Conference Call Transcript

05 February 2014

Q3 RESULTS

Operator
Welcome to the Vodacom Group Ltd quarterly update conference call for the period ended 31 December 2013. 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 31 December 2013 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 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. All participants are now in listen mode only and there will be an opportunity for you to ask questions at the end of today's presentation. 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. I would like to hand the conference over to Shameel Joosub. Please go ahead, sir.

Shameel Joosub
Thank you. Good afternoon and good morning to those in the US. Welcome to our Vodacom quarterly update conference call for the period ended 31 December 2013. I'm joined today by our CFO, Ivan Dittrich, and our Group executive for Investor Relations, TC Ralebitso. We have provided you with an update of our revenue performance and the key customer indicators for the quarter.

Before we go into detail I would like to take you through our group highlights. Firstly, I am pleased with our results. We continued to make good progress on executing on our strategy. Our group service revenue increased 6.4% to R16.25 billion, up 3.4% on a normalised basis and in line with our guidance. This was driven by robust data revenue growth of 40.7%. Group data revenue is now 22% of service revenue.

Our group revenue increased 10.5% and 7.9% on a normalised basis to R20.2 billion, supported by a 27% growth in equipment revenue. Our group active customer base grew 12.3% to 56 million customers and our group active data customers grew 27.9% to 23.7 million customers. Importantly, 43% of our group customers are now using data, showing that we are executing well on our data strategy.

Our South African service revenue growth improved to 0.6%, which is 3.4% if we exclude the impact of MTR. This is a third sequential quarterly improvement. The improvement was driven by data revenue growth of 31.2% as we stimulate usage through our pricing transformation strategy.

Our international service revenue was up 32.6%, 15.1% on a normalised basis. Specifically the issue impacting us there is the change in currency, but still a very good performance supported by strong customer growth as we continue to expand our network in our international operations, improve our distribution and extend M-Pesa in all our markets.

If we now look at our reporting segments separately, I will start with South Africa first. The service revenue trend in South Africa improved for the third consecutive quarter. Service revenue grew 0.6% or 3.4% excluding MTR due to the success of our pricing transformation strategy and effective use of customer value management.

Our customer growth trends improved from 1.4% in the previous quarter to 5.1% in this quarter, growing active customers to 31 million active customers. We are seeing greater elasticity from our varied price plans with outgoing traffic up 23% despite a 21.5% decline in price per minute. I must add that obviously the decrease in price per minute is a deliberate strategy where we drive down prices but create elasticity by creating smart products that drive up elasticity.

Our prepaid mobile customer revenue is up 6.8% supported by a 21.5% increase in minutes of use, a flat ARPU of R80 and boosted by increased data revenue from our prepaid customers. Our value offers have led to a 25% decline in the prepaid price per minute to 56 cents.

Our contract mobile customer revenue was broadly stable, down 0.1% with a 3.9% decline in ARPU to R393 as we continue to move our customers to new integrated plans. The good news is that 50% of our voice contract base is now on integrated plans and 65% of our contract customer revenue is now in bundle.

We have launched a set of new plans called U Choose for our hybrid segment, which offers customers a choice between new and improved price plans with access to prepaid promotions or integrated plans very similar to our integrated contract plans. Initial take-up has been very strong with 40% of our new hybrid connections in December being on our new U Choose packages.

Our handset sales remained significant, driving revenue growth. Total revenue grew 6.6% boosted by a 26.9% growth in equipment revenue which now contributes 21.6% compared to 18.1% a year ago. This again highlights that you should look at overall revenue when reviewing our numbers.

The strong growth in equipment revenue was supported by an increase in volumes of handset financing deals which were up 23%. We are now financing approximately more than 90,000 deals a month, which is allowing us to effectively control our acquisition and retention costs.

Our data revenue performed exceptionally well in the period. Data revenue in South Africa increased by 31.1% driven by data growth of 88%, offsetting a 16% decline in the effective price per MB. The growth in data traffic was supported by strong usage across all our data services. Smartphone usage grew 84% to 254 MB. Tablets were up 32% to 809 MB and modems were up 50% to 979 MB.

Our active smartphones on the network grew 23.4% to 7.2 million, also supported by our financing programme. Our data bundle sales were three times higher than a year ago with 24 million customers. Our active data customers grew 17.3% to 16.2 million. More than half of our active customers are using data. I will remind you that our strategy was to bring down prices in voice through moving them smartly into new integrated plans and into our new price plans and offsetting that voice decline with a very strong growth in data.

The strategy is definitely being delivered by the fact that we are driving up the number of data users, putting more customers onto data bundles, but also increasing the usage on the devices by putting more data-capable devices into people's hands and also finding ways to get customers with feature phones still using a considerable amount of data.

If we move on to our international here too our strategy is paying off very well. The international portfolio has also acted as a very good Rand hedge. Our service revenue is up 32.6%, boosted by the impact of forex, 15.1% on a normalised basis in local currency, which indicates a continuing strong underlying growth.

Our data revenue more than doubled, supported by strong data traffic growth, which is three times higher than a year ago, and a 59% growth in active data customers to 7.5 million customers in our international business. 30% of our customers are now using data in international, so you can see the opportunity there is still quite large.

Strong customer growth of 22.8% to 25 million customers. We added 1.3 million customers in the quarter due to the success of our street vendor channel, expanded network coverage and making sure that we have competitive bundle offers across all our markets.

Our price transformation across all markets continued in the quarter with integrated plans and bundles now launched in all markets. M-Pesa continues to grow in Tanzania. Revenue grew 59% to contribute 19% to service revenue. Additionally 25% of airtime is now purchased through the platform. Following the launch in all our markets our priority is to continue to drive the registration of customers and to extend the ecosystem to improve the activity levels for M-Pesa.

I would like to conclude this call by addressing the final regulation of MTR published by the regulator ICASA. On the 29th January 2014 the Independent Communications Authority, ICASA, issued a statement about the cuts to MTR that will be effective from 1st April 2014. The regulation included an even higher degree of asymmetry than our original proposal published on 4th October.

We are supportive of MTR reductions, which should be determined in accordance with the procedures as set out in the Electronics Communications Act, which requires the rates be cost based. Cost based rates are important to sustain our on-going investment strategy. We have concerns about the process used to determine these published rates, and so we intend to challenge the legal validity of the process used. Based on the announced rate in the current form we estimate the impact on our business in F2015 could be as much as R1 billion. I will now hand back to the operator to assist with any questions you may have before wrapping up.

Operator
Thank you very much, sir. Ladies and gentlemen, at this stage if you would like to ask a question please press star and then one. If you would like to withdraw yourself from the queue please press star and then two to remove yourself from the queue. I have Chris Grundberg of UBS. Please go ahead, sir.

Chris Grundberg
Thanks very much. I have a couple of questions. First of all I guess just on the regulatory front. Thanks for the comments there. I just wondered if you could give any sense at this stage of your confidence for this challenge. What the kind of timeframe might look like with regards to that. I assume as part of the challenge you will be looking for an injunction to stay the implementation of

the regime as it stands. And then as a follow-on to that, I just wonder how that impact, if at all, any of the other issues you are going to have before the regulator over the next 12 to 18 months. Included in that things like Neotel and any spectrum allocation. Thanks.

Shameel Joosub
Firstly there is a clearly defined process that needs to be utilised in the Electronic Communications Act in determining what the cost base rates. Firstly you have to define the model that needs to be used. And secondly you need to request information to come up with the rate and then come up with an outcome. To be clear we are not opposed to the decline in mobile termination rates. We are opposed to the process that was used to determine it, and secondly, the level of asymmetry that has been given to our competitors, which we think had a proper cost study been done would have yielded a different outcome. I'm not going to go into too much detail on our legal strategy save to say whatever we do needs to be done very quickly.

Chris Grundberg
That's helpful. And just as far as the potential blowback in terms of the other things you may have before the regulator?

Shameel Joosub
I think one needs to see the different things as separate issues. I think we will always try and work with the regulator to try and find solutions to everything. I think we are a significant player in the market and we prefer not to go the legal route, but unfortunately things have not worked out. We've tried to provide solutions and so on. I think we will manage future things with the regulator and I think one can expect the regulator to follow due process in all instances. So I think one has to see the issues as separate issues.

Chris Grundberg
Sounds great. And just one other on the data growth in SA. Could you comment on how sustainable you see the Q3 performance as in terms of that level of growth? Thanks.

Shameel Joosub
Basically if we look at South Africa our guidance was that we should see growth in the mid-20s in terms of data growth in South Africa. I think one can expect that for the full year. And our guidance going forward is that we will continue to grow in the early 20s in data growth for the foreseeable future.

Ivan Dittrich
Chris, if I could just add to what Shameel has said, we experienced quite a bumper month in December. We also gave away a lot of data. But as Shameel has pointed out we are not at this stage changing our medium-term guidance of data growth in the early 20s. But clearly we are strategically continuing to drive data growth as one of our core strategic objectives.

Chris Grundberg
That's really helpful. Thanks guys.

Operator
Thank you. The next question comes from Jonathan Kennedy-Good of SBG. Please go ahead, sir.

Jonathan Kennedy-Good
Good afternoon. Shameel, you were talking earlier about the strategy of bringing down prices both on data and voice. I just wonder what this impasse in the MTR proposal might be. I mean would you

continue to bring down tariffs as you have on the prepaid side, i.e., driving usage much higher. And how is the network set up for the purposes of doing that? Have you got headroom on the network to do lower pricing both on data and voice?

Shameel Joosub

Thanks for your question. Where we are currently is the strategy is to continue to invest in the network to ensure that we have sufficient capacity, which we have. And yes, we still have headroom. But if you continue to invest it creates more headroom. And to open new markets specifically for taking 3G coverage deeper into the rural areas and so on so that we can continue to see the data growth. We will see some of that having come through strongly in this past quarter as we open up new segments. The intention is not so much to drive data pricing down. Data pricing is already quite low. And remember we've already transformed a lot of the data pricing by shifting customers very cleverly from old price points into the new price points by giving them more data. That strategy has worked very well. I think the price decline in data is stabilising more. On the voice side effectively what we're doing is different strategies. On the contract side it is ensuring that we can move customers from old plans to new plans and give them more value for their spend, and trying to maintain ARPU. We've done it quite successfully already by moving 50% of the customers onto integrated plans. We are now busy with the hybrid segment. And in prepaid we successfully stimulated driving our prices by creating new bundle offers, things like Power Hour and our new time-based bundles which are proving to be successful. These help to drive down the effective price per minute but also create elasticity. We will continue with that strategy. I think it's an important strategy to ensure that if there is any competitive flow-through from the MTR benefit to the smaller operators the strategy becomes even more important that we continue to enhance our strategy.

Jonathan Kennedy-Good

Thank you very much. If I may, just one further question. Obviously the international revenues look pretty strong. I just have one question on international voice. If you strip out the currency weakness there it looks like that slowed fairly substantially. Is there a reason for that in one of the key markets there?

Shameel Joosub

Yes. There was a slow-down in Tanzania in terms of voice. And obviously Tanzania is a big part of the international revenue. And the slow-down was really down to greater pricing competition. There was price increases in December with the changes of value in the bundles and again in January.

Jonathan Kennedy-Good

Thank you. That's helpful.

Operator

The next question comes from David Lerche of Avior. Please go ahead, sir.

David Lerche

Good day gentlemen. Thank you for taking this call. Jonathan asked a couple of questions, but maybe if you can give us an update on what is happening with the Neotel deal, specifically regarding timing of that deal, when it will probably go through? And then secondly, regarding the pricing in the DRC is the price floor still intact and is Vodacom still adhering to that price floor?

Shameel Joosub

So firstly on the Neotel. Basically where we are is at an advanced stage of negotiations. And hopefully in the coming weeks we should be able to finalise negations one way or the other. But we are still very positive that we can reach an agreement on Neotel. On the price floor, yes, we are adhering to the price floor. What we are seeing is essentially the performance in the DRC... Let's put it this way. A new price floor has been implemented and there is better adherence to the new price floor than there was before and more flexibility for us to do promotions in the DRC. So we're much happier with our competitive positioning now in the DRC than where we were a few months ago. That situation changed in the last quarter.

David Lerche
Excellent. Thank you. If I may, a third question please. Obviously in the international operations the data revenue has grown beautifully largely on the back of M-Pesa. Can you give us some indication of how much international revenue is coming from vanilla data that excludes M-Pesa?

Shameel Joosub
Your vanilla data is more than doubled. It went up more than 100%. 45% is vanilla data of the total data line.

David Lerche
Fantastic. Thank you very much, gentlemen.

Operator
The next question comes from Thato Motlanthe of Citigroup. Please go ahead.

Thato Motlanthe
Good afternoon. I just had a question on the MTR please. With the regime as it currently stands does it have any impact on your medium-term guidance in terms of revenue, EBITDA and capex? I know you mentioned an impact of R1 billion, but in terms of your guidance on revenue, EBITDA and capex does that change at all?

Ivan Dittrich
Thato, its Ivan speaking. We're obviously at this stage still looking at our business model in the context of the MTR cuts together with project spend, which is the acceleration of our capital investment in South Africa and also in our international operations. At this point we are not changing guidance.

Thato Motlanthe
Thank you very much.

Operator
The next question comes from Richard Barker of Credit Suisse. Please go ahead, sir.

Richard Barker
Thank you very much. Can I just clarify a little bit around your response to the MTR decision? I just want to be very clear about what you're saying. Are you definitely now saying that you will be going to court to challenge the regulator's decision? The reason I ask is not to sound too confrontational, but as far as I can see that seems to be the only avenue open to you now. But maybe I've got that wrong. If there is still room for negotiation without going that route I would be very interested to hear that. That's the first question. The second question is can I understand a little bit more exactly where the real crux of your concern is around the termination rate decision? I mean for instance if the regulator were to come back with a higher end point for the glide path, a slightly more modest reduction, would you drop your challenge? Or is there more to it than that? Are you more worried about the asymmetry I guess?

Shameel Joosub
I think the big thing for us is, Richard, that there's a process and the process should be followed. The reason for the Electronic Communications Act is that there's a defined process that is there which the regulator needs to follow. That process needs to be followed in reaching what the rate is. So yes, we are always hopeful of negotiation. But basically where we stand at this point is we will mount a legal challenge questioning the process that was followed.

Richard Barker
Thanks, Shameel. Sorry, on the second part, which part of it is it that concerns you most? Is it the asymmetry, is it the level or is it both of those?

Shameel Joosub
Firstly, obviously the asymmetry is an issue for us, specifically because we don't think it is justified. Moving from 10% asymmetry to 100% asymmetry growing to 300% asymmetry doesn't make any sense. And one wants to understand the basis for how this decision was reached. So that's the first point. And then secondly obviously the actual rate needs to be cost based. From where did we determine the [unclear]? There has to be a cost model determined. What cost model was used? Establish which cost model you're going to use, the operators submit this information, you analyse it, you determine the final rate and then you have a glide path towards it.

Richard Barker
And they requested and you provided information for them to calculate their model well in advance. Is that right?

Shameel Joosub
No. that's not right.

Richard Barker
In which case they didn't request?

Shameel Joosub
No. they didn't request anything.

Richard Barker
I thought it said in the draft proposals that there was a request for information. Did that not happen?

Shameel Joosub
No.

Richard Barker
That's interesting. Thank you.

Shameel Joosub
There was information, but it was limited information, not enough to generate a full cost model. Just to be clear.

Richard Barker
Okay. Thanks.

Operator
The next question comes from Mike Gresty of Deutsche. Please go ahead, sir.

Mike Gresty
Good afternoon guys. Just a couple from my side. First of all, obviously you are the first ready to report numbers on the December quarter. Can you just give us a bit of a sense of how you see the competitive environment evolving? Have you seen a response from MTN after quite significant competitive losses in the prepaid space? That would be useful. Then obviously you've done very well on the M-Pesa side in Tanzania. I was curious whether you're seeing any impact from Bharti which is seemingly coming from behind but starting to push quite hard with its own mobile money product. How do you see that potentially impacting your position in times ahead?

Shameel Joosub
So if we start with the first one, in terms of the competitive environment basically what we saw in the quarter was we managed to maintain. And once the final numbers are out you will see we maintained market share. From a customer perspective we definitely gained, but we also look at revenue. I think once the numbers are published we will probably gain a little bit as we've done progressively over the last year. So that's the one side. What we did see from MTN was they continued more or less with the same modus operandi. Probably a bit more balanced, not overly aggressive, and nothing really new from Cell C in the quarter. And basically MTN not too much on the prepaid side, but really putting bigger subsidies on the contract side. So I still think MTN is in the price of not really going through a pricing transformation as yet. I think we are much better poised because we have made the shift in mindset and proactively worked on moving our customer base through to the new integrated plans where we are providing customers with more value. I would say MTN is much further behind on their journey. From an M-Pesa perspective, Bharti for the second half of the calendar year was probably a bit more aggressive in M-Pesa but starting from way behind. The main competitor in M-Pesa in Tanzania is actually Tigo Cash. What we saw in the first quarter is that we lost a little bit of share in the second quarter but we regained share in the third quarter in terms of overall growth, with a very strong growth in terms of M-Pesa at 60% year on year growth.

Mike Gresty
Thanks very much guys.

Operator
Thank you. The next question comes from Madi Singh of Morgan Stanley. Please go ahead.

Maddy Singh
Thank you. I have a few questions. Firstly, just following up on the interconnect side. If you go to the court can you get an injunction on the implementation of the existing proposal? And secondly, following on this, the financial impact as well. You said R1 billion. Is it on revenue and cost or is it an EBITDA impact? I was just wondering what percentage of your off-net traffic in South Africa goes out to MTN, because I would believe that portion of the cost would also come down.

Ivan Dittrich
I will take you second question, which is the financial question about the R1 billion we've spoken about. That R1 billion is the net interconnect revenue, so the interconnect revenues less the interconnect cost savings we will make. That's a R1 billion EBITDA impact.

Shameel Joosub
Sorry, the first question was around the MTRs. Do we believe that we would be able to get an injunction through our contemplated legal action? Is that right?

Maddy Singh
Correct.

Shameel Joosub
I wouldn't like to go into too much detail on our legal strategy save to say we will effect it under judicial review.

Operator
Thank you gents, the next question comes from Johan Snyman of Renaissance Capital. Please go ahead.

Johan Snyman
Good afternoon. Shameel, to you and your team, well done. Maybe just one comment. When we had the first glide path it didn't seem to worry you guys so much, so I don't know why you are all making a big fuss for this one. Secondly, with the progress that you've made in terms of market share gains maybe just a bit of colour on margins. Did that come at the expense of margins? And then a third one. This time last year you provided a little bit of colour on your LTE rollout. Maybe just some colour on that aspect. Thank you.

Ivan Dittrich
Johan, we are obviously not reporting EBITDA numbers this quarter. When we last reported our half year numbers it was the period where we had quite some market share gains. We continued to expand EBITDA margins in South Africa.

Shameel Joosub
So it hasn't come at the expense of margin. Why we are making a big fuss on the MTRs, to be frank, Johan, is really the R1 billion impact. It is quite a sizeable chunk. And that's why we feel that it is too much. I think what happened previously is putting an MTR regime in place. I mean last year was a big decline as well, but that's okay. We can kind of manage it. But basically having a 50% drop with 120% asymmetry is going to cost us R1 billion, which is quite material, which then has a number of knock-on effects in terms of how we try and close that gap. So that's why we are basically challenging the process. And I think it's important that there are processes that need to be followed in determining the rate and it is important that those processes are adhered to.

Johan Snyman
Thank you. A comment on capex and LTE please.

Shameel Joosub
Sorry, on LTE, in the December quarter we were just short of 800 live base stations on LTE now. And we have seen some really good growth in terms of LTE traffic. We are also getting a lot of benefit from the fact that it is offloading the 3G network in those areas, so it is actually giving us a better customer experience.

Johan Snyman
Thank you.

Operator
The next question comes from JP Davids of Barclays. Please go ahead.

JP Davids
Hi. Good afternoon. I've got three questions please. The first one, in South Africa the release is fairly light on detail around U Choose. Can you give us a little bit of colour on the rate of adoption and any market share dynamics you can share? The second question for Ivan is on the volatile Rand. Can you provide us a little bit more colour on what you expect the impact to be on the P&L below the obviously translation impact of the international operations? And then the final question is around M-Pesa. Could you provide us an update on the launch in the DRC and Mozambique and if there are any take-aways from those launches for your South African re-launch? Thank you.

Shameel Joosub
Firstly on the uChoose packages. It is still early days. We just launched in this quarter. We did see a strong uptake in December. It is improving into the quarter. What will happen over the next couple of months is as we make the old packages legacy effectively all upgrades and so on will move towards the new packages, both new connections and upgrades. And we will use the same logic as we have done with the others, which is basically to transform customers from the old price plans into the new ones, starting with the highly churned band first and working our way down, so basically ensuring that customers get more value in the process. We have two types of U Choose plans. We have what we call flexi plans and we have integrated plans called smart plans. The U Choose smart plans are a mirror of the integrated plan that we have created on the voice part with a slight difference in pricing. And then the second one is the flexi, which effectively if you signed up for R100 a month you get R100 to spend as you like, but what we've changed is that you can access all the prepaid promotions. One of the big things we focussed on was you will be able to access products like Power Hour, like the prepaid data bundles and so on. One of the new innovations that we've implemented in the business is what we call time-based bundles. So for R4 you can buy an hour of talk time and it expires within an hour. It goes with the principle of hand to mouth. And we've also come up with time-based data. So for R3 you can buy 15MB and it expires within an hour. Those are the products we have created to tap into more of the emerging market segment if you like.

Ivan Dittrich
JP, on your question on the Rand, you are quite right. If the Rand continues to depreciate it has got quite a large translation into our South African subsidiary. I think Shameel made the comment in his introductory comments that it is acting like quite a nice Rand hedge. If you look at the South African operations clearly the bulk of our capex is non-Rand denominated and also a meaningful part of our operating expense, particularly on the network side, is non-Rand denominated. We have got a policy to hedge, so the hedging policy continues. And we are also busy with global negotiations with our suppliers to bring prices down. So the benefit would be price reductions through global purchasing power to a certain degree offsets part of the currency risk. And we are also always looking to optimise and re-prioritise projects further. The biggest action we are taking is the global negotiations on pricing.

Shameel Joosub
Just to add to what Ivan says, it's a pity though because obviously we could get more equipment if the Rand was more stable, which would help us to build up our strategy quicker. On M-Pesa, what we are seeing in the different countries is firstly you have a slow start-up on it. You've got to get people used to it and so on. But it is gaining traction in all the markets. It takes a good year or so to just get people used to the idea and the concept of M-Pesa. What we're also doing in the different markets is really focussing on trying to build the ecosystem. So for instance in the DRC the teachers and soldiers are being paid by M-Pesa. So the more institutions we can get to use M-Pesa the more money there is in the system itself. The other area that we are focussing on is making sure that we get more people to pay for electricity and so on via M-Pesa. That creates an ecosystem. So the more suppliers we can get to accept M-Pesa that also helps. And then also building on the store

side and making sure that more stores accept M-Pesa, what we call B2B where effectively business transacting with the small spaza shops instead of using cash to transact they transact using M-Pesa.

JP Davids
Thanks for those answers. Just a follow-up on M-Pesa. Just in terms of the distribution side of it, you mentioned bringing new stores on line and so on. Is there initially a strategy of loss-leading or are the terms you sign up today at the start of the product the same as you will have in three years' time? Or do you try and incentivise them to sign up faster?

Shameel Joosub
Distribution is extremely important. To some degree obviously when you launch M-Pesa one can expect that in the first year or year and a half you will be losing money. So to some degree it will be a loss as you build up the distribution and so on. But let's put it this way. In Tanzania we have increased rates, so it's not like the rates stay stagnant. You have to build the ecosystem, you have to build a customer base. So there is a lot of incentive initially and a lot of marketing activity. So big spend on marketing and education upfront, which contributes to the losses more so than the margins. Over time as people are more educated on the product you can step down some of those marketing and education costs if you like.

JP Davids
Thanks very much, Shameel.

Operator
We have a follow-up question from Maddy Singh of Morgan Stanley. Please go ahead.

Maddy Singh
Thanks. Last time I didn't get the answer on the question on share of traffic towards MTN in South Africa. Also following up on the SMS revenues, I saw that there was a significant decline year on year on that portion. Is there some kind of mix change happening from data to SMS, and do you think that is going to continue as you focus more and more on data? Thank you.

Shameel Joosub
Firstly to your question on the split between MTN and the rest of it. We actually don't disclose those numbers save to say that obviously we are getting a significant amount of our traffic now on-net because of our promotions and so on. So that's the one thing. Unfortunately we can't give you more colour on that. In terms of the second question on the decline on SMS, there was a change in the quarter specifically on the wholesale SMS side in terms of interconnect and so on. But there is an underlying SMS decline where we're seeing the number of Whatsapp users grow. Remember part of the strategy is to move customers into integrated bundles, so in fact you almost move away from the discussion of SMS because you're selling a total bundle and you're capturing the revenue. So you're trying to hold on to the customer ARPU, and by capturing the customer ARPU it doesn't matter whether they use SMS or not. But yes, I think one of the things that you can expect is that as you put more smartphones out there services like Whatsapp will grow.

Ivan Dittrich
I think just some interesting stats, the Whatsapp users have increased almost fourfold from December last year to this December. It is now close to 8 million users. So clearly a significant uptake in that space.

Shameel Joosub
And it almost mirrors the amount of smartphones that you have out there.

Maddy Singh
Thank you.

Shameel Joosub
That's why it's important because smartphones are generally going to a contract base. That's why it is important to capture and hold on to the total spend by moving the customers into the new integrated plans which have voice, SMS and data integrated into it.

Maddy Singh
Okay. Thanks.

Shameel Joosub
We have a question from Franca di Silvestro of HSBC. Please go ahead.

Franca di Silvestro
Hi. Good afternoon. I just wanted to ask you more of an observational question. In the last six months we have seen competitive levels fall off. Do you feel this is a function of other operators having depleted their war chest or do you think this is more a case of them waiting to see what is happening to MTRs?

Shameel Joosub
I think it is them having depleted their war chests. I think what will happen with MTRs is that most of it will be taken towards profitability to be able to turn...They have already showed their hand on pricing. They are taking the losses associated with that. And they now need to turn that story into a profitable story. And the benefit of MTRs will by and large go into turning that into a profitable story. We have, however, also created plans and so on, so should the full benefit be passed through into pricing then we have those plans to be able to counter that. Having said that, Cell C has already come out strongly saying that they intend using most of it for profitability.

Franca di Silvestro
Thank you.

Operator
Ladies and gentlemen, we would like to hand the call back over to Shameel Joosub for final closing comments. Thank you.

Shameel Joosub
Our pricing transformation continues to pay across all our markets, delivering group service revenue of 6.4%. Our data and international portfolio remains the key drivers of growth for our group, growing by 47% and 31% respectively. Thank you for dialling in. that concludes our call.

Operator
On behalf of the Vodacom Group Ltd that concludes this afternoon's conference call. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT