Vodafone Group Plc
Analyst and Investor Conference Call
9 February 2012

Interim Management Statement

Vittorio Colao

Chief Executive

Thank you operator. Good morning, and thank you all for joining Vodafone's Interim Management Statement call for the third quarter, ended in December. I am here with Andy Halford, Nick Read and Michel Combes. I will start with a few highlights on the quarter before passing to Andy, who will take you through the operating companies. Then I will summarise, and will then open to questions.

So, let me start on slide 3, highlights of the quarter. Group service revenue grew 0.9%, which is just over 3% excluding MTRs. This growth is less than the previous quarter, reflecting difficult conditions in a number of our European markets, offset by strong momentum from our AMAP region and continued growth from operations in Northern Europe.

In this context we continue to deliver in our strategic growth areas, the three areas of data, enterprise and emerging markets.

Data specifically grew 21.8% led by the increasing smartphone penetration, which is now over 24% in Europe. Enterprise growth of 0.8% was a little slower than the previous quarter due to competitive and macroeconomic pressures in voice, but we still see a healthy and growing demand for enterprise data services.

We continue to generate strong cash flows. Today we report £1.5 billion free cash flow for the quarter. We are now over halfway through the £4.0 billion SFR buyback programme, and over 70% complete against our £6.8 billion commitment. Finally, today we confirm our guidance for the 2011/2012 fiscal year.

So we move to slide 4. Here you can see our regional performance for the quarter. Europe declined 1.7% on a reported basis. However, once we remove the impact of regulated voice termination rate cuts, Europe grew 1.0%. Some of our markets in southern Europe remain very challenging, and in particular we saw a deterioration of trends in Italy, which Andy will cover a little bit later.

On the other hand, AMAP grew 7.6% on a reported basis, which would be 8.8% excluding voice MTR cuts, with momentum coming from 20.0% growth in India, 8.0% growth in Vodacom, and in excess of 30.0% growth in Ghana, which is small, but we are proud of it.

I mentioned the growth of 21.8% in data. We also saw growth in messaging of 4.3%, and 3.9% from our fixed operations. All of these offset the ongoing decline in voice.

Capex and free cash flow for the quarter were both at £1.5 billion, which Andy will explore a little later. Debt of £25.5 billion includes the Polkomtel disposal proceeds of £0.8 billion, and the spectrum spend in Italy and Greece.

On slide 5 let's take a closer look at underlying service revenues. Here you can see the reported service revenue growth in grey and the red showsthe revenue growth of our business, excluding the regulated voice termination rate cuts, which continues to have a significant impact on our business.

In the third quarter this regulatory impact represented 2.2 percentage points of lower growth for the Group, giving us an underlying growth of 3.1% instead of the 0.9% reported. Of course, this also partially reduced our costs. During the quarter we saw incremental voice MTR cuts in the Netherlands and in New Zealand. We also lapped for one month the large MTR cut in Germany, which boosted Germany a little bit in Q3.

Now onto slide 6 for a look at the drivers of our service revenue growth. You can see from this chart that the loss in voice revenues shown in the first two grey bars, of which over 75% of the loss comes from regulation, was more than offset by the growth in data and messaging shown in the first two blocks in blue.

Our data revenue grew 21.8% in the quarter driven by the introduction of integrated tariffs, increasing smartphone penetration and growth of over 50% in mobile internet revenues. On an annualised basis, data is now a £6.3 billion business, and represents 15% of Group service revenues.

Messaging revenue grew 4.3% in the quarter, a little lower than last quarter, but there is still strong demand. The growth in messaging volumes and revenues was impacted this quarter by the limit on daily sms which was introduced by the regulator in India. I will talk a little later about our progress in the move towards integrated tariffs, which of course offers us some protection from changing customer behaviours on the messaging front.

Fixed revenue grew 3.9%, down a little compared to the previous quarter, with growth slowing in Germany and Italy.

I will now pass to Andy to go through the detailed financial review.

Financial Review

Andy Halford

Chief Financial Officer, Vodafone

Thank you Vittorio. Good morning. Let me start by giving you a little bit more colour on the trends we saw in Europe during the quarter.

Service revenue has declined 1.7%, or excluding MTRs grew by 1.0%. Performance in Europe continues to see a north/south divide, with the weak consumer and economic environment in our southern European operations offsetting the growth from the UK, Germany, the Netherlands and especially in Turkey.

In particular we saw a deterioration of consumer trends in Italy during the quarter, and conditions in Spain remain very tough.

On slide 8, against the backdrop of continuing GDP growth, German service revenue grew 0.7%. This growth includes the benefit of lacking the prior year MTR cut for one month in the current quarter. On an underlying basis, service revenue grew by 3.3%. Data revenue grew 22%, reflecting strong smartphone sales in the quarter and a 67% data attach rate. Enterprise strength continues with strong demand in both the mobile and fixed segments. We continue to see success with LTE, and now have over 88,000 customers.

Moving onto Italy on slide 9. As Vittorio has mentioned, the economic environment in Italy has deteriorated, and we have seen the impact of this reflected in our service revenue, which declined 4.9%, or 2.8% excluding MTRs. Mobile only service revenue declined 6.1%, offset by fixed revenues that grew 4.9%. We have seen lower out of bundle usage along with intense price competition during the quarter. Against this, we continue to have positive mobile number portability as written by the consumer segment.Data revenue growth at 16% was supported by increasing smartphone penetration, and in particular mobile internet growth of 74%. Enterprise growth in Q3 was 1.9%, down four percentage points on the previous quarter. We continue to have success with the Vodafone One Net proposition. Growth in both enterprise and fixed segments slowed sequentially due to lower usage. As a reminder, Italy is facing another MTR cut in the summer of this year.

Onto the UK on slide 10. Service revenue growth for the quarter was 1.1%, or 4.8% excluding MTRs. The UK has seen slightly weaker consumer confidence translate into lower out of bundle usage and a reduction in roaming revenues. Data growth in the UK of 13% continues to be led by strong smartphone penetration and data attach rates. The UK continues to lead the way with the adoption of integrated tariffs, with 68% of consumer contract revenues coming from these price plans. In October selected price increases were made in the consumer contract segment. We have recently launched a data test drive trial with new consumer contracts. This gives customers a three month window during which time they can establish which data plan suits them best. Early indications suggest this has increased data usage and has been well received by our customers as they transition into data services.

Moving onto slide 11 for Spain. Service revenue declined 8.8% in Q3, or 6.9% excluding MTRs, which is a small improvement against the second quarter. The economic environment remains difficult, and strong price competition continues. Against this tough backdrop, our commercial action has started to yield early results. As you can see from the slide, we have reported significant improvements in our smartphone penetration, data attach rates and transition to integrated tariffs over the last 12 months. Data grew 27% led by the increase in smartphone penetration, and in particular the growth in mobile internet. Fixed growth remains strong, driven by good customer growth.

Onto slide 12 and Turkey. Turkey continues to deliver very strong performance with service revenue growth of 23.5% for the quarter. Importantly, the business continues to improve the quality mix of customers, and the increase in strength of the brand has extended the net promoter score lead against competitors. Data growth was 77% in the quarter, driven by strong mobile internet growth and increasing smartphone penetration. During the quarter Turkey completed the acquisition of Koc.net, supporting the enterprise portfolio and driving further growth in this segment. Vodafone Turkey already serves 58% of the top companies in the country.

Now, for a look at our AMAP region, onto slide 13. Service revenue grew 7.6% in the quarter, or 8.8% excluding MTRs. India and Vodacom continue to drive growth in this region, both driven by strong customer additions. Performance in Australia remains weak as brand perception and consumer sentiment continue to impact service revenues, despite our programme to rectify network operations and customer service shortfalls. In the rest of the region ongoing political and economic instability have reduced visitors to Egypt, and we saw a further MTR cut in the quarter in New Zealand. However, as Vittorio has mentioned, successful brand repositioning in Ghana and growth in the customer base led to growth in service revenues of 31.5%.

So India on slide 14. Service revenue growth was approximately 20% both in the mobile only business and also including Indus. Encouragingly, the price per minute actually increased for the first time in a long while in Q3, despite strong competition in the market. We now have 56% of our customer base on the new higher price plans. Good adoption of data services has led to strong growth in data revenues. There are now over 31 million data users in India, more than twice this time last year. Last month we received the good news that the Indian Supreme Court ruled in our favour on our longstanding tax case, and we now wait for details of the new telecoms policy to be confirmed, which has been delayed through the summer of this year.

Now to slide 15 for Vodacom. Vodacom Group delivered service revenue growth of 8.0%, an increase on the prior quarter due primarily to strong growth in the international operations. All markets delivered very healthy customer additions in the quarter. In South Africa, successful summer promotions led to a good growth in voice revenues. Data growth was also strong, supported by increasing data users, and in particular a strong increase in mobile internet users now at 3.8 million. The pricing environment for data does remain very competitive.

In the international businesses, improved pricing trends also supported the impressive top line growth of 39%. We continue to see success with M-Pesa and now have 11.4 million registered customers in Tanzania.

Finally, on operating businesses, let's look at Verizon Wireless on slide 15. Verizon recently reported another very strong quarter for the wireless operations, with 1.5 million retail net adds driving service revenue growth of 6.8%. Data continues to be the principal driver of growth. Data, including messaging, now represents 42% of service revenues and continues to be driven by web and email services. Verizon Wireless recorded 7.7 million smartphone sales in the quarter, and 2.3 million LTE devices as 4G services gain momentum.

On 31 December Verizon Wireless reported a net cash position of $0.7 billion. The $10 billion dividend has now been paid to the partners, and we have returned £2.0 billion of this to our own shareholders earlier this month.

Now to slide 17 for the Group's free cash flow. We generated £1.5 billion of free cash flow in the quarter, bringing the year to date free cash flow to £4.1 billion. In Q3 free cash flow was higher year on year due to the phasing of tax payments. Net debt of £25.5 billion at the quarter end is stated after Polkomtel disposable proceeds of £0.8 billion, £1.0 billion spend on spectrum, principally Italy, and £0.8 billion spend on share buybacks.

During the quarter we bid for Spectrum in Greece and Portugal. The payment to the latter will be made in Q4.

Finally, we have today confirmed our guidance for free cash flow, and adjusted operating profit for the current fiscal year.

I will now hand back to Vittorio.

Vittorio Colao

Thank you, Andy. I would like to spend a little time now giving you an update on how our business is making the transition in the data world. I am on slide 18, which I think is an important and a somewhat good chart. As you can see from the red and blue areas on the top part of the slide, we are increasing our exposure to the strategic growth areas of data and emerging market, and reducing our exposure to mature, mobile voice, which is the grey part. Today 62% of our service revenue in the third quarter comes from the higher growth areas, and this is, as you can see from the chart, an increase of four percentage points in the past year, and 10 percentage points in the past two years. So progress continues.

As a reminder, data grew 22% in the quarter, and AMAP 7.6%. I believe that we have a considerable data opportunity ahead. There is still a quite low data penetration in the majority of our emerging markets, and also in prepaid in our mature markets. Today we have 37% of our revenues in Europe from integrated tariffs, and as you can see from the pie chart on the bottom left, out of bundle customer contract revenues were 17% this quarter, reducing from 18% that we reported in the first half of the year.

We are continuing our proactive improvement of mix, and we will continue to invest and maintain the quality of our network and CRM to support this transition.

Slide 19, again, gives you a little bit more information on these key growth areas. We are selling an increasing number of smartphones each quarter, and we continue to see higher ARPUs where customers migrate to a smartphone for the first time. Our Europe region now has 24% smartphone penetration, and a 60% data attach rate. This increasing trend in turn drives higher mobile internet usage and revenue, as we have described. Mobile internet revenue for the group increased over 50% in the quarter.

In AMAP our data customers continue to grow strongly, more than 50 million, with particular success coming from the Opera Mini browser and services like M-Pesa. In the quarter we have expanded the reach of our operator building system, and introduced a range of new services to differentiate our propositions and drive the safe adoption of data usage across our customer base, for example, Vodafone Discover and Vodafone Cloud. We will share more of all these trends and services with you in the May presentation.

I would like to wrap up now. Last slide. We are executing well against our strategy, particularly with your commercial performance in data, as we continue to drive smartphone penetration and integrated tariffs across our customer base.

Going forward we will continue to drive the supermobile strategy, and manage a profitable migration to the data world. In the short term we see tough trading conditions in a number of our European markets, and therefore we will be looking very carefully at how we can mitigate their impact in these operations.

Finally, before we close, I will remind you that as Andy has said, we have now received our share of the Verizon Wireless dividend, and we returned the majority of this to our own shareholders earlier this month. I am also personally very pleased that the Indian Supreme Court did not find us liable for the tax on the purchase of our Indian business in 2007.

I thank you for listening. Now with Michel, Nick and Andy, we are very happy to take your questions.

Questions and Answers

Tim Boddy, Goldman Sachs

Thanks for the question. I wanted to ask about Italy, and just whether since the quarter closed you have seen any change in trend. There seems to be some uncertainty as to whether the weakening in the market is a temporary macro phenomenon caused by, obviously, a lot of the austerity noise in the Christmas period, or whether it is a more permanent downshift in consumer spending.

Then building on that, and you just alluded to it in your comments, how can you mitigate some of the pressures in what is ultimately your highest margin business? Can you give us some comfort that we will not see the dramatic downshift in margins that took place, for example in Spain? That would be very helpful.

Vittorio Colao

Yes, Tim, thank you for the question. I would like to answer the high level. I would say that definitely in Italy in December there was a shock in the country, and clearly there was some change in behaviour in spending. This is not really a Vodafone only answer, but more of a general country answer. I perceive that the country is moving ahead in the right direction. This will probably continue to give a sense of a need for controlling family spending and household spending, and will be a prolonged austerity type of situation, but possibly the general mood and trend is in the right direction.

I think Michel might comment more specifically on the traffic trends of these things, but I would say I do not see Italy, given the fact that we start from lower prices and a more flexible cost base, going in the kind of space where Spain has been for the last three years. Nonetheless, it will be a long and prolonged austerity type of situation.

Michel, do you want to add something, and then I will take the mitigation.

Michel Combes

What we have seen in December is pressure on the core business all around the board, voice and text for consumer and enterprise, reflecting what Vittorio has just said. The macro environment is extremely tough, and the competitive situation remains quite active mainly in data, which has on top of the volume has put some pressure on the pricing. As Vittorio has said, the pressure probably increased a little bit in December, and we expect some pressure to remain in the months to come in this country.

We have begun several initiatives, mainly in pricing, in order to push our integrated tariffs, which has allowed us to boast quite a nice growth in data as well in Italy. This is good news for the future.

Vittorio Colao

On the mitigation question, I have to tell you that again, as always, you work for the best scenario, but you have to prepare for the tougher one. We are clearly looking at costs across Europe, and particularly in southern Europe. We are just at the beginning of the budget process, so I cannot be more specific; I think we will be more specific in May. Of course we are looking at ways of running the cost structure of all operating companies, but in particular the ones that are under pressure in a slightly different way. I think we have room to leverage more on multi-country operations, and not necessarily replicate all functions everywhere. This has already happened and will be accelerated in the network area, so network and technology more in general is going to be clearly an area of acceleration in the cost drive, the terminus area, the logistics area and possibly in the staff functions areas. This is what we have in mind.

The commercial costs are a more country specific type of area. It is not the case for Italy, it is more the case for Spain. That is another area of focus, but this is again more local and more related to competition.

Tim Boddy, Goldman Sachs

Okay, thanks for that.

Akhil Dattani, J.P. Morgan

Hi, good morning. A couple of questions please, firstly on Australia. Could we just get an update on your turnaround plans for that operation, and with that any colour on the reports that we are hearing that Hutch might be looking to exit that joint venture.

And then on the iPhone, there are two things of interest. Firstly, are you seeing any unusual or unexpected margin pressures, market by market, as a function of the iPhone 4S? And with that, are you seeing any changing usage behaviours, particularly with regards to what has been very well aligned data volume and data growth trends over the last few quarters? Thanks.

Vittorio Colao

I pass the question on Australia to the Australia specialist sitting next to me, Nick Read. Just as an opening, I say that I am not very pleased with the performance there.

Nick Read

That is always a good entry. Basically if we start with the foundation for the turnaround, which is the network performance where we had the significant issue, 3G metro performance. Over the quarter the 3G metro performance was within target parameters that we set on record volumes, whether it was sale availability, drop call rate, and so on. We got a solid performance on the network. There were two major programmes, if you remember, that we were progressing to strengthen the network.

The first was the 850MHz roll-out, which is now two thirds complete, and we have 1,000 sites for 850MHz. The second one was the Huawei RAN swap, which is now 40% complete. Both of those will complete, as targeted, in the summer.

If we then go on to more around the brand recovery process, we have been running a marketing campaign, Connect, on the new Vodafone network. This coming quarter we will move on to Vodafone Network Guarantee, which is something we have been successfully piloting over the last five weeks with good results.

If you look at our customer performance, the market obviously remains highly competitive with a lot of price pressure, as it was before we had the problems. However, our active prepaid basis is now stabilising, and our Vodafone branded postpaid basis is now growing. The main issue we are left with at the moment is just higher churn rates on the 3 base as we handle the migration, so that is where we are spending quite a bit of focus at the moment.

As you may have read, we are also looking at the cost structure of the business and optimising that. Clearly we are not where we want to be. It has taken time to turn it around, but we should expect continued improvement next year.

Vittorio Colao

Yes, I think we have done the right thing, except it is taking longer than expected to get the customers back.

On the iPhone question, and more in general user behaviours, let me tell you this. With the exception of the Symbian environment, which is stable, all the other environments have a healthy, not massive, but positive increase in data usage. This is true across tablet, RIM, Android, iPhone and mobile broadband, of course in different ways. I would call it healthy because there is an increase, but it is not a massive increase, i.e. it is exactly what we planned.

Symbian is an exception because it is not a growing environment. iPhone specifically has to be managed because clearly iPhone is great because it produces incremental revenues if priced appropriately, but of course an incremental cost. I do not see it as an incremental pressure because the conditions are basically the same, they are stable. It is just a matter of volumes and managing the associated commercial cost. That is it, I would say positive, not incremental, but it has to be managed.

Akhil Dattani, J.P. Morgan

Okay, thanks.

Vittorio Colao

In Spain prices are going down and have to go down a bit in order to be competitive with the fourth operator and the smaller players. I can say that we have turned a positive mobile number portability. I think we have some churn trends which are going in the right direction. But I could say – very early signs.

Akhil Dattani, J.P. Morgan

Okay, thanks.

Nick Delfas, Morgan Stanley

Thanks very much. Maybe a question for Andy on termination rate drags. Could he just clarify what the outlook is for Q4 and FY13?

Secondly, a question on LTE roll outs, what are the plans outside of Germany, and how if at all do you think that might affect your capital spending budget for Europe? Thanks very much.

Andy Halford

Okay, Nick, on the MTRs I think next quarter, the quarter we are now in, the bigger impact is going to be the German MTR cut of December a year ago, sort of coming out of the reckoning. That will probably help us be somewhere around 30 basis points or thereabouts in the Q4 growth rates. Next year, because it is still a moving feast, I suspect we will be in a similar sort of range for next year, but some of the component parts there are still becoming clearer. So a slight benefit in Q4, and similar for next year.

Nick Delfas, Morgan Stanley

So that includes the drag from Italy, but despite that the other countries will be getting better?

Andy Halford

Yes.

Nick Delfas, Morgan Stanley

Okay, thanks.

Vittorio Colao

And Nick, good morning. On your question on LTE, we are very pleased with the LTE roll out. As Andy has said, we have 90,000 customers, the usage is good and healthy. Last night I received an enthusiastic email from the German CTO to the Head of Terminals on the performance emails for the phones, which was heart warming because it was really kind of, 'Wow, this is a good thing'.

What we see in Verizon Wireless is also very positive, so our intention is to continue the roll out, we consider this a good business opportunity. Today it will be mostly for residential access, but tomorrow, with new handsets coming onto the market, also for handsets.

I was in the US last week and I visited some shops. It is amazing how well positioned and what the user case in the shops is for iPhones, and Verizon is really presenting it very well. So we will roll it out wherever we can. When we have the frequencies, as you know the frequencies are coming in a phased way, so of course we have to do it in a phased way. We are preparing the network for it everywhere. In terms of capex spending, keep in mind the network, and radio network particularly, is not the majority of our spending, so I think we have the room to deploy it as well as we can when we have the frequencies. So it is not an issue of capex, it is more an issue of having it and having the possibility to roll it out.

Nick Delfas, Morgan Stanley

Great, thanks very much.

Vittorio Colao

But we are positive.

Justin Funnell, Credit Suisse

Thank you. Two questions, please. The first is on M&A in Europe. I just wondered what you can take away from the process in Greece, whether the blocking of three going to two in Greece has wider implications. Does it, for example, stop being able to go from four to three networks in markets like Germany and Spain?

Secondly, on the UK business, we have had some fantastic contract and net adds over the last couple of years starting around the time you got the iPhone. That seems to have slowed down in the quarter. Are we likely to see a natural slow down in that part of the business now as you get past two years from having the iPhone in the UK?

Vittorio Colao

Let me pass the second question to Michel, and get the first one.

The M&A in Europe, I always said you should never read across situations, so you ask Greece, Spain or Germany, they are all different markets. It is a bit more complicated than just three to two or four to three, it is about market shares, power over distribution and pricing levels, so there are a number of elements.

In Greece we decided the best thing was to look for operational cooperation rather than financial cooperation. There are also other elements, quite frankly. Today Greece is not the easiest environment to forecast for the future, so do not too much reading across for other European countries, and especially not for the ones that you have mentioned.

On the UK, Michel?

Michel Combes

On the UK you are right, there is a slight slowdown, but still a very strong performance in Q3. 174,000 contracts and net adds, which is consistent with what we have seen in the previous quarters. You can expect obviously a slight slowdown in the coming quarters as we have well penetrated the base, and again we start to face a slight churn coming from the contracts that we took 24 months ago, but there is still quite healthy growth in the UK in customer contracts.

Justin Funnell, Credit Suisse

Thank you.

Nick Lyall, UBS

Morning, it is Nick at UBS. Could I have two questions, please? Firstly, I know you do not like talking about medium-term guidance at Q3. We know it is a series of annual numbers, and we know Germany improves. But you have also got weakening comps and a weakening southern Europe, so could you just give us some qualitative reassurance, if possible, that what you have seen in Q4 is not enough to risk the guidance for the medium-term?

Secondly, on Spain, the volumes are weak but I have been quite surprised that the pricing, or at least the outgoing pricing, has not deteriorated further given your cuts in May. Is there any further impact expected from the Telefonica and Yoigo cuts in November and December, and could you just explain why that pricing has been relatively steady in terms of trend? Thanks.

Vittorio Colao

I will turn the second question to Michel, because I know that in Spain, the quarter over last year we are 15% down, so it is still pretty significant for me. You are probably right that quarter on quarter there has not been a huge movement, but Michel, you take the second one.

Nick, let me answer the first one. You are absolutely right, we do not like to talk about guidance for next year in a quarter call, so qualitatively what can I say? I can say that we are just at the beginning of the budget process. We had December, which especially in the second half was not particularly encouraging. January is a bit better than December, not as good as Q2 or September or October. So we really want to go through the quarter, see how things develop, and then we will give you the numbers for next year. For this year I think we are confident with our guidance. Andy?

Andy Halford

Yes, absolutely. The one to four range was always a multi-year guidance, it was not a by the week/by the month type guidance range. Clearly we always said where we will be in the range will be influenced by the state of the macroeconomic environment and the MTRs particularly. Both of those in southern Europe, the former remains tough and clearly a number of the MTRs are still working through. I suspect for a period going forward realistically we will face those, but we will do an update on that when we get to May.

Vittorio Colao

Michel, why are you not cutting prices more in Spain?

Michel Combes

I am not so sure that it was exactly the question. I would say that on Spain we remain more-or-less on track with what we had announced now a few quarters ago. We had to re-price our services for new customers and for our base, and that it would be quite a painful exercise for several quarters. When you look at our figures, as Vittorio has pointed out, we are still at -14.5%/-15% in terms of price per minute. That is true, but there is no degeneration quarter over quarter, but we remain under pressure year on year, and it is what was expected. I would say that what has been achieved in the last three months around the brand re-launch, but many in terms of offers, so integrated tariffs, which in terms of growth represents more than 30% of our gross adds this quarter. If I take just voice and data it is even 60%, a 24-month contract that we are pushing, all that allows us to try to maintain those type of pricing.

You are right to say that in December some of our competitors have started to be a little bit more aggressive. We believe that with all the measures that we have taken in terms of presentation, offers and pricing that we have in the market, we are competitive today, and we can continue to drive the way we have driven the business in the past 12 months. We have been the first to introduce those integrated tariffs in the market. All in all no major change quarter on quarter, and I would say on track with what we announced 12 months ago.

Nick Lyall, UBS

That’s great, thank you.

Robin Bienenstock, Sanford Bernstein

Thanks, good morning. Two questions, if I may. The first is really about managing commercial costs of the iPhone. Looking at the Netherlands I am wondering if the purchase of independent distribution just amplifies the commercial cost problem by creating a kind of distribution arms race, as we are now seeing KPN build out lots more stores. If so, how will you address that kind of problem?

Separately, I have a question about India. I am just wondering if Telenor’s licences are re-auctioned whether you would be interested, and how you would think about valuing that, given that they obviously have the extra bonus of potentially kicking out Telenor from the Indian market. Thanks.

Vittorio Colao

Yes, let me take the first one, Robin, because I prefer to pass the second one maybe to Nick. In my view, it is almost the opposite of what you say in the sense that what we are seeing are increasingly competitive alternatives to the iPhone. This is good because this is customer choice. We are starting to see very different price points for smartphones, including the high end ones. And in order to optimise your commercial costs you must have control over distribution, in other words you must manage customers’ renewal and how to move around your spending, which you do much better when you control your distribution, or at least when it is an exclusive distribution as oppose to a shared, indirect distribution.

I see direct distribution, whether it is online or physical as an advantage going forward in a smartphone world rather than a disadvantage. Michel, do you have anything to add on the Netherlands specifically?

Michel Combes

No. That is true, the Netherlands market has been a little bit more focused on iPhones than some other markets. What you are seeing on our ability to push different types of smartphones has been quite successful in Germany. The Dutch market has been a little bit more focused on iPhones for the first three months, but I think we are pushing it in the direction that you mentioned.

Robin Bienenstock, Sanford Bernstein

I think my question was unclear. I am trying to ask you whether the risk is that you will end up creating a kind of arms race with distribution where each of the operators has to continually up the ante and build more stores and spend more money on shops?

Vittorio Colao

No, I think you want to get more control of your own distribution policies. It is not an arms race, it is getting control. To some extent I am happy for my competitors to do the same.

Robin Bienenstock

Okay.

Vittorio Colao

It is not over-building, it is making sure that you have the distribution power to really implement your policies in the market.

Robin Bienenstock, Sanford Bernstein

Okay, thanks.

Nick Read

Regarding the 2008 licences, I think our perspective would be that there are potentially three benefits. Of course there is a long way to go before we really understand the process, but I would say firstly, obviously more spectrum comes into the market. Are we interested in more spectrum? Yes, we are. Secondly, that spectrum should be priced through an auction, and we have always been keen to get transparency and a more economically valued spectrum rather than just an obscure formula from the regulator. Finally, I think it will start the process of rationalisation in the market, whether it is Telenor or someone else. I would be surprised if it was still the same number of players afterwards.

Robin Bienenstock

Thanks.

Simon Weeden, Citigroup

Yes, thank you very much. I've got a couple of questions. One is how you feel about the balance sheet and whether you think the buyback can be extended now you’ve passed the the announcement from the Supreme Court in India and with the next stage of the Japan money coming in in April? And then the second is relating to the comment that you made just a few questions ago that the December was particularly weak. I think that was relating to Italy. I just wondered if you could elaborate a little bit on what you think the causes of that are – if there's anything beyond the sort of general austerity and sense of lack economic wellbeing in the country? Thank you.

Vittorio Colao

Andy?

Andy Halford

Yes, Simon, obviously we have been careful with the management of the debt running up to the conclusion of the India tax case as clearly the outcome of that could have been somewhat different. So that is very helpful to have that sort of weight lifted from us. As we look forward you're right; we've got the SoftBank proceeds coming in shortly. We have got to remember the, , about half, just under half of the current buyback programme commitments, so I think we are £2.3 billion out of the £4.0 billion down at this point in time. So, roughly the balance we've got there actually does equate to what will be coming in from SoftBank. So, I think when we come sort of later on in the year we can have a look at exactly where we are on that, but at this point in time it is sensible to have the balance sheet in a good place and I think that is where we are at.

Michel Combes

On your second question, I guess that Vittorio referred to earlier on – that second half of December. We have experienced some pressure on voice traffic in most of the markets. I would say there are probably two different types of reasons. One, which is comparisons with previous years where some weather conditions kind of affected the period last year; the second being more driven by macroeconomic situations that we have faced. In some countries – And let's say explicitly we referred to Italy where it's more about consumption which has been affected by the macro. It's too early, let's say, to give precise trends for the future. We see in January that we are probably more back to trends that we were facing at the beginning of December rather than what we have seen in the second half of December.

Simon Weeden

Okay, thank you very much.

James Britton, Nomura

Thanks, good morning. First question on the UK. Does it make it more difficult to enforce tiered data in the UK now that two operators are offering unlimited contract plans and no tiering? And then secondly, on the network, can you give us the data traffic volume growth for this quarter? I think it was 19% last quarter. And on network offload, how important is public Wi-Fi going to be in improving your overall customer experience in the future? Thanks.

Vittorio Colao

Yes, the answer to the network is – 20% is the answer. So, kind of continuing. On the data, I have to say, as always, we keep thinking about our data pricing, we keep comparing very hard with what's going on, for example, with what's going on in the US, which is an interesting case. Honestly, we are, you know... At the end of the day, customers on average in Europe take an iPhone, take an Android. They use whatever, 400, 420, 380 megabytes per month. Whether you offer one, two, three or infinite, at the end of the day it doesn't make a huge difference. But, you know, there are probably segments of customers where usage is interesting or higher usage levels or allowances are interesting and we might be considering alternative things. So, we are not religious on pricing. So far in the UK specifically, Michel, we haven't –

Michel Combes

Well, in the UK you are right that two of our competitors have offered unlimited. As Vittorio said, we are not religious but I guess that we have been quite successful with the data pricing that we have pushed up to now. Specifically in the UK, as there were, maybe, kind of misunderstandings of the customers, because they don't use unlimited but they don't know exactly how much they use, we have introduced what we have called Data Test Drive, which means that when a customer decides a certain data allowance, for the first three months we give him free usage for any extra data request, which allows him to adjust his bundle depending on his exact needs within the three months. And this has been extremely successful in the past 2 to 3 months.

Vittorio Colao

But then again, we are not religious. I mean, I think we will experiment different things in different markets.

James Britton

Thanks, but just on the question on public Wi-Fi, do you need access to public Wi-Fi to substantially improve your customer experience in the dense urban areas?

Vittorio Colao

For the time being it doesn't seem to be a big differentiator. But again, on this one again, we are not religious so we always said that we considered Wi-Fi a complementary technology and that we consider every kind of offload a positive because everything that can be taken out of the macro network eventually improves the performance for the remaining ones. So, strategy continues to be access agnostic – do what you need in order to optimise the network, which is what enables us to continue to have in Europe at least 39% utilisation, 9% saturation, which is basically where we have been – more or less where we have been in the last three to four quarters despite the fact the traffic continues to grow.

James Britton

Thanks.

Robert Grindle, Deutsche Bank

Good morning. It's sticking with the data theme. Your data attach rates seem to be increasing with increasing smartphone penetration, which is very good, of course, because it could have been going the other way if late adopters wanted data less. But do you think there's some sort of virtuous circle or network effect going on and the more people want to use data, the more people have got smartphones, or do you think it's really about the way you're selling it? Smaller tiers, for example.

Vittorio Colao

Thanks. Robert, this is the way it should go and this is the way it will go, because our vision is it's not about smartphones. Everybody is smart and everybody will have a smart device. It's about data; it's about living your life in a different way. And I don't think anybody below the age of 20 would even consider a phone which is not smart. So, to me, it's a one-way road. Now, we have done a few things on the commercial incentives side for our shops and our distribution – hence my comment to Robin on the importance of having your own control distribution – and on pricing to make sure that whenever we sell a smartphone, we have a very high attach rate. I think UK – Michel, correct me if I'm wrong – is the record for this, you know, in UK –

Michel Combes

85%.

Vittorio Colao

85%, yes. Before 85%. But ideally my target is 100% in 100% of the markets.

Robert Grindle

Okay, thanks.

Vittorio Colao

So, it's a vision thing which then gets rolled out into all the pieces of the business system.

Robert Grindle

Thank you.

Ottavio Adorisio, Société Générale

Hi, good morning gentlemen. A couple of questions: the first one actually referred to your comment made earlier on the uplift from the MTRs or the upping of the MTRs cut in Germany. You basically said that that will likely persist in the following quarters as the large cut in Italy will be compensated by having improvements in MTRs elsewhere. Actually, looking at the map of the MTR cuts, next year you'll be hit by a barrage of other cuts, increasing cuts: the Netherlands Portugal, Spain. And I was just wondering whether the improvements actually will come in terms of the MTR trends. And the second one is actually – I know you don't like it, but I'm talking about guidance. I need just qualification. You confirmed the guidance for adjusted operating profit. Could you just tell me if you expect depreciation to remain in line with the previous year? Thanks.

Vittorio Colao

Andy, these look like questions for you.

Andy Halford

Yes. So, sorry, to clarify on the MTR, I'm saying in the fourth quarter we will get a benefit from Germany, so that will help us slightly. Next year, as you say, there are a number of moving parts in here, some of which are still settling down, so we are still going to face big headwinds on the

MTRs next year, but the fourth quarter will be slightly better. But next year we've got others, including Italy, that will be coming through and we will incorporate that in the guidance when we give that in May.

On the depreciation question, to be honest I can't think of a reason why depreciation will be particularly different this year to what we had expected and therefore that's sort of probably in a similar place to where we expected to be and, again, the profit guidance next year we'll be giving in May.

Ottavio Adorisio

So, depreciation around £8.0 billion? Could you confirm that expectation for the full year?

Andy Halford

Around that number.

Ottavio Adorisio

Thanks.

Andrew Beale, Arete Research

Morning. Following on from your earlier comments on LTE, I just wondered if you could give us some latest thoughts on the pace of shift to Single RAN and whether you see any merit in accelerating that to try and secure some sort of differentiation through network quality, sort of Verizon-like. And, sort of linked to that, just wondering if you've got some early thoughts form your German experience on the opportunity in rural or suburban broadband with LTE?

Vittorio Colao

Let me give the second answer on Germany to Michel. The move to Single RAN is something we are pushing throughout Vodafone because it's kind of logical to have it to make the whole network more efficient and future-proof. The rollout of LTE does not depend on that, as I said in my earlier questions, but it depends on when the frequencies are available and, as you would imagine, we prioritise Single RAN in places where we are going to launch LTE earlier. So I see Single RAN as one piece of the LTE strategy. The second is frequencies; the third is terminals; the fourth is our local strategy in broadband. And, on that note, I pass to Michel for the German-specific answer.

Michel Combes

With Germany I guess that Vittorio referred to some of the figures earlier on. So, we are now approaching 100,000 customers, on 1,700 sites which represents more or less 30% coverage, so as you know the first focus of our deployment in Germany was to capture fixed like type of revenue as a substitute to DSL either in places where there was no DSL or low quality DSL. The feedback that we had from customers is very good. NPS is very high; ARPU is quite stable. So, we are quite happy with this launch and we are now entering in a few cities. We are just starting in Düsseldorf right now to have a full LTE city in the next coming months.

Andrew Beale

Okay, thanks.

Stephen Howard, HSBC

Thank you very much, good morning. Just a couple of follow on questions really from some earlier points raised. Firstly, in terms of commercial costs, in the interims you had that rather interesting slide indicating that smartphone upgrades were very successful in terms of increasing a customer's spend but didn't necessarily make them much more profitable. And obviously that does rather imply that the SAC/SRCs are out of line. I was just wondering whether there were any signs that this situation might be improving in any of your markets, in particular given macro pressures on rivals and so on? And secondly, just following up on this interesting Test Drive approach, I appreciate it's pretty early but I'd be very interested in knowing what customers are consuming in terms of data when they are less concerned about hitting a usage cap with respect, obviously, to a service that they're pretty inexperienced with. So do you sense that they wind up taking a larger package that they would otherwise have had you not offered this? Thanks.

Vittorio Colao

I'll answer the broad question and again turn to Michel for the UK. We monitor smartphone profitability, uplift, economics, all the things, every month by country and by operating system. We see some marginal improvements – small, quite frankly, but we see some marginal improvements. I will give you the details, not on a quarterly basis, but at the May and November meetings. Marginal improvements, as I said in my earlier comment, for example, with the Wires this morning. There are markets where we can and we should, as an industry, work harder. Michel, UK?

Michel Combes

Well, so, UK, as I mentioned, it's obviously still early days because it has been launched just a few months ago. Early data suggests that we might have an uplift in data usage of around 20-25%, which means customers don't know precisely what they are shooting for when they enter in the data world and so that gives them the freedom to adjust their data usage. But again we need a few months to see how, let's say, all that goes. It's clear that we perceive it as having been successful, to, let's say, to attract some of the customers with Vodafone.

Stephen Howard

Can I just ask a quick follow-on to Vittorio's response? Do you sense that this slight improvement is a function, firstly – is it a function of your competitors deciding that they need to limit the degree of subsidy or is it a function of the greater diversity of choice that operators now have in terms of smartphone supplier?

Vittorio Colao

I sense it's more a function of the latter than the former and I wish it wish it were more the former than the latter.

Stephen Howard

Thank you. Thanks.

Vittorio Colao

Sorry. I think we're doing a lot of hard work to improve the yield, as we call it, but again, every time I go to the US and I talk to our friends at Verizon and I go into a US shop and I see the price levels and the subsidy levels in the US, I always say I'm very jealous of that market.

Stephen Howard

Thank you.

James Ratzer, New Street Research

Yes, thank you very much. I'd add two questions, please. The first one, just following on from a couple of questions we've had before on you LTE experience in Germany. I was just wondering if you could talk a little bit more about what you're seeing now you're into urban areas. In particular, how is the network quality bearing up in more congested areas? And in urban areas is it also being sold as a DSL substitution product or are you seeing other uses for LTE in Düsseldorf? And then the second question I had was on your fixed line business. In this quarter we've seen some diverging trends in Italy and Spain. I was wondering if you could talk about those. In particular in Spain we've suddenly seen a sharp acceleration in your fixed-line revenues. If you could talk about what's going on there. And correspondingly we've seen a slowdown in Italy. Thank you.

Vittorio Colao

I will kill, easily, your first question by telling you that we are neither ready nor able today to talk about detailed results on urban LTE because it's too early and as Michel has said in an earlier answer we cannot yet comment on what we are seeing. So, it's early. I would invite you to keep that question for three months down the road. On the second one – Michel?

Michel Combes

So, we have three patterns in fixed lines. In Germany, slowdown, as you have probably seen, more probably driven by cable competition. In Italy you have clearly pointed out slowdown compared to the previous quarter mainly due to a high level of churn within Tele2. As far as Vodafone Italy is concerned, I guess that we still report quite a healthy growth there, capturing probably more than 40% of the growth that's still on the market. And in Spain we have pushed a little bit more from a commercial point of view and you have also a nice impact which is due that we exit from some of the rebates which were given to our customers on the early months on subscriptions with Vodafone Spain. So double effect – ARPU and commercials.

James Ratzer

Okay, thank you very much.

Guy Peddy, Macquarie

Thank you, good morning team. Just a couple of questions more for Andy, I think. Andy, on the cashflow outlook for Q4, will it be working capital and taxes that are sort of one of the major year on year drags on the cashflow number? And, secondly, you talked, to Simon's question on balance sheets, about being in a good place. Can you just elaborate on what seems good? You know, what ratios you're looking at on the balance sheet and how you're measuring it etc? Thank you.

Andy Halford

Yes, Guy. The fourth quarter will usually get a benefit because the phasing of the capex in the fourth quarter typically gets paid for in the first quarter following, so typically the fourth quarter is, in working capital terms, a big quarter for us and hence we're very comfortable with 4.1 after three quarters, being in the £6.0 to £6.5 billion range by the end of the year.

On the balance sheet, there's number of ways to look at this. We've obviously run the Group against the low single A credit rating and in that sense we are in a comfortable position. Mathematically, we are at – I don't know – 1.8 times EBITDA and that, obviously, is a calculation that ignores Verizon Wireless and with cash starting to come through from there then clearly that is sort of additive to it. So, you know, overall I look at it as sort of being sub two is a comfortable place to be at the moment, especially knowing that from time to time we should get cash coming through from Verizon Wireless.

Guy Peddy

Thank you.

Maurice Patrick, Barclays Capital

Hi Guys. Yes, quick question. You're now outperforming your peers in most of your markets. There are some cases of incumbents fighting back, so not willing to lose market share any more. I just wondered, when you look across your footprint, which markets you're perhaps concerned that might happen in elsewhere? And, also, what you can do about it?

Vittorio Colao

I'm not so sure I can comment too much, because I think we are the first ones in this reporting cycle so I'm not so sure I can either say that I'm losing or winning or market share anywhere, nor which operators concern me the most, so at least of the major competitors that we see, you know, as our reference competitors, the kind of AT&Ts, the Telefónicas, the Bhartis, the MTNs and so on. We have a pretty good performance in South Africa; we have pretty good performance in the non-South-Africa African countries including the Vodafone ones, against, whatever, Millicom or the others. I'm not so sure about MTN. I haven't heard about results from Telefónica. I think against Bharti we are doing fine and that's a solid situation, you're right. I mean, the main competitors are the big ones, are solid companies with big resources so it's going to always be a competition. I cannot really comment. I don't know. Do any of my colleagues? It's too early, right?

Andy Halford

We're competing all the time, so –

Vittorio Colao

We compete all the time, so –

Maurice Patrick

In that case, thank you.

Jerry Dellis, Jeffries

Yes, good morning, thank you for taking the question. A couple of points, really, on data, that I just wanted to clarify. In Europe it looks like, overall, data revenue growth was stable this quarter relative to last but within that there was a big pickup in Spain and it looks like Spain maybe benefitted from a rather low prior year comp, so I guess the question is whether the slowdown that we seem to be seeing in data revenue growth in the UK and Germany is just a bit of a one off or the start of a trend? And the second question, also on data, is, within you data revenue growth numbers here, how much do you think of this is customers trading up to higher tiers as they become a bit more sort of used to smartphones and tablets and so on and how much is the mechanical effect of smartphone adopters moving on to integrated plans for the first time? Thank you.

Vittorio Colao

It's easier to answer the second question. It's mostly penetration and it's mostly adoption. I don't think that the kind of tiering-up effect on these numbers is noticeable yet. As Michel has said, we are watching very carefully what is happening in the UK in terms of the data test drive and trying to see how much the unconstrained usage impacts on first adopters. We are encouraged by the fact that people are going up but when I said that everything is going up other than Symbian, keep in mind we are talking about moderate increases, so we are doing about 6, 7, 8, 10%, which means 20, 30, 50 megabytes per month. We are not talking about 500 megabytes, so it's still fairly small on the total. It's much more penetration. It's much more – everybody should have a smartphone, type of thing. On the different speed by market, Michel, I think –

Michel Combes

On the three markets... So, quickly, Germany is more or less flat. UK is slightly down, mainly driven by data roaming, which in this quarter has been lower than in the previous quarter. And Spain, I don't know whether we can call it a catch up but that's clearly that the management has been focused, as I've said earlier, on integrated data plans, which have quite significantly increased in the last 6 to 9 months. It was the heart of the turnaround that we are driving in Spain, so we start to have this nice effect. I guess that on the internet on your mobile, we have grown by nearly 90% in Spain this quarter, which is a remarkable performance that I have highlighted previously.

Vittorio Colao

But again, it's still different things. We got a very good performance of tablets, for example in Germany and Italy. A little bit less good in the UK. In Italy we are bundling content, we see whether this could make a different. As I said before, I think we are moving, trying to move the mindset of being less religious about what is right, what is wrong, experiment more and then quickly move across countries what works.

Jerry Dellis

Thank you.

John Karidis, Oriel Securities

Thank you very much for taking the question. Good morning. I just wondered whether there is any scope to be a little bit more specific with regard to the likely benefits you're getting or stand to get from the cooperation with Verizon Wireless. You have sort of talked about it in the past, I just sort of wondered whether we should hope to get information and things like what are you doing, what are the benefits as a consequence of this partnership and what would the numbers be like without this partnership and maybe just give us a timeline as to whether these benefits increase in the future or not.

Vittorio Colao

Yes John, we had... I think I said in the November session that the benefits so far are in the range of low hundreds of millions and we want to bring them in the high hundreds of millions each side. They continue to the in the same areas. Again, last week we just learnt of a kind of £70 to £80 million benefit coming to one of the two partners from one supplier giving the same conditions to both. It's a multitude of things like this. The big prize is the day when we will buy exactly the same terminals, which will happen over time in the next years and it's linked to the question on LTE that we were asked before. It's deeply operational and deeply fragmented, I would say, in many things. Our intention is to bring it in the high hundreds of millions. But it will take time, because of course it goes supplier by supplier and situation by situation. We're also working well on large accounts. Again, we keep winning, one by one, new joint accounts – more to be announced when we are ready. It is a very, very, very long process.

John Karidis

And sorry, can I ask, are the hundreds of millions related to cost benefits? So when it comes to revenue...

Vittorio Colao

Yes, yes, you're right; you're right.

John Karidis

Thank you very much.

Vittorio Colao

And when it comes to revenues it's really about roaming and about large accounts. On large accounts, as I said, we go one by one or, actually tens by tens and not one by one. And then roaming: it's about changing pricing, changing tariffs and we have worked on that and you will see more in the future.

John Karidis

Thank you very much.

Paul Marsh, Berenberg

Hi, yes, I've just got two questions. Firstly, have there been any material changes in revenue allocation between data and voice, particularly given the growth integrated packages? And then secondly just in Germany, maybe you could say what the broadband net ads were and, more specifically, given what's pending with the Bundesliga rights auctions, does that change the way you're thinking about your choices in that market at the moment?

Vittorio Colao

Andy?

Andy Halford

So, revenue allocation – no. There is a methodology there for how we allocate within integrated bundles, and obviously that is not the most precise science, but there is a set of rules and we apply those by market and there are no significant changes in how that's being applied between periods.

Michel Combes

Broadband? So, in Germany broadband customers are more or less flat, so as I just said – so, slowdown due to the competition from cable but more or less flat. In terms of content, whatever it is I guess that's our only focus is to make sure our customers can have access to make sure our customers can have access to any type of content through our DSL offers, so that's what we are just – let's say – working on.

Paul Marsh

Thank you.

John Davies, Santander

Good morning. It's John Davies here. I have a question really about India. I know the initial growth in the data there was very much on a 2G focus. Can you give us an update of how the 3G programme is progressing, please?

Vittorio Colao

Nick?

Nick Read

Yes. Well, I'd say it's obviously it's very early days. The network – we're now up to 10,700 3G sites, so quarter over quarter we were up 1,500. We've got about a 15% population coverage. We are just in the process of rolling out some new billing functionality to give us a bit more flexibility around snacking and daily allowances which I think will open up the opportunity – that along with more local content and greater handset penetration. It's worth noting that handset penetration is still around 3%, so that is a key enabler going forward. So, good progress, but early days.

Closing Comments

Vittorio Colao

As a wrap up, I would say a solid continuing, solid execution from us. I see our geographic spread and mix as a positive, as I mentioned.

We didn't talk much about South Africa, but Africa in there. Turkey – we didn't talk much about Turkey today but Turkey continues to do well. Ghana and within Europe, the kind of north/south thing, with a little bit more pressure and challenges in southern Europe which will require, in the coming quarters, attention and hard work on our side – continuing successful data story. We haven't talked too much about enterprise – enterprise keeps growing, slightly slower than before because of roaming and because of southern Europe but still an area of strength and success. And finally, confirm guidance and distributions as planned.

I look forward to talking to all of you in May for the full year results. Thank you very much.