questions. Do you have any closing comments?

Shameel Joosub

No, I think that's it. I think a good set of results. Thank you for joining us for the call.

Operator

Thank you very much. Ladies and gentlemen, on behalf of Vodacom Group that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT