

Vodafone Group plc  
**Vodafone Analyst and Investor Conference**  
**Call**  
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## **Highlights**

**Vittorio Colao**

**Chief Executive, Vodafone Group**

### **I. Introduction**

Thank you, Operator. Good morning. Thank you for joining Vodafone's Interim Management Statement Call for the third quarter ended 31<sup>st</sup> December 2010. I'm here with Andy Halford, Nick Read, Michel Combes; and, following our brief introduction we'll be very happy to take any questions you might have.

### **II. Third Quarter Highlights**

#### **1. Data Revenue**

So I will start with the third quarter highlights on page 3. Third quarter Group service revenue was 11 billion, delivering a growth of 2.5%. This is the fifth sequential improvement in service revenue growth. The UK, Turkey and India delivered particularly strong performances in the quarter and we saw solid results from our German business as well. Data revenue continues to deliver good growth, 27%, driven by our focus on data bundles, on network quality, and on increasing smartphone penetration on our customer base. As we drive data revenue and smartphone growth, our business continues to generate cash flows in-line with our expectations. And as a result of the performance to date, we now expect our full year AOP to come in at the upper end of the range: £11.8 billion to £12.2 billion, which we gave as guidance.

#### **2. Key Financials**

I will move to page 4, Key Financials. Looking at the Group financials for the third quarter, service revenue continued to grow in both regions – Europe and non-Europe – driven by customer growth and data and fixed revenue. Capex in the quarter was higher than in the previous year, as we rolled out our 3G in India, we invested in our data network in South Africa, and we continued to invest in Europe to maintain our network advantage and advance our Supermobile strategy, which we presented in November. Year-to-date capex is flat.

We generated 1.1 billion of free cash flow in the quarter, which is a decline of 40% on the prior year. However, this year-on-year decline is impacted by timing differences and we remain on-track to deliver a full-year free cash flow of in excess of 6.5 billion. At the end of the quarter, the net debt was 30.3 billion, basically stable.

### **3. Underlying Service Revenue**

Taking a closer look at the underlying service revenue, I would move on page 5. Our focus across the Group continues to be the one of growth. Group service revenue, as I said, grew 2.5% in the quarter, which is 20 basis points' improvement over Q2. However, this masks the underlying performance in our business as MTRs have had a significant impact over recent quarters. Excluding the MTR impact, underlying Group service revenue grew 4.6% in the third quarter, which is 50 basis points improvement over Q2.

On slide 6, we can have a look at Europe. Again, in Europe, if we exclude the impact of MTR cuts in the third quarter – most notably in Germany – Q3 underlying service revenue growth was 2.3%, an improvement of 40 basis points over Q2.

Now on the basis on the previous European region definition, service revenue remains stable at negative minus 0.9%, and it is now with ongoing macroeconomic weakness in southern Europe and recent MTR cuts; unlikely to become positive by the end of the financial year or in this quarter.

### **4. Trends in Europe**

A few comments about the trends on Europe at slide 7. During the third quarter, many of the European trends that we saw in the first half of the year basically continued. We saw recovery in our northern European business when many southern European businesses continued to be impacted by austerity measures, and also, and importantly, by poor consumer confidence. In this context, European data revenue grew 23%, continuing the step-up in data growth that we saw in the first half, from the mid-teens of last year to the mid-twenties this year.

Contract customers grew 8% and fixed line revenues 3%. And also important to point: the European enterprise business continued to deliver growth, driven by increased customer connections and international enterprise wins.

### **5. Data Strategy**

Slide 8. A bit of focus on data. Data remains central to our growth strategy. We grew 23% in Europe, as I said. The factors underlying the European data revenue are clearly the smartphone penetration increase to 17% of the base, with European data attach rate – or the rate of people who have a data commitment together with the smartphone – which is now 46%.

By the end of December, we have launched our tiered data pricing plans, which we demonstrated in November, in eight European markets. And by the end of this quarter, we will have launched in every one of our markets. And while we are on the early stages of the smartphone adoption, our experience continues to show that customers are subscribing at higher points when moving to a smartphone or when they are taking a tiered pricing plan.

In the UK, we had the success in 'smart notification', i.e. contacting our customers as they approach their usage limit, and often moving them to a higher pricing plan. We are rolling

out this approach across Europe in the current quarter.

And another important element of our data strategy: network. Network testing results confirmed our network advantage. We did testing in the quarter and we had results which I consider particularly pleasing. 12 out of 13 of our European markets show that we have a data network leadership, which again is very important for our Supermobile strategy. So, in summary, I think we are making good progress against our data strategy.

I will now hand over to Andy for the country results, and then get back to deliver a summary of the quarter. Andy.

## **Performance by Country**

**Andy Halford**

**Chief Financial Officer, Vodafone Group**

### **I. Germany**

Thank you, Vittorio. So, starting with Germany on slide 9. German service revenue growth in the quarter was 1.1%. Adjusting for the recent cut in MTRs, this is an underlying service revenue growth of 2.3%, and an underlying mobile service revenue growth of almost 4%. Fixed revenue declined 2% in the quarter, although this was somewhat impacted by a one-off receipt relating to a contract win in the prior year. German data revenue grew 29% in the quarter, with good growth in the superflat internet customer base, which now stands at 1.5 million. During the quarter, the business won a number of substantial new enterprise contracts and now has an enterprise mobile customer base of over five million. On the 1<sup>st</sup> of December, we launched our LTE service in rural areas, and our rollout is progressing in-line with plan.

### **II. Italy**

Moving on to Italy, slide 10. The Italian market remains highly competitive, and we continue to protect our market position. While service revenue growth remains slightly negative, we delivered strong positive data revenue growth through a focus on smartphone sales, which now account for over 50% of our handset sales. In addition, fixed service revenue grew 9%, driven by our success in attracting new customers.

### **III. The UK**

In the UK, slide 11. In the third quarter, service revenue grew an encouraging 7%, driven by data revenue which was up 30%, reflecting our success with smartphones and data attach rates. We continued to see good growth in contract net adds, and contract customers now represent approximately 50% of the overall customer base. Encouragingly, the increase in our contract customer base – of over 1 million in the last

year – has been delivered without compromising the overall quality of our base, as blended ARPU increased 6.3% in the third quarter compared with the same quarter in the prior year.

#### **IV. Spain**

Now Spain, slide 12. As you know, macroeconomic conditions remain challenging in Spain. We continued to see low usage growth, despite significant price reductions, and as a result, Q3 service revenue fell 7.4%. Our new integrated tariffs have supported a reduction in churn, and the iPhone continues to attract customers. In this environment, we are very focused on strategies to manage the bottom line impact of continuing revenue declines.

#### **V. Turkey**

And so on to Turkey on slide 13. Our business in Turkey continues to deliver exceptionally strong revenue growth, adding quality customers, maintaining MNP market leadership, and driving up ARPU. A number of commercial initiatives, which started earlier this year, focusing on key market segments, are now delivering results. Annualised Q3 data revenue now represents 6% of service revenue, and we are having some significant success in the enterprise market with Q3 revenue up 49%. We continue to invest in the network and have added 700 3G sites and 750 2G sites in the last quarter. Our 'money back guarantee' campaign has been one element in our success in attracting customers, and our Net Promoter Score in the quarter placed us 18 percentage points ahead of our nearest competitor. Going forwards, our focus is on driving profitability alongside market share in this growth market.

#### **VI. Emerging Markets and Asia Pacific**

So, moving on to the EMAP region, slide 14, the Vodacom group. In South Africa, data continues to drive our growth through mobile broadband. In the last quarter we have launched a number of very successful new value offers, which you can see below in the slide, attracting 1.4 million new customers.

In the International operations, revenue continues to recover. Both Tanzania and Mozambique have performed well. However, trading conditions remain challenging in the DRC and Gateway operations.

#### **VII. India**

India, slide 15. In India, third quarter service revenue grew by 17% as strong growth in our customer base more than offset the impact of price declines. We will launch our 3G service this quarter and expect to have more than 5,000 base stations operational by the end of March. We can confirm that we have appointed banks under the agreed process for valuation of the Essar put option.

Despite our capex investment in the second half of the financial year, we continue to

expect the business to generate a positive operating free cash flow for the full year.

## **VIII. Verizon Wireless**

Now Verizon Wireless on slide 16. In the US, Verizon Wireless continues to deliver strong revenue growth, at 7%, driven by data and smartphone penetration, and has been very successful in driving both contract net adds and ARPU. Operationally, Verizon Wireless is on track with the LTE network rollout and, as you are all aware, is currently launching the CDMA iPhone which will be available to customers from next week.

We have recently extended our joint operational initiatives and are very happy with our strategic and commercial dialogue. Q3 cash flow generation remains strong at \$3.1 billion. And net debt, at the end of the quarter, was down to \$11.2 billion.

## **IX. Cash Flow**

So moving onto cash flow on slide 17. Year-to-date capex remained stable over the prior year, at £4 billion, as we continued to invest in our European network, started 3G deployment in India and invested in the South African data network. Year-to-date free cash flow is lower than last year, due primarily to working capital movements as we took advantage of early settlement terms in December. For the full year, we expect this working capital impact to reverse, and expect to deliver at least a similar level of benefit to last year. On the basis of year-to-date free cash flow generation, we reiterate our free cash flow guidance for the full year of in excess of £6.5 billion.

## **X. Net Debt**

On net debt, slide 18. Our net debt has remained relatively stable since the end of the second quarter, standing at £30.3 billion at 31 December, including £3.2 billion for the Essar put options. We have provided £1.5 billion in collateral and bank guarantees to the Indian Supreme Court to support our tax case. However, only the cash deposit element of this – £0.4 billion – is included in net debt.

Our share buyback programme continues, and by the end of December, we have accumulatively spent 1.1 billion buying back shares in the market, of which 1.0 billion occurred in the quarter itself. As of yesterday, the total had increased to 1.5 billion.

## **XI. Guidance**

And so onto guidance. Our year-to-date revenue and margin performance is very much in-line with our expectations and allows us to confirm the updated guidance we issued in November. In fact, we now expect adjusted operating profit to be towards the upper end of the £11.8-12.2 billion range. This is before taking into account the impact of the Verizon Wireless iPhone launch, which we will separately identify when we release our preliminary results in May.

And with that, I will hand back to Vittorio.

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## **Creating Values**

**Vittorio Colao**

**Chief Executive, Vodafone Group**

### **I. Third Quarter Highlights**

Yes. Last slide: a little bit of my views on the quarter. I think we can say that we are executing effectively against our strategy with the fifth successive quarter of service revenue growth improvement, with improving trends in both Europe and the non-European region. We have seen good commercial performance in data and in driving smartphone penetration across our customer base. And the business continues to generate under strong underlying cash flow as we continue to invest in our data network which is key to our Supermobile strategy.

Now although our performance is strong – in the UK, it is very strong, in Turkey, strong, in India – my current priorities are now improving our performance in southern Europe, driving forward our Supermobile strategy, and maintain, throughout the company, strong focus on the cost base and, in general, on operations excellence.

We have completed about 50% of our share buyback programme, and today we confirm guidance for the full year with an expectation – and Andy has said that the full year AOP will be at the upper end of the £11.8-12.2 billion range. So a good quarter; still working on some areas of improvement.

This is the summary of it. I thank you for listening. And I would now give the line back to the operator to take questions with my colleagues.

[Operator instructions]

## **Questions and Answers**

**Tim Boddy, Goldman Sachs**

Thanks for taking the question. Couple of questions. Obviously the success in the UK is very welcome. It doesn't seem that there's been the same kind of acceleration brought about yet in Germany, as a result of getting the iPhone. So I wonder if you could just characterise how you're going with the iPhone in Germany.

And secondly, in Spain, anything you could say about the outlook for the fourth quarter and into next year. You talked about your priority being to improve performance. Can we see trends in Spain start to improve or at least the declines reduce looking forward? Thank you.

**Vittorio Colao**

Yes, Tim. Let me take the Spanish part, which is more macro, and then turn to Michel for the detailed iPhone question in Germany. Spain is a difficult macroeconomic environment. I have to say, the situation is not worse, but it does not seem to improve a lot. If I look at all of our trends, the interesting thing is that we see markets where we have big price reductions and good elasticity. We have markets where we have small volume increase, but also more moderate single-digit price reductions. Spain is the market where we still have double-digit price reductions but no elasticity; we have negative roaming; we have the smaller data growth. So there seems to be a general soft market which is difficult to predict now.

So focus for Spain: cost structure, effectiveness of investment, and make sure that we go through this phase with the leanest and best, fittest possible structure. But I would say very much no change versus the previous quarter.

Michel, you want to take the iPhone in Germany?

**Michel Combes, CEO, Europe Region**

Yes. Maybe on Germany, just to flag or to highlight the improvement in the mobile service revenue performance. 3.6%, let's say, without the impact of MTR, so which is a strong improvement compared to Q2 at 2.5%. So that's just for the generic. For the more precise, of smartphones, 73% of our handset sold for contract were smartphone. You have just to remember that we announced the iPhone only at the end of October, which means that we don't have yet the full impact of the iPhone scale-up. Nevertheless, we are, let's say, really on-track in our iPhone sales, which are going very well in November and December.

**Tim Boddy**

Okay, thank you.

**Nick Delfas, Morgan Stanley**

Yes, thanks very much. On issues like MiFi, could you let us know whether you're pushing them as strongly as Verizon Wireless, as I think they recorded 200,000 MiFi sales in Q4? You mentioned your network lead. Could you just clarify really how wide that network lead is and whether you're satisfied with that in terms of data quality or whether you'd like to extend your network lead in Europe? Thanks very much.

**Vittorio Colao**

Sure, Nick. First of all, on MiFi, I'm not sure I have the aggregate number, but I can tell you anecdotal evidence. In the last month I went into three countries. I did shop visits in every single country. The MiFi unit is in one of the front windows where you go there. It is sold. It is liked. It is an integral part of our total Comms strategy. I don't have the exact number. Keep in mind that all of our products are always – or we tend to sell them

3G-enabled. This is a good complement to the basic range of tablets and smartphones. But the answer is, yes, it is central. If you are interested in the number, I think we can get back to you.

On the network, I think you're asking an interesting question. Are we ahead? Yes. Why are we ahead? Because, as I have said, since 2008 it has been a priority for us to regularly invest in the network. We have, in Europe, 80-something percent volume growth, but still the same network utilisation, still the same peak net utilisation, still the same percentage of site fully used, which means that our network management techniques are solid and well deployed. Am I happy with it? You know, I think we can improve always. I mean, the answer is, I think in certain trends we can improve, and in certain remote areas we can improve, and we will improve. But, in general, I am happy relative to my competitors. Yes, I am happy.

### **Nick Delfas**

Okay. Thanks very much.

### **Robert Grindle, Deutsche Bank**

Good morning. Just on the operation initiatives with Verizon Wireless. Which were the ones that were extended? Flagged in the presentation. And secondly, do you think you can still grow under the 'old Europe' definition in the next one to two quarters?

### **Andy Halford**

Shall I pick up on the first one there, Robert? On the operational side, we've been working for a while on the sort of technical side, and looking at sort of LTE standards and things like that. And we're expanding that to look at other things on the technology side. Procurement is an area that we are now turning our minds to, to look at where we can jointly be procuring and where we are procuring from the same suppliers. Thirdly, we are going to be working with a number of our major international accounts to build on the good work that we've done in the Vodafone global enterprise area, and again see what extra opportunity there is by servicing those accounts jointly with Verizon. And then finally, on the terminals side, looking particularly at tablets and other devices, again to see where there are areas of commonality. And particularly, over a period of time, as the technology differences progressively start to reduce, just to sort of see what mileage there is by working much more closely on all of those fronts.

### **Vittorio Colao**

Yes, on the 'old Europe' thing, I don't think we will in the current quarter see a return to growth on the kind of 'old Europe' definition. And the main reason for that would be southern Europe being not improving versus the previous quarter – so I have to refer back to my earlier answer on Spain.

### **Robert Grindle**

Okay. Thank you.

**Paul Howard, JP Morgan**

Thank you for that. Just a couple of questions. On data, I mean I guess the key difference between the US and Europe, in terms of revenue growth, one of the reasons is data pricing is much higher in the US. Do you feel there is any scope to start increasing prices for data across Europe? And I guess associated with that: network quality is clearly important. We've just seen Verizon Wireless I think increase capex in 2011 by some 20-odd percent. Do you feel that there is a need for you to do that in Europe? Would that help the network quality and the data pricing?

**Vittorio Colao**

Let me get the first answer and then maybe, Michel, you can integrate. On pricing, I don't think data straight price increases are easy in our sector. What we introduced is tiered data pricing, which actually means that if customers use it more – which is the normal trend – there will be more revenue in the future. And that's why we introduced the tiered data pricing. It is not to increase the price to the current usage but to not miss an opportunity when usage goes up. And it does go up, as you all know, from our own personal use of smartphones and tablets. So it's more of a forward-looking pricing framework rather than an increase in price that I have in mind.

On network quality, you have to keep in mind that Verizon has to launch LTE, which is for them a second network, as opposed to just increasing the capabilities of the current one. I am not obsessed with capex *per se*. I am more focused on total cash flow. So as long as we can finance it, I have no issues with more capex. I think that we will look at case by case in the context of the budget, and, when needed, we can always give a bit more. But it's not a totally comparable situation. As I said in my earlier answer, we have been very constant and very thoughtful and very, I would say, skilled in investing over time in the data area.

**Paul Howard**

Thank you. And perhaps I could just follow-up very quickly and thank Mr Snow for his efforts. I think it's Richard's last set of results today, so I wouldn't mind mentioning that.

**Vittorio Colao**

That's very kind of you. I also thank Richard, appreciate a lot. And we do appreciate a lot both your comment and Richard's work.

**Simon Weeden, Citigroup**

Thank you very much. I wonder if I could ask a couple of questions. One is around one of the countries, Italy, and whether or not you can give us a little bit more colour on whether you were exiting the quarter at a better rate of growth than the average suggests. And if and what the competitive dynamic is there that's holding you back from posting a better

top-line figure. And then the second question was: as regards the newer smartphones that are coming into the market now, I wonder if you've noticed any difference, particularly thinking about smartphones that have a particularly good video capability – and leaving aside tablets for the moment – whether there's any marked difference in the data usage per customer on say the newer android and maybe the iPhone 4 models versus the older iPhone type models. Thanks.

**Vittorio Colao**

The second piece is easy. And if there is a difference it's not marked enough for me to catch it in our reports. In other words, the usage seems to be pretty much, from recent months, in-line with what we expect. Michel, Italy?

**Michel Combes**

On Italy, just to mention that we are flat, Q3, compared to Q2; sustained by still a strong growth in enterprise and in data. We are experiencing voice dilution, as in the previous quarter. In order to fight against that, we have refreshed all our pricing structures, whether it's in pre-paid or in post-paid. From a competitive point of view, we still see quite a strong push from Telecom Italia in order to recover from a market perspective. And the other players are still, let's say, playing the games that they were playing in the previous quarter. So I would say flat; strong enterprise; strong data; voice dilution, which will be offset by the different pricing initiatives that we have taken in pre-paid and in post-paid.

**Simon Weeden**

Thank you very much. And I'd like to add my thanks to Richard as well. He's done a terrific job. Thanks.

**Robin Bienenstock, Sanford C. Bernstein**

Yes, good morning. Thank you very much. I guess my question is: in light of recent fibre operation rulings in Germany, I'm wondering if you can tell me whether you think – what you think about the structural future of your German wireline business? And separately, what would you point to in your overall programme that tells me that you're making progress on cost discipline in your organisation, and why should I have confidence that a return to growth is not going to make you profligate?

**Vittorio Colao**

Michel, do you want to take at least the first part?

**Michel Combes**

So on Germany, as you have seen in our figures, our cost Q3 figures have been impacted by a high revenue reported in Q3 last year because we had, let's say, in enterprise fixed contract revenue, which has been recorded in Q3 last year, so the comparison is slightly

misleading. And so we are more or less flat in, let's say, this quarter, if we take that out; which is driven mainly by an improvement in the enterprise side and a slight deterioration on the consumer side where we are facing the competition from Deutsche Telekom on one side and the cable operators on the other side, which are increasing the penetration of broadband.

### **Andy Halford**

Robin, on the cost one, I suspect there are sort of two parts to that question, one: 'How are we doing?' and the other is, 'Are we going to become profligate?' – the answer to which is no, but I'll come back to that. The first one: in May we will talk about, and give more visibility to the progress we are making on costs. Obviously today is more focused on revenue, but there is good progress on the costs, and we will talk about that in May. And we will see you know, if the top-line does pick up, I think we are in much better shape, both culturally and a number of the things we have done structurally within the business over the last two or three years; it is now very firmly ingrained in the whole sort of mindset. And an increase in the number of initiatives, where we are looking at what can be done more cost effectively in different locations, that is absolutely going to continue. So I do not have a concern about profligacy continuing, or coming back into the business.

### **Robin Bienenstock**

My question about Germany was about the fibre regulation and therefore what you think about the structural future of your wireline business in Germany; it wasn't about the quarterly trends.

### **Michel Combes**

Well, the fibre regulation: as you know, we have – let's say, we are taking the case to Brussels in order to get, let's say, a fair access on the DSL type of piece. What I was mentioning is that, at that stage it doesn't affect our enterprise business; it starts to affect slightly our consumer business. So there's a reason why we are just focusing on DSL. We have launched also our LTE in order to substitute parts of the fixed line by mobile technologies. And, let's say, we are expecting good, positive outcome from Brussels on the DSL regulation.

### **Robin Bienenstock**

Thanks very much.

### **Justin Funnell, Credit Suisse**

Thanks. Just looking firstly on the MOU trends in Spain and Italy. Probably haven't done bad on market share overall, but your MOU trends continue to weaken in Spain, year on year, and Italy got a bit worse. I'm just wondering if, in these markets where clearly there's a set-up fee on voice, it's a relatively high price per minute, whether you're seeing signs of smartphones cannibalising voice usage. I just wondered if you could talk about

that, and whether it actually matters for your revenues anyway.

### **Vittorio Colao**

Justin, very good questions, as always. However, I really think you should put Italy and Spain in two different baskets. As I said in my comments, Spain is the place where we actually see fairly limited growth in minutes, with a pretty substantial double-digit price decline. So there, quite frankly, I would attribute this not to the smartphone penetration, which is not particularly high, or whatever; disintermediation, VoIP or these things. It's much more that people pocket the difference and there is less money in the economy. So it is much more of a consumer confidence, consumer available income, rather than a disintermediation thing.

Italy is a much more balanced situation because we don't have double-digit price decline. And, by the way, contrary to what you said – unless Michel corrects me if I'm wrong – but I don't think Italy has a high price per minute. To the contrary, it is one of the lower end. And SMS as well. So in Italy, the disintermediation risk is lower and the price decline is also lower, from a lower level. So I would say Italy is a safer environment, *vis a vis* the data migration. Not super healthy, I agree, but it is more for competitive reasons than for everything else. And my focus is of course to improve there as well.

Spain is more the economy. That's my perception. Michel, anything to add?

### **Michel Combes**

No. Just, let's say, I guess that it's not substitution with smartphone. What we see is really optimisation in Spain within our plans, in post-paid plans, where people try to optimise, let's say, the new pricing structure that has been launched.

### **Justin Funnell**

Thanks. My second question, if I may. Just to clarify your guidance, your operating profit guidance. Are we saying that when you gave this new range at the interims, that was excluding any iPhone effect?

### **Andy Halford**

Yes we are saying that. Yes.

### **Justin Funnell**

Okay. Thank you.

### **Stephen Howard, HSBC**

Hi, thanks. Firstly, I was just wondering if you could give us a bit more detail on the 'smart notification' up-sell opportunity and data. I'm just wondering what kind of quantum you might be able to extract from this. It does sound quite interesting because, I mean, if

that is at all significant I think it could be a pretty visible instance of getting a bit of pricing power.

And, secondly, just on the network, I mean obviously I do appreciate that Vodafone has typically out-invested a lot of rivals and does seem to enjoy a wide network advantage. But I was wondering if you could comment on the problems in Australia at the moment, where I gather there could even be a class action lawsuit from some dissatisfied customers. Thanks.

### **Vittorio Colao**

I would give to Michel the UK smart notification question, and I will happily pass to Nick Read the Australia question.

### **Michel Combes**

So as far as the smart notification is concerned, it is of course, let's say, based on the new tier pricing that we have introduced, which means that when the customer reaches the level of commitment he was allowed to, he receives an SMS in order to choose either to buy an add-on, which means an extra data capacity, or to change the pricing plan. So that has been introduced in the UK. We are about to launch it in the Netherlands and in Germany, and obviously that's something that we will launch in all the countries. It's a natural evolution with the tiered pricing that we have introduced in order just to make sure that we can flag to our customers when they come to the end of their data allowance and just make sure that we can up-sell some additional data or new pricing plans. And that refers to what Vittorio was mentioning earlier on in order to push our data revenue upward.

### **Nick Read**

Regarding Australia, yes we have had some challenges there. We've had challenges of very substantial data demand, coupled with the integration of our two networks, and just some issues we've had around optimisation. I'd say, over the last couple of months, we've made substantial progress on overcoming those challenges of capacity, and we're making some significant investments over the next six months to get ahead of the demand curve.

### **Stephen Howard**

Okay. Thanks very much.

### **Emmett Kelly, Bank of America, Merrill Lynch**

Yes. Good morning. Just one question please. Could you just talk about your latest trends that you're seeing in Romania and Greece? It seems like these two businesses have been experiencing pretty heavy revenue pressure for around two years now. Could you just talk about your turnaround plans for those two businesses and whether you're

seeing any light at the end of the tunnel there? Thank you.

**Michel Combes**

As far as Greece is concerned, I would say that we have revenue growth Q3 on Q2 at roughly around minus 20%. So, as you know, we are experiencing obviously a macroeconomic situation which is extremely difficult in this market, which has driven low usage and prices down in the previous quarters. Nevertheless, we are, let's say, maintaining our customer base in post-paid as well as in pre-paid, and we have seen, in the last few weeks, some signs of pricing easing, at least in the pre-paid arena, with some new pricing announcements which have been done by the different players. So that's for Greece.

As far as Romania is concerned, Romania is slightly improving, Q3 compared to Q2: minus 9% compared to minus 12%. There also we are seeing some slight improvements in terms of pricing structure. And we are pushing quite significantly on data where we have a clear lead on smartphones in Romania.

**Emmett Kelly**

That's great. Thanks, Michel.

**James Britton, Nomura**

Thanks. First of all, on churn. Contract churn seems to be picking up in some of the European markets, particularly Germany. And I guess I was sort of expecting churn to start to perhaps reduce due to extended contract lengths and reduced differentiation between handset ranges relative to previous years. So could you explain why churn isn't coming down?

And then secondly, in India, can you perhaps talk through your thoughts on the anticipated demand for 3G services in that market? And does your 3G experience give you a material advantage in delivering a better network and service experience to customers? I mean, can it drive and accelerate value share gains next year?

**Vittorio Colao**

James, I turn to Michel and Nick for this. And maybe I will wrap up on the India comment afterwards.

**Michel Combes**

So on churn, I would say that churn remains under control in Europe, in business as well as in consumer. You just flagged Germany where on the business side we are flat, quarter on quarter; in consumer we have a slight deterioration which is driven by indirect channels for some customers. So when you look at our direct churn, meaning the churn which is generated within our direct channels, we remain roughly at 15%, which is quite an

achievement in Germany.

### **Nick Read**

What I'd say regarding 3G in India, we were the first operator to make a 3G video call, back in October. We're due to launch in March. We're targeting 55 cities and towns by the end of March, including the four metros. So a good strong footprint to start. As you remember, the circles that we secured through the auction represented just under 70% of the 3G revenue potential, so I think we've got a good strategic footprint. We focused on a strong quality launch, as opposed to trying to rush to market. We think that it will be strongly brand-building, on top of what is already a strong business with momentum. We have good growth at the moment. Customer growth up 36% in a market where pricing seems to be moderating somewhat. So yes, we've seen it as a positive overall.

### **Vittorio Colao**

You basically said it all, Nick. I would like to wrap up on 3G India saying: I think we had a very clear strategy which was visible in the auction. We want to focus on the high-value areas. We want to give a good quality experience, so we didn't launch as soon as we had 3G towers, but we want to have a consistent experience. We see some advantages which can come from mobile number portability. And, as Nick has said, we are pleased that our Indian team has a comprehensive plan in this area. I think data will be a positive experience in India.

### **Nick Read**

And maybe I can do just one build, as you mentioned mobile number portability. The first 10 days – 20<sup>th</sup> to the 30<sup>th</sup> of January – were running at 1.8 to 1 port in to port out ratio, which is very strong, and I think enforces the strength of our brand.

### **James Britton**

Thanks. Perhaps I'll just quickly follow-up on churn. In terms of a more general – I guess a more general question. Could we expect churn to be falling over the year following because of the extended push on the 24-month contracts, and also the fact that you've now got iPhone in the portfolio – and everyone has as well – so there's less competition based solely on smartphone exclusivities?

### **Michel Combes**

So we are focused on churn management in the different categories in which we do operate. What you are referring in terms of contract length, and I think some of the countries in which we are involved, where we are pushing for, let's say, longer commitments, where we were to have 18 months in terms of 24, and obviously, let's say, with the new smartphones, we expect some improvements there as well, as we've already seen in the previous quarters. But it remains an area on which we are pushing in order to improve our churn ratio.

**Will Draper, Espirito Santo**

Good morning. Couple of things on the States, please. Firstly, on this question of the potential iPhone impact on your operating profit. I know you can't quantify that, but can you talk about the mechanics by which sales of the iPhone could impact on your operating profit, and I guess particularly whether you see that as a short-term thing, if there's a surge in iPhone sales in the first couple of quarters or whether you think it could be a more sustained impact. And then the second question on the States would be: when you expect net debt in Verizon Wireless to hit zero. You disclosed that it's \$11 billion at the end of Q3. When do you think it will hit zero? Thank you.

**Vittorio Colao**

Let me, Will, answer your question. I'm not sure I know what you imply by 'mechanics.' I personally expect a storm of Verizon iPhone demand. How big is the storm going to be? I don't know; storms can be very big in February in New York or just moderate. I don't know. I think it is going to be a pretty big storm, to be honest. I know that my colleagues at Verizon are getting organised in an incredible way to fulfil and deliver. You can imagine, just the customer base has been waiting and is there. Plus you have all the dissatisfied customers who want to come back. So honestly, the mechanics are very simple. They will deliver as many as possible and this of course will have some impact on the short term, in terms of A&R, the factors on cost, on commercial cost. But then, put this in the context of Verizon Wireless, which has posted two days ago or three days ago, 7% growth without the iPhone versus a 9% growth of AT&T with the iPhone. This is good news for next year. Andy, do you want to comment more? Do you know the mechanics other than on cost?

**Andy Halford**

Well, the difficult thing is forecasting the volume because the first deliveries to customers won't even be, you know, sort of until next week, and everything suggests that there will be a huge amount of enthusiasm. Obviously we take the costs sort of upfront, as we do here, in the sense that we take the subsidy up front. So the earlier the demand, the more it weighs down on the very near-term profit. But clearly, as I think one of the earlier questions indicated, the sort of uplift on ARPU's in the US on these all-in data products is a lot higher than typically in Europe. So, over a period of months, then that starts to sort of reverse itself out.

Just a small technical point also, that the impact on us we will see the first seven weeks beyond launch in our numbers this year, the tax rate in the associates line is the local tax rate, so 10%, and the majority of the rest of the tax comes down in our corporate tax line down below, so it has a slightly disproportionate effect on the operating profit to the underlying earnings number. But the more we sell the better it will be for the long-term good of the business.

On the net debt one, look, we've had a number of quarters of [free cash flow] at \$3 billion a quarter, so it's what, a \$1 billion a month. The end of December was about \$11 billion. I'm sure there'll always be some ups and down in it, but it's quite clearly on a trajectory

and, hopefully, that trajectory should continue.

**Will Draper**

Okay, thank you.

**James Ratzer, New Street Research**

Hello?

**Vittorio Colao**

Yes?

**James Ratzer**

Oh yes, hello, sorry. Yes, James Ratzer from New Street Research. I had two questions, please. The first one was, just to go back to a previous question with regard to capex commentary, as you start rolling out LTE across Europe. I believe at the H1 results you mentioned you expect European capex to sales to remain stable over the next two to three years. I was wondering if you could reiterate that comment, please.

And the second question was just regarding your data revenue. You're obviously putting up very good numbers – plus 23% at the moment. I was just wondering over the next one to two years how you think about separating those revenues out from voice and from messaging. Do you think it will be increasingly hard to separate that out, that we will move to a more bundled revenue or do you think you can still be able to build these data revenues in a separate way that's accretive to growth? Thank you.

**Vittorio Colao**

Yes, James, thank you for your question, especially the second one, because it's a very important question. The reality is that not only it will be very difficult to separate data from voice and SMS, at some point it will become meaningless to separate it, because customers get bundles, the separation is an allocation that we do based on certain accounting criteria, but at the end of the day it does not reflect any customer thinking and I tend to believe that accounts should reflect reality and not vice versa. The reality is that over time – and maybe, Andy, you can be more specific – we will – probably the whole industry will move into something like bundled revenues and non-bundled or metered revenues, something like that. We are getting equipped internally to look at things this way, because at the end of the day if a customer gives you £40 or €35 or whatever, it's an amount, so it's more ARPU management and yield management rather than really a specific line item. So, over time, your question is very well put, yes, we will have to move to something different. For the time being, we are still in an early phase.

On your capex to sales question, honestly, I don't have a memory that I have reiterated any capex to sales European target. As I said in my earlier answer, I'm not particularly in love of 10.5% [capex to sales ratio] versus 10.8% versus 11.1%. I am in love with cash

flow and with returns and how we move the investment between capex, opex, outsourcing, insourcing, offshoring, managed service and so on might determine percentages, which again might or not be representative. What I said is we clearly manage our capex in a very, very I would say managerial way with a lot of technicalities behind and LTE is introduced in some markets, but it's not rolled out yet everywhere, because it also depends on the frequencies we have. I look at the holistic picture, not the single line item.

Andy, you have more on this?

**Andy Halford**

No, not really. Your second question is something we are starting to look at. The question with bundles it is becoming quite, well, not arbitrary, there are rules, but quite judgemental in terms of how much gets allocated to which product set and I think over a period of time it's going to become more and more relevant to know how many customers are just buying one product from us versus are buying two or more products from us and we are certainly starting to give that some thought. There will be some accounting rule changes which will come in, in two or three years time, which will actually also change the way that equipment revenues are recognised, which will impact every sector not just ours. So there are a number of changes over a period of time and we're giving that some thought at the moment.

**James Ratzer**

Thank you. Just for the avoidance of doubt, though, we shouldn't be thinking about a capex spike there relating to LTE. You think that that can blend, give or take, into the existing business capex.

**Andy Halford**

There's already money being spent in the current capex on some elements of preparation of the network for LTE and the read across from the US to here I think is a bit different – Verizon Wireless are having to change technologies, go onto a totally different network. We've already got the infrastructure built out, so it's something that will be an evolutionary phase. We've got Germany only at the moment; we have other markets at points in time, but –

**Vittorio Colao**

We are moving to single RAN.

**Andy Halford**

Correct, yes, so we're preparing a lot of the network components already and that's within the current capex.

**James Ratzer**

Okay, great, thank you.

**Guy Peddy, Macquarie**

Yes, good morning all. Just a qualification question: on your European service revenue growth targets, on your old definition do you think you'll actually be able to deliver revenue growth in the course of calendar 2011 given the MTR headwinds?

And, secondly, it looks like in Germany the fixed-line business has been one of the reasons why your underlying numbers were perhaps weaker than expected. Can you just talk about what's going on in that fixed-line space? Thank you.

**Vittorio Colao**

Let me take the first one. What I said before is that in the current financial year, which really means the quarter we are in, we don't expect old Europe to be positive. We are not providing guidance for next year, because this is a May exercise. We are just about to get into the budget exercise with the countries, so it's also, quite frankly, early to talk about the next financial year or the three-quarters of the calendar year that we are not in.

Michel, do you want to take the fixed-line?

**Michel Combes, CEO Europe Region**

On the fixed business, I guess that I have already mentioned that the revenue has been impacted in Q3 by, in fact, two elements: the Deutsche Bahn impact, which is a contract which was reported in Q3 last year and so the comparison with the previous year is affected by this recognition of revenue in one shot in Q3 last year and, second, regulation of MTRs, which means that the date was covered by those two effects, we are more or less flat Q3 compared to Q2. And then I listed also the dynamics for the next coming quarters with improvement in the enterprise space where we are gaining traction in convergence of mobile and fixed in Germany and you have seen our reported figures in the business side, and some pressure on the consumer side - we will shift from DSL to VDSL or cable in some of the major cities and that's the reason why we are also fighting on the regulation in order to get a fair access to this type of infrastructure.

**Guy Petty**

Thank you.

**Maurice Patrick**

Oh, hi there. You talk about the network advantage you have in the majority of your markets in Europe. In the US there appears to be a correlation between that network advantage and relative revenue growth, but limited evidence so far that you've seen that in Europe. Do you think we will start to see that impact in the next 12 months?

And secondly, I know it's early days on tiered pricing, but are there any anecdotes in

terms of relative usage on the tiered data pricing tariffs compared to those who weren't beforehand? Thank you.

**Vittorio Colao**

Yes, I think we've partially answered already the second question, so the answer is we have put tiered data pricing – we have set them up in such a way that would not hurt or hit any majority of customers. We now are seeing that the natural growth, the natural evolution of the consumption patterns of people are pushing them towards the limit and then that's where the notification and the upgrade opportunities will kick in. So it's a process and it's going in the right direction.

On the network advantage, keep in mind that the US the difference between the Verizon network quality and the competitors' network quality is huge, it is a differential. In Europe, it is less so and I have to say it's data that really magnifies the difference. So we are confident that better and better data experiences will drive customer perceptions and eventually customer choices, but the gap is smaller in Europe than in the US.

**Maurice Patrick**

Okay, thank you.

**Ottavio Adoriso, Société Générale**

Hi, good morning, gentlemen. I have a couple of questions. On the first, related to margins, in the press release you have guided for much stabilisation only for the medium-term. I was wondering if you can give us some colour on the year-on-year trends in EBITDA margins for the Group and especially for Europe.

And the second question is in the comparative test that show your network lead. On that one I was also wondering if they are public and, if they are not public, are you are planning to make them public? Thanks.

**Vittorio Colao**

Andy, do you want to take the first one?

**Andy Halford**

Yes, let me just pick up the margin one. What we have said about the current year is that we expect the rate of margin reduction of a year ago to significantly reduce. A year ago Group-wide it was down, I think, 2.3% and we have said that we would expect that that will be significantly lower than that for the end of the year that we are now approaching and I'm very comfortable that we are on track for that and we will give more information on it in May when we do the full-year results announcement.

**Vittorio Colao**

Yes, on the network test a couple of comments. First, there's plenty of independent tests that are run by independent organisations. Those are, of course, public and, I don't know, the last one I remember is in Germany where I think we have won – Michel, what is it? – in mobile and in fixed, yes, where we won an independent test. I think in the UK these are available. In several markets there are third party organisations that do these things. What I was referring to is more our internal tests which, as you would imagine, are not public. I'm happy to share them with shareholders directly in private meetings, but I will talk about them publicly more in May. But, as you would expect, I am not going to publish a network test, but talk about them in meetings and in official presentations.

**Ottavio Adorisio**

I understand. If I can go back just to the first question, mine was not related to full-year EBITDA margins. It was just, if possible, you give some generalised in terms of trends for the cash flow and you pointed out on it for working capital. I was just wondering if you could give us a bit of colour about the EBITDA contribution to how much the EBITDA was down, because you basically bundle within capex on the chart number 13 or 14. Could you please give us that colour?

**Andy Halford**

Let me just say this, that we have said we'll have some margin coming down significantly, which I've mentioned earlier. We've said that we expect the free cash flow to be £6.5 billion or above; that we absolutely stand by. So, given our focus today is primarily upon the revenue side of things, on the profit and cash flow side we're just reiterating we're very comfortable we are where we intend to be for the end of the year.

**Ottavio Adorisio**

Thanks.

[Connection problems]

**Jerry Dellis, Jefferies**

Good morning, everybody.

[Further connection problems]

**Mandeep Singh, Berenberg**

Okay, great, thank you. Look, I have two questions. Sorry to come back to the European growth guidance. Previously, you had actually said you would go positive in Europe – old Europe that is – sometime between Q4 and Q1. You've been very clear that it's not going to happen in Q4, but you're now not willing to talk about Q1. So could you just say something around that, please?

The second question is on operating profits. Even with the iPhone impact will you still be

within your guidance range? Thank you.

**Vittorio Colao**

Let me take the first one. The easy answer is no. We have not done the budget yet. We have, as I said, it is clear that with the current trends the return to growth for old Europe is not going to happen [in the current quarter] – I'm sorry, and also the MTR cut in Germany, which have been slightly deeper than what we thought, we are not going to return to growth on an old Europe basis in this quarter. The next quarter is part of next year and we'll look at it when we meet in May.

Andy, on –

**Andy Halford**

Yes, on the iPhone effect on the guidance range, as I said, the volumes are difficult to predict. If you take the consensus projections on volumes and straight line those over the course of the year, we will be very comfortably within our guidance range. If we got a huge take up on volume growth, which would be quite exceptional, could it go to the lower end? I suppose it could do, but in that instance I think the business would be extremely happy that they were taking a huge amount of market share. So I can give you those two parameters.

**Mandeep Singh**

Thank you very much.

**Mark James, Liberum Capital**

Thanks. Can I just go back to the working capital drag? You've made the point that it will reverse next quarter, but I was just curious if you could give any more detail. I would have thought that you as a Group got advantage of early settlement terms every December. Can you be any more specific in terms of whether it was one supplier or whether things have changed that have caused you to take advantage of that?

**Andy Halford**

Yes, just simply that many of our suppliers have December year ends, we have a March year end. Some of them were happy to do deals to December, not one particular one, but where we can find something that's going to economically be to our advantage we will go for it. That is what we did and we expect it will reverse out by the end of the year and we'll be pretty comfortable that the overall working capital advantage this year will be at least as good as it was last year.

**Mark James**

And Andy, don't you get those sort of opportunities December-time every year? I was just

curious.

**Andy Halford**

I think in the depths of the recession you get more of them.

**Mark James**

Sure. Thanks.

**Andy Halford**

I think we probably have time for one more question.

**Andrew Beale, Arrete Research**

Hi. A couple of questions. First of all, I just wondered if you can talk about some of the next innovations in tariffs for data beyond tiered pricing, which I guess we all understand now. I mean what are the opportunities in application or multiple device pricing? Perhaps you can talk about that.

And secondly, on the net promoter score, which I think is now a component of management compensation, you mentioned it for Turkey; I just wondered if you could give us some colour on the major European markets so we can understand where you think you've got some more work to do. Thanks a lot.

**Vittorio Colao**

Andrew, I don't want to disappoint you, but I'm not so keen to talk about the next innovation on pricing ahead of launching them in the market. I can tell you that the area that you have indicated is clearly an area that we are working on. It's obvious to all of us that people will be in a market per device type of environment, so I always say three screens each – the smartphone, the tablet and the computer plus one screen or two or three or four per family, so we are in a multi-screen type of environment and that's our thinking. We are in a more and more bundle, multi-family, multi-whatever company type of setup, so we are working on our billing capabilities and our bundling capabilities, but I wouldn't go, to be honest, much further than that, because why should I declare what we are working on to my competitors.

On the NPS, yes, you're right, absolutely it's part of everybody's compensation now. We will determine how much everybody, including myself, will get in terms of competitive relative performance on a number of factors, which is not just NPS but also revenue and margins, just to be clear. I think we are having some countries with good differentiation of results, some countries where we are doing better than competitors but not by much and there is a differentiation issue, and some countries where in general the whole sector, including the competitors, are hardly differentiated and hardly promoted. I wouldn't like to go into details, but I would say that the whole issue of differentiation and customer

advocacy is not going bad for Vodafone but should go better for the whole sector.

Any more questions? Is there time for one more? That's it.

Again, thank you very much for all your questions. I would say three key takeaways: 1) Fifth consecutive improvement in trends in our revenues in this quarter; 2) Confirmed good underlying performance and guidance reiterated; and 3) Areas of focus – southern Europe, Supermobile implementation and continue to put pressure on the cost structure and on the excellence of delivery.

I thank you all very much. Thank you, Operator, for your assistance today.