Vodafone Group Plc
Preliminary Results 2011

Analyst and Investor Conference Call
Tuesday 17 May 2011

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Vittorio Colao

Chief Executive, Vodafone Group

Good morning. Welcome. Thank you for coming to our preliminary results presentation today. The agenda today is slightly different than usual. I will give the usual highlights to open; then I will pass to Andy, who will cover all the financial information and the guidance. Then I will come back with Steve Pusey to illustrate the progress we have made in the implementation of our strategy, and in particular the growth areas, technology as an enabler of our Supermobile strategy, and challenges and opportunities in the year ahead, and then we will open for questions.

Group organic service revenue plus 2.1% in the year, quarter 4 plus 2.5%. I would say we are displaying today a strong commercial performance in most European and most emerging markets. Exceeded guidance, AOP at £12.2 billion at the top end of the range, and free cash flow at £7.2 billion, again at the top end of the range. We are in the process of raising £14.2 billion from disposals, with £6.8 billion of those committed to share buybacks. And finally, we are recommending today an increase in our final dividend per share of 7.1% to 6.05p, bringing the total to 8.90p, which again is 7.1%. And as we will highlight to you later, I think we have made good progress on our specific priorities.

Let me now turn to Andy, who will cover results and guidance.

Andy Halford

Chief Financial Officer, Vodafone Group

Right, good morning, and hopefully my voice will hold up. So just some key numbers on here. So 45.9 total revenue for the period, 3% up year on year. EBITDA 14.7; I will come to more detail on this in a bit, but that is basically sort of flat, slightly down on last year. And 11.8, the published adjusted operating profit; the numbers that Vittorio had there were on the same FX rates as we guided at. And then two important numbers down on the lower slide here, a gain of 5.3 and impairment charges of 6.1. So the gain of 5.3 is the aggregate benefit that we have had from profit on disposal of the China Mobile interest, SoftBank, and some tax provision releases. And on the impairment side we took a charge, if you remember, at the half year for Greece. We have now topped that up primarily for Spain, but also for Ireland, Portugal and Italy, and the total for the year is £6.1 billion. That is driven in part by macroeconomics, particularly southern Europe, but in larger part by interest rate rises and the impact that that has on discount rates. The adjust earnings per share, then, was up 4% at 16.75 pence.

So if I move then on to the service revenue. Service revenue at £42.7 billion was up by 2.1% on an organic basis for the year. I will talk about the quarterly trends on the next slide, but 2.1% up for the full year. Splitting that between the two regions, Europe was down very slightly, minus 0.4, and AMAP was up by a very strong 9.5%, and again, I will give a bit more detail on those in a minute. The EBITDA margin was down 1.1 percentage points. We had originally said that we would see a reduced level of margin erosion compared with the previous year. That is what has happened. Again, more detail later, but a lot of that driven by cost savings offsetting the extra investment in Supermobile and Lite customers. Associate income £5.1 billion; the biggest part of that is Verizon Wireless, £4.6 billion, and that is an 8.5% increase in contribution from the US. And the free cash flow, at just over £7 billion, is the second year running that we have had free cash flow over the £7 billion number. Some significant working capital in there, but equally a continued focus on building out the network, which Steve will talk about later on.

So if we look at this in terms of quarterly trends, in grey you have got the quarterly trends going back five quarters on the service revenue, so we were negative five quarters ago. In fact if you go back eight quarters we were minus 3% territory, and we have come through to 2.5% for the second successive quarter as we have exited the year, and if anything that is more commendable because, as the red bars show, which are the numbers on an equivalent basis before the MTR cuts, actually the impact of the MTR cuts was slightly more significant in the fourth quarter than it was in the third quarter.

In terms of the year-on-year walk, we have added a billion of revenues over the period, 41.7 in the previous year, 42.7 last year. I think the most noticeable thing here is how for the first time the data revenue increase has now fully funded the reduction in the voice revenues. The voice revenue itself has been very, very largely shifted by the MTR cuts. But data now £5.1 billion for the full year, which is a 26% increase year on year, and in fact the annualised rate in the last quarter was more about £5.5 billion. So a very strong performance on data, and actually as you walk across this table, in all other product areas, so messaging, fixed and wholesale, we have seen increases like for like on the revenue streams to come to the 42.7 number for the full year.

Now, if I talk for a few minutes about operational performance. The European region, as I said earlier, the revenues there are down 0.4%, which is the grey bar on the right. What we have done here is shown the build of the various contributions from the different operating companies to get to that minus 0.4 number. The minus 0.4 itself was obviously MTR affected; that would have been plus 2% but for the MTR. So you can see a very, very significant contribution from Turkey – I will talk to each of these briefly in a minute – UK, the Netherlands and Germany, and held back by Italy, Greece and Spain, and there are details of each of the operating companies in the appendices to the pack.

So just very briefly then on Turkey. I mean a really, really strong year. 30% of revenue growth in the last quarter, similar actually to the full year. Run rate on revenue growth, they've taken 5.9 percentage points of service revenue market share in a 12-month period. ARPU up by 23%, and overall business just performing really well. The mix of contract customers has also increased significantly, about 16% a year ago, now 28%, and like our other businesses, pushing very hard on the data front.

UK, again a really good period for the UK. It's nice to see it is now taking the largest revenue growth in the market, 5.8% in the fourth quarter revenue growth there. Big, big focus upon data, with the revenue stream there growing by very nearly 30%. Churn now coming down to low levels, and adding about 1 million net contract customers per annum, and has been doing that on a regular basis recently. Now I'll not talk about the

Netherlands now, Vittorio has a couple of comments on that later on, so I will instead just move on to Germany.

The numbers there, most impacted by the impact of the mobile termination rate cuts at the start of the quarter, so if we have not had those, the reported revenue decline of 0.2% would actually have been a mobile service revenue growth of 4.4%. Again, a big push on data; very strong growth there, 25.5% on the data revenues, and also a very, very big push on enterprise, with about a 3.2% increase in the revenues from our enterprise customers, and again, a business that has gained market share in the second half of the year.

Moving then on to Italy. I think the best description here is a very, very strong performance against the main competitor, but a market that is now clearly more difficult. We had an overall service revenue decline of 3%, which was broadly the mobile going backwards by 5%, but the fixed going forwards, going upwards by double digits. Data, again a big push, 20% growth in data revenues, and exited the period with 5.5 million smartphone customers.

In Spain we have reported 5.9% revenue decline for the fourth quarter. There were a couple of accounting true-ups, so on an underlying basis it is more 7.7%, so pretty similar to the trends that we have seen in recent quarters. Still quite a challenging environment, still pushing very hard on data, and a number of pricing and distribution and advertising initiatives that have been pushed in the market, even in recent weeks.

So in terms of the areas that the European region was focused upon at the start of the year, top left here is the push for smartphones. So 18.7% of those have now got smartphones; that is up about 7 percentage points compared with the year previously. Top right is a big focus upon the enterprise space; that is now approaching £9 billion of revenues, and a lot of big customer wins there. In fact our Vodafone Global Enterprise Business Unit grew its revenues by 8% during the year. Repositioning in key markets, bottom left; particularly the UK and Turkey clearly are gaining traction. And finally, and I think particularly importantly, the focus that there has been on cost has resulted in the second successive year of the opex in Europe coming down by around 4%.

So moving then on to the AMAP region. As I said earlier, 9.5% growth for the region overall. India has clearly been the biggest contributor there, but essentially all bar one country have been in positive territory, the one country being Egypt. If we had cut this off at the end of December, Egypt would have been in positive territory as well, so clearly the unrest in the last quarter has just nudged that slightly the wrong side of the line for the moment. But nonetheless, across the whole of the region I think a very, very strong performance.

So if you just look again at key markets here. India has service revenue growth in the last quarter at 18.7%. We had record net customer adds in the last quarter at 10.3 million. We gained 1.8 percentage points of revenue market share during the period, and continued to see market prices stabilising. So the operational performance in India has been really, really strong.

For the Vodacom Group and for South Africa as well, again growth there has been good. We have seen in the South African market revenue growth of about 6%, and that has been both a push on voice, where the minutes used per customer is now rising quite nicely, and also a big push on data, 37% growth in data, and particularly mobile broadband that is helping to drive that. So in terms of the AMAP region and its strategic priorities, the total customer base at the end of the period for the region now 220 million customers. That is a 26% increase year on year. India is about 61% of that total base. On the top right I think a very important chart, the free cash flow, the operating free cash flow being generated by this region has gone up from essentially nothing up to over £1.5 billion and now near £2.5 billion over a three-year period. So a very, very significant increase there, contributing nearly a quarter of the Group's operating free cash flow. Data on the bottom left: also a good story, 40% increase in data revenues, so a total of £1.2 billion, so of the Group's 5.1, 1.2 is coming from these markets. And then finally a lot of this being achieved by the push we have had on new devices and new innovative products to really get the brand name further extended into the market.

I will move now off the operating performance of the countries, and just talk a little bit about the financials. The EBITDA margin, which I know a lot of people have an interest in, top left-hand chart is showing the 1.1% reduction in the margin year on year at the Group level, and is showing that the vast majority of that reduction was Europe. AMAP was, in the overall scheme of things, fairly constant. The bottom left-hand chart then is focused on Europe, which is showing really two key drivers there. One is the big focus on smartphones, acquiring new customers; the other is the initiatives we've had to get costs out of the business and to in part fund the customer growth. As I said earlier, the growth in the customers has really started to pull through. Seven percentage points more smartphone penetration in the base than we had a year ago. We now have 39% of our European customer base are on contract, compared with 37% a year ago. The business churn is now down a percentage point compared with a year ago, so a huge focus there, and really I think starting to pull through. A lot of cost initiatives which have helped to fund some of that.

I think it's important to note AMAP is now 27% of the Group's EBITDA, up from 22% a year ago. The margins there were up about 20 basis points year on year. And certainly as we go forwards and look to the scale benefits, we are very comfortable that we should see a good margin performance in the AMAP region over the coming quarters.

Now on to the US, Verizon Wireless. As I said earlier, another strong period here, so just under $60 billion of revenues, up by 5.8%; took most of the total market contract net adds in the last quarter. Churn down at very, very low levels. Free cash flow generation very, very strong. A year ago about $22 billion of net debt. At the end of March that was down to $9.6 billion, so basically coming down $1 billion a month, or I think in the duration of this presentation, about $2 million less debt by the end of it than the start of it. In terms of margin, the overall comparison of margins across the operators in the US, again Verizon Wireless compares very favourably there.

Data has been a big part of that push. Coincidentally also a 26% increase in the data revenues, so similar to what we've got in Vodafone. Smartphone penetration also being pushed. Interestingly, somewhat higher levels than we have so far achieved in Europe. And there has been a lot of focus upon the LTE rollout, so as I'm sure many of you will know, that has now commenced. There will be, by the end of this calendar year, about 185 million of the population will be able to get LTE service, and there are today 500,000 4G devices in active use. And we are working ever more closely with Verizon on a number of initiatives, particularly on major customer accounts where we have got common interest in those accounts. Also on the procurement side, we clearly spend huge amounts between the two businesses and also looking at the LTE roadmap, which we are embarking upon in Germany and other markets in due course; it is clearly an area where there are joint learnings for both of us.

So on to finance costs. The bottom line, £815 million, is fairly similar to last year, but I think the key thing is to observe that there are some non-recurring items that are included in these numbers. So the top part of this chart you can see £1.2 billion of financing costs. Underneath that there are three items which will not recur. One is we have been accreting the value of the SoftBank financial instruments prior to disposal in the financing cost line. Secondly, the benefit of the China Mobile dividends comes through here, and thirdly we were capitalising the costs of some of the borrowings to do with the India 3G licence, which obviously will not be a recurring feature; that only happened up until the launch of the 3G service. So basically we should be thinking that the 1.2 number is the underlying watermark there. That was about a 4% finance cost. I would expect that we will see the average finance cost of the coming year start with the number 5. We have got rising interest rates, we are fixing more, we will actually have more cash on deposit for a period this year when we have the SFR proceeds in, etc.

So on free cash flow, we were £7.2 billion the prior year; we've closed last year at £7.0 billion. Important to note in here is that there is a significant working capital contribution. We have pushed very hard on working capital again, so the 0.5 billion that you can see here is the increase year on year. In reality we had about half a billion the previous year. We have got about £1 billion, so £1 billion of the £7 billion is actually working capital in the current year. Cap adds, interest, EBITDA, all fairly similar; slightly higher cash out flows just because of some tax benefits in the previous year. Slightly higher minority dividend payments, particularly in South Africa and Egypt, and the FX having a £0.2 billion effect. So overall the £7 billion. Just put on the right here that, just as a sort of guide going forwards, we will not be generating £1 billion a year of working capital. Much as I'd like to be doing that, I don't think that is realistically going to happen. So we've sort of put that down implicitly to about 0.3 next year. That will still be about £2 billion of working capital that we'll have generated over a three-year period, and clearly next year we will not have the benefits of some of the cash streams coming in, so we will get the reduced SFR dividend as a consequence of the exit agreement and we will not have a China Mobile dividend. So on a sort of pro forma basis, sort of 6 is a core number, which I'll come back to when we come on to the guidance.

Net debt at the start of the period was £33 billion, and net debt at the end of the period was just fractionally under £30 billion. Some quite big moving parts in that, so the free cash flow, the £7 billion we've just talked about; the £4.5 billion of equity dividends paid out; the share buyback at the end of March was £2.1 billion. Acquisitions and disposals, that is primarily the proceeds from the China Mobile disposal and the first tranche of the SoftBank proceeds. Licences and spectrum was the Indian and Germany spectrum auctions in the first half of the year. Tax-related payments was primarily the first payment of the CFC resolution in the UK, plus some tax on the disposal in China Mobile. And then there was some FX movements, and total £30 billion or £29.9 billion at the end of the period. So I think that leaves us in good shape for the coming period as we go forwards.

So turning on to the sort of portfolio, and I think if you step back this has been a pretty significant year. We said a year ago that we had a number of non-controlled assets that we wanted to work our way through. We appreciate the patience that shareholders have shown so that we were able to time these and get what we believe have been very good prices out of those assets. So at a high level, £14.2 billion raised; that's netted a very small tax charge, but not significant. About half of that is committed to share buybacks, so £6.8 billion. And the rest we have retained in the knowledge we have got spectrum auctions and tax cases around, so overall I think this is a right balance between returns and the management of the balance sheet. You can see on the left-hand side in terms of returns for shareholders, the combination over the three years, the dividends plus the buybacks is about £16 billion that had been returned in cash by the end of March. We have still got the buyback commitment of the £4 billion from the SFR disposal and the remainder of the first buyback programme still to complete. That is another £5 billion. So in total about £21 billion of cash going back. That is about 25% of our market cap. In addition we have committed to continuing with the 7% per annum dividend increase. So I think we're in good shape in balance sheets and returns perspectives.

Now on to guidance. First of all, last year and how did that outturn? This time last year we were saying we would be in the 11.2 to 12.0 range on the profit. We in November increased that to 11.8 to 12.2, and we have actually come out at 12.2, and actually we have absorbed the iPhone launch costs of Verizon Wireless in getting to the 12.2 number, so in some senses that slightly understates the number. Free cash flow, we said we would be above 6.5; we have come in as a reported 7.0, or on the same FX basis at 7.2. We said the margin reduction, the rate of reduction, would be significantly lower. We have halved the rate of reduction. And on the capex, we said the capex would be at similar levels to the previous year, which is what has happened.

More importantly, moving on to the guidance for the year that has just started. First of all, just sort some mathematical changes. Clearly we are not going to have the profit contribution that will be coming in from the SFR disposal. We will have a reduced cash flow coming in, as I mentioned earlier, because of the SFR disposal, China Mobile and the working capital. The sort of rebase numbers, if you like, are about 11.3 on the profit and 6 on the free cash flow. What we've done is, looking at the overall environment we're in, the strength of the performance in many markets and continuing challenges in the southern European markets, MTR cuts, etc, is we have put the guidance for the current year at 11.0 to 11.8, and the free cash flow at 6.0 to 6.5. So implicitly within that we are saying there's a 1% to 4% revenue, service revenue growth range, we've given to the medium term. Realistically, whilst we are still coming out of recession, we have still got the MTR cuts. I think we will see ourselves in the lower part of that – and I think we will see ourselves in the lower part of that in the first quarter of next year – and then hopefully over time as we come through that, we can pick up the pace there.

In terms of the medium term guidance, just one point on this, again referring back to the loss of the cash streams from the two disposed assets. About half a billion comes out of the cash flow as a consequence of that, so roughly 6 to 7 becomes instead 5.5 to 6.5. Clearly with having done the share buybacks, we have also reduced the number of shares in count, and therefore the dividend basically is reducing proportionately, and we're reconfirming the 1% to 4% target on the revenue growth, and the target of Group EBITDA margin stable by the end of the period, and the dividend commitment to 7% per annum growth continues.

So in summary, before I hand back to Vittorio, I think a reasonably successful year. 2.1% of underlying growth, good control of costs, good control of capex, significant proceeds raised from disposals, with big commitments back to shareholders and the 7% increase in the dividend underpinning all of that, and maybe we will see where we go with the US over time.

So with that I will hand back to Vittorio.

Vittorio Colao

Chief Executive, Vodafone Group

Thanks, Andy. What I would like to do now is to update you on the key elements of the growth strategy that we illustrated in November last year, highlighting where we think we are doing well, and also indicating where we think that either we or the industry should do better. I will not cover all the growth elements that we indicated last year; I am not covering today total communications. We have a good growth in fixed, 5%. I will not cover new services, like machine to machine, where we have been doing well, with 140/150 million of revenues. But I will really focus on the three important ones, which are data, enterprise and emerging markets.

So let me start with data. Data clearly continues to be a good story for Vodafone. As you can see from the chart, we moved our growth rate from 19% to 26%. Data is now 12% of revenue; mobile internet specifically growing 54%. And I have to say the story is still in the early days. Penetration, bottom part of the slide, penetration of data usage in Europe is 37%, up 7 percentage points. But smartphone penetration, which is the blue bar, is just at 19%. So there is a lot more ground to cover, and I have to say we are talking mostly so far about contracts. There is still prepaid – prepaid is about 10% penetration in Europe – and of course emerging markets. So data is and continues to be the focus.

In Vodafone we have taken deliberately a leadership position here. As you can see, the share of shipments of the smartphones, it’s the grey part of the top chart, has gone up to 38% now. It is clear there’s an iPhone effect, but it is not just an iPhone effect. Last year some of you might remember I said, ‘We want sub-€100 smartphones.’ We have got them; actually today we are showing a new one, which is the Vodafone Smart at €90, and we are convinced that the more we broaden our smartphone portfolio, the more we lower the entry price, the better will be the economics of our data strategy.

Now an important element, a very important element of the data strategy, is what is in the box, which is integrated data, pricing and tiering. Now very important, for some – we wanted to show you some case study or some practical examples, and for some reasons that I’m not sure I remember, we decided to pick the Netherlands, which are an interesting market. Now the Netherlands, the top part of the chart indicates that our trend, this is the full year – I think, on your papers, it might be printed as Q4 but it’s really full year – the full-year trend of our revenues in the Netherlands, and of course as you can see, yes, there is voice erosion, especially driven by MTR in the last quarter; there is also some kind of underlying voice erosion. But the other element of our revenues, data messaging and everything else are actually up, and as a result revenues are up. In the Netherlands we have a very good 73% attach rate. Attach rate means the amount of people who get the data price in a bundle together with the phone. And this has not happened, I would say, by its own. As you see in the bottom part of the chart, the proportion of our contract customers in the Netherlands who have an integrated voice data SMS plan is now about half, and it has come up a lot recently. This is very important, because when you ride the data wave, you also have to take into account customers' behaviour. And customers' behaviour is what drives, at the end of the day, what our revenues will be in the future.

So if you look at what has happened in the Netherlands, next slide, you will see that our billed ARPU, so the part of the ARPU that the customers pay, actually has remained broadly stable. This is clearly allocation of different components, so allowances for voice, for data, for SMS might have changed. But again, part of our job is exactly to manage this mix, so to mix the ingredients so the recipe remains a tasty recipe for us. The bottom part of the chart indicates what percentage of the total bill is actually contracted in the month. And this is again the second reason why it's very important to manage proactively pricing, because this reduces the risk that we have on our revenues for out of bundle usage. So customers within the bundle can move their usage on the communication platform they prefer, but still we have a kind of higher proportion of our billed ARPU guaranteed.

Then the third element, which is very important, is what we call the tiered pricing. You can see again that this is the Dutch example, of course, in the bars. Customers get in at €25. For €25 they get 250 MB. But we are not giving away the upside potential. So, if they want to use more, they can give us €5 more; if they want to use much more and they also want to use VOIP, they can, you know, for €40 kind of do what they want. So, not only we are kind of mitigating the impact of changes in behaviours from the customers, but we are also preserving the possibility of the upside. This is clearly something that has to be managed – it is not something that comes automatically – but we think is the right answer to the trends in the data world.

Second element of the growth strategy that I illustrated in November was enterprise. Now, enterprise is a very, very good area for Vodafone: it's today about 30% of our revenues in Europe; it's about 15% of our customers. In enterprise we have a 37% mobile market share, which is good, and it's a growth engine for Europe. In Europe, we grew 0.5% in business, in the total business area, while consumer was down in the year, and this is happening both at the mid end and low end, where we have products like One Net, where we basically leverage on the trend to get integrated fixed and mobile services for those type of companies, but also at the high end Andy mentioned VGE multinational accounts, 8% growth. Interesting information, which is the first time we've disclosed, our new contract value, which is a little bit, you know, what has been contracted for the future, as for the first time this year exceeded €1 billion. It's very good not just for the blue blood names of customers that we get, but also because, of course, this leverages on our strength.

Now, in enterprise we see some trends which are, I think, important for Vodafone because we are in the right position to exploit them. Let me mention three. First, proliferation of mobile devices in companies is basically exploding. I often meet CEOs or CIOs to ask, you know, what can we do for them and the answer is always, 'Please help us manage all these nice things that we all I think more or less legally bring on the company's networks,' because we like to bring our own devices, and we have iPods and tablets and PCs and

Macs and everybody has his own taste. Companies are unable at this point to control this, but they need to control the impacts of this, which is the first request.

The second request is clearly helping them manage the complexity that is deriving from this. Fixed mobile services together, spending which goes across different devices. And again, this is a strong request for telecommunications services management, coming mostly from the high end but more and more also from the mid end. And then, of course, the multi-country management thing. Kind of, 'Can I have the same service from Vodafone across the five, six, seven, 10, 20, 50 markets where we work?'

Now, we at Vodafone have taken some actions, I think, early on, starting probably two, three years ago. Let me mention a few of them. We have increased our sales force size, so it's the area of the company where we are hiring people. We have bought some companies with relevant assets; telecoms expense management companies to help these companies manage the vertical and horizontal complexity. We have added new services; of course, telecommunications services like One Net, but also more general services: security, device management, authentication, and other things that are necessary in the company space to keep this booming area under control.

And finally, I want to mention cooperation with Verizon, and not just Verizon Wireless but Verizon more in general, which gives us the ability to follow our customers more broadly and in more countries.

So, enterprise remains a strong area of focus for us.

And thirdly, emerging markets. Now, I'm happy here to talk about the kind of four recently acquired or more recently acquired operations. We have 12% growth across our emerging markets businesses. Andy already mentioned the great number in Turkey, about 30% growth. I mean it might not be very big, but also 21% in Ghana is remarkable. India keeps growing well and, you know, at this point also being cash flow positive is a good contributor to the Group. South Africa, despite the very high market share, they continue to grow well.

At the core of this, two things. One, the brand. We have the power of our brand is recognised everywhere. I received last night an email again from Ghana, I guess, where we got awarded, I don't know what, a special award for brand and brand management. We are now red even in Africa, in the whole of Africa, and we have speech marked, not rebranded, but speech-marked 'Vodacom' with great success. So brand clearly is part of our strategy and it's clearly paying off. And the other one is clearly network and Steve will cover more, but we are seeing that our ability to bring good technology and low-cost technology everywhere is becoming more and more important, and the result is in the market shares that you see at the bottom part of the chart. Andy has already mentioned some of the great results, but I would say again this is a proof that these recently acquired operations are well managed and Vodafone is able to manage both in mature and in emerging markets.

Looking forward, 70% penetration in emerging markets, Europe is at a much higher level, so there is a voice opportunity going ahead, but I would say and I always repeat that the most important thing is the data opportunity. In places where there's no internet, where there's little communication, fixed communication, a penetration of 19% in India indicates that there's huge potential to grow. We have doubled the number of active customers in

India, but still we are talking about a very low number and these are early days for 3G in most of these places, so emerging markets will continue to be a great area of focus.

Let me now hand over for five minutes to Steve, who will talk about technology and how technology, both LTE and network sides, are enabling our Supermobile strategy.

Stephen Pusey

Chief Technology Officer, Vodafone

Thanks, Vittorio, and good morning. What I would like to do this morning is share with you how our technical strategy is supporting our mobile data growth opportunity, and to do that I will focus on four areas: firstly, our network performance; and then how our coverage strategy is evolving; how we're managing the data growth and the capacity; and lastly, how we're changing our investment mix towards what we call 'unmatched customer experience'.

Firstly, network. We know from our customers that this really matters. It's the foundation of the customer experience and it's what our customers measure us by. To that end, we do annual tests. We use an independent company to do this, a German company, in this case, called P3, and we've just completed the round of the 13 primary European companies here, which I'll give you the reference to. We're very pleased that we came out in front of our competition in 11 of the 13 markets and particularly strong in the largest four European countries.

To support this, we're also very pleased that we've further stretched our lead against competition in the key two attributes that customers measure and see as they experience and download a video or stream a piece of music, which is the downlink and the uplink. And you can see from the charts that we've further stretched the experience difference against our competition. This really matters and we will continue to focus on best network.

In addition to that, our customer base is moving and our footprint of customers is changing. With the advent of the smartphone, the opportunity is a little more ubiquitous. We know that people want to use their smartphones everywhere and it has a huge data component and data opportunity. So, to match this, we have to evolve our coverage strategy and, simply put, we aim to have data everywhere that we have voice. This metric will take us beyond the 90% coverage and, to that end, we've just completed a build of 8,500 new sites in Europe and we also introduced UMTS900. This is a re-farmed spectrum which has particularly beneficial coverage attributes, so this is a policy we will continue throughout next year and the year beyond.

At the same time, we've introduced a floor – a floor expectation of service for the customer. We've looked forward at the chipsets that are going to be available in smartphones and tablets and other devices, and to meet this we've decided that our floor service will be 14.4, or the worst experience, if you want to look at it that way, as we increase this coverage. Today, 65% of our European infrastructure is already at 14.4 or better – or better.

And along with this, we've pioneered a new piece of technology called 'single RAN' and for those who don't follow it, this is 2G, 3G, 4G in one box or 'LTE ready', if you want to label it that way. We are pioneering this. We will have about 14% or 15% of our footprint upgraded as we go through this year, but that will accelerate as we do our radio refreshes in all of our major markets through the next couple of years until we complete the build of the entire footprint on single RAN. This is the primary deliverer of LTE in Germany today. It also has some benefits on opex, which is a nice side effect that the modern technology can reduce energy consumption by up to 40%, which is quite material for our opex growth.

Now, as we look at our data growth, you see that from the chart it's been growing quite healthily: year-on-year 66% growth; it's now 80% of our total traffic, up about five points, six points from last year, but it eased slightly as we got through Q4 and that's largely due to the traffic management technologies that we've installed in our infrastructure. I'll highlight a few of these. Firstly, video management. The video management technologies, the transcoding, the just-in-time delivery, the compressing, etc, that's reducing video throughput by between 20% and 40% in our networks. Similar techniques and technologies for web management are reducing volumes by between 10% and 20%. I also draw your attention to wi-fi offload, which we've pioneered mostly for our enterprise customers, but also those residential customers that have their own infrastructure, where we now measure, on average, a 10% wi-fi offload of the traffic through our devices.

In addition to that, we've pushed significant efforts on cost-saving activities in other areas. We're big fans of network sharing. Now, in Europe, over 40% of our sites are shared today, and we continue to press ahead. Most of our new build is a shared site. We continue to self-build transmission; we're now over 80% self-built transmission.

And we've standardised a lot. We've used our scale, particularly evident in our procurement when we look at IT. This is maintenance agreements, this is software licences, and you can see in the last 12 months we've used our scale to cut corporate-wide deals on a number of major IT supply arrangements with major vendors that you can see on the chart. This has conspired to allow us to keep a consistent level of investment on capex, but shift it to performance that our customers can touch. And in our opex we've been able to maintain a flat opex; in fact, you can see slightly declining year on year in real terms, whilst managing both the customer traffic growth and the new footprint increases. So we're pretty proud of the performance there.

Now, the capex mix is evolving. We get asked lots of questions. If I first draw your attention to the pie chart, we're still investing about 24% of our capex in volume or capacity. That hasn't increased year on year. In fact, one might argue that every time we site split we're actually improving coverage as well, so it's difficult to know where to put the barometer on this. But if you look at the headroom, we're very comfortable with the headroom we've got. Still today, two attributes that we share with you, the amount of sites that are what we call 'very hot' in a busy hour, 90% utilisation in a busy hour, we're still only 8% of the footprint; it's up 1% year on year. And the general floor, which is going to become more important as we look at smartphones and the more general coverage of smartphones, is still only at 36%. We have headroom on capacity and we're comfortable with this.

So what this has allowed us to do is shift our investment focus. Unmatched customer experience is our ambition to support our best network experience on the touch points where our customers touch Vodafone. These are largely IT investments in online, where we put big investments in online and the experience of our customers in customer care, particularly people can take their bills online, they can get their enquiries online, a 70% increase on the amount of customers getting their queries dealt with online, on our call centres, on our retail estate and on billing and CRM, so that we can put more creative propositions, and the tiered pricing is one example of that. This is set to evolve and continue as we go forward, and we have a greater ambition to make a difference with IT and a differentiator in our experience.

At the same time, though, not to be missed, we've kept the innovation in the networks and we're now at 1,500 sites built in Germany with LTE and of course about 5,500 3G sites in India, where we're supporting the growth of data.

So, to look to the future, what are we focused on? Well, paramount is best network experience. We'll continue to do that; it's really important. New technologies will be employed in the network, caching, content delivery are all in their incubations right now. We'll continue to evolve through the HSDPA estate and the coverage in the LTE rollouts.

We will introduce new technologies. We've finished the global IP infrastructure for Vodafone. We're virtualising all our data centres to deliver the Vodafone cloud right now. Our early cloud services like One Net are in the market and we will continue those, enterprise particularly, but perhaps move into consumer cloud services as we go through 2011.

On enhanced services we know things like security, device management, enhanced online services, bundles, flexible charging, bolt-ons, maybe family plans are all important. Third-party billing is a capability that we're enabling through the infrastructure that we built last year. And lastly, I draw your attention to 'rich communications services'. This is an industry-wide initiative that we're doing with our peer group, with our competitors, and you can think of this as like an extension of how SMS works today: it just works anywhere in the world and you enjoy it. We're extending that protocol between competitors, so that video calling, webpage sharing, address book sharing, presence location and multimedia can be shared in a consistent quality fashion across operators. You will take this for granted in the future.

And lastly, our collaboration with Verizon. We truly think this can make a difference. We're sharing R&D and technology roadmaps. We are shaping the industry through the decisions we're making due to our scale together. We'll collaborate on LTE, on the evolution of LTE and IMS services, content delivery and, of course, the portfolio of machine to machine.

So, in summary, the best network – it matters, will continue; coverage, with a floor, a preferred experience for our customers; IT investments to support the unmatched customer experience; and collaboration with Vodafone to press ahead with innovation on Vodafone first.

Thank you. I'll hand back to Vittorio.

Vittorio Colao

CEO, Vodafone

Great, so getting to the conclusion, let me spend a few words on challenges and opportunities. First of all, challenges. We have some challenges which are just, I would say, business-as-usual type of challenges: competitor behaviour, not always what we would like to see, or regulations, which we wouldn't like to see at all, but sometimes we see it, and this is, I would say, more kind of normal life. Economic outlook is a bit more specific, especially in southern Europe we see the economic outlook as a challenge. And, of course, the monetisation of IP-based communication apps is going to be very important in the coming 12 months.

Now, there are some corresponding opportunities to these challenges. The first one is clearly, as I indicated, a healthy pricing environment for data, which would actually be a match to the previous challenge. Enterprise, where I think Vodafone has demonstrated good strength recently. I believe that there is some room for commercial cost rationalisation in some of the European markets and, again, this is a competitive thing, but there is an opportunity with economies being under pressure to rationalise there. Voice and data in emerging markets and, as was mentioned by Steve, Verizon collaboration.

Why am I confident that Vodafone is well positioned for the next 12 months? Here I have two remarks. One is the way we work, our operating model, and the second is how we manage people and incentives.

Now, I was warned by my IR people not to show the chart that I'm about to show, because they told me that it clearly indicates that in my DNA there is still some dominant consulting gene, but again it's not a dominant gene. Be reassured that it's, you know, something from the past.

How do we work together? I really believe that we have got a good operating model. The grey part indicates what is really I would call it centralised or led by the centre, and it's where we really get scale advantages and this is purchasing, where we are getting continuously benchmarked as the best buyer. But not just purchasing; shared services, now Andy is completing the whole ERP migration into Hungary, but then we have service centres in Egypt, we have service centres in India, which are becoming bigger and bigger, so it's not just low quality – sorry, low cost, it's also high quality skills. Standardisation of networks, getting best technology using platforms across countries. So we are getting the scale advantage, but we also have found – and this is more the blue area – the way to remain close to the market, to retain pricing flexibility, commercial closeness to what is required, strategic flexibility to do, if needed, different things across markets, regional CEOs, local CEOs full in charge.

And then, of course, there is a middle area, which is where we need to coordinate but basically leave also some local flexibility. I was recently visiting two large accounts, a large automotive company and a large bank. And again we were talking with my colleagues from global accounts about cross-country device management, but of course there was also a local guy talking about how can we do something together in our market for whatever, you know, payments or for in-car telematics, which again proves that we have found a very good and a very, I think, solid way of getting both flexibility and scale.

The second element is really incentives. Here, I have to say with guidance from the board and a lot of work with our remuneration committee, I think we have worked well. First, we introduced strong cash flow incentives, which have, you know, led to the €20 billion cumulative cash flow of this year. Last year, we changed the emphasis on competitive performance and, again, today I think the last quarter we have been better than the competitors in 12 markets out of 16 and worse only in two, and the two are Australia and Greece, which, you know, are kind of small things in the context of Vodafone. So, again, we have worked well on that dimension.

What we are doing now, again with our remuneration committee, two things. We are, for this year, slightly rebalancing a bit the profit versus revenue. We want growth, but we want profitable growth. And most important, we are expanding share ownership guidance not just to my top team and myself, but also to the local CEOs and the local team, again to make sure that people who make, on a daily basis, money allocation decisions, whether it's capex or opex doesn't really matter, they have interest aligned with long-term shareholders and ownership. And I think this is proving, again, probably one of the most powerful changes.

We have also changed a number of people. In the last two years, of the top 250, 25% have left the company and another 25% have changed jobs, so we have basically one person in two who is in a kind of old job and one person in two who is new to the job, which again I think is part of the rejuvenation and flexibility that we need to have.

So, in conclusion, going back to my messages of more valuable Vodafone, I think we have increased and/or held market share in most markets. Good growth from data, enterprise and emerging markets. Displayed control over cost; Europe cost down 4% with, I would say, strong strategic guidance from the board and, I think, wise execution from us. We have managed well our disposals and committed to share buybacks. And, finally, we are delivering free cash flow without cutting investment, which I think is important.

I thank you for your attention. I would ask my colleagues and Michel in particular to join me for the Q&A session now.

Questions and Answers

Tim Boddy, Goldman Sachs

On slide 37 in your Netherlands section, you show how, I think, some 61% of contract monthly fee ARPU or rather of billed ARPU for consumers on contract is bundled, effectively. Could you give us a sense of what that number's like across your other major European markets? The context being if we know how much of the ARPU is bundled or fixed, that helps us get more comfort as you manage the transition of voice to data in the revenue.

And then, secondly, building on that, we obviously saw Microsoft acquiring Skype for quite a nice fee and clearly that's coming to the Windows phone platform. Google have just made Google Voice operate on Android over 3G networks. Could you just talk a bit about how you feel about these changes in some of your suppliers' behaviour?

Vittorio Colao

Yes. Let me give you a broad answer and maybe, Michel, you can be more specific.

I think that across the larger – and it's not exactly what you asked, but it's kind of in the same space – across the large European opcos we have today about 20% of contract customers who are on bundled tariffs, which is, you know, the equivalent of the 50% that we have seen in the Netherlands, so we are going there. I don't know if you, Michel, have kind of exactly the same answer.

Michel Combes

No, so let – just to précis what Vittorio has said, so that slightly more than 20% of the customers in the countries in which we have started tiered pricing, bear in mind that we have now integrated tariffs in all our European countries, but it is something that is still a little bit new, and they generate more or less 30% of our revenue today. That is, let's say, in the base, and when I look at the sales, that's more than 50% of customers in those different countries which are now entering directly in those integrated tariffs, so which means that let's say that of course it's going to increase in the next coming months.

Vittorio Colao

Yes. On the broader question, first of all, I think Microsoft buying Skype was among the many outcomes is one of the best, for sure for the seller in terms of price. Let me tell you how I feel in general. In general, we are not worried of the kind of integration of VOIP applications into operating systems, because today WhatsApp, Viber are basically freely downloadable anyhow. Where we are really keen is to push the integrated pricing and the tiered pricing as part of our strategy. If you think about what these apps do, they do basically two big things: voice calls and video calls. Now, video calls would be the heavier part of it, for which having tiered pricing is very important, and voice calls, quite frankly, when you pay £35 or £40 per month and you have already 1,000 minutes included, more or less you don't care whether it's a VOIP call or not. So that's why we displayed the Netherlands case study, because it indicates that there is a strategy vis-à-vis VOIP.

I marked down Nick, Robin and then Robert maybe.

Nick Delfas, Morgan Stanley

Thanks very much. Just a couple. On Verizon Wireless or Verizon and Vodafone cooperation, given that Chinese vendors are not selling to any significant degree in the

United States, would it be right to surmise that the bulk of that benefit will go to Verizon Wireless as you start to coordinate your capital spending, your capital purchasing?

And secondly, on quality of networks in Europe, are you already seeing an impact in the UK, for example, from re-farming, which could be of significant benefit for Vodafone, since you have 900 MHz spectrum in most markets?

Vittorio Colao

Okay, Andy and then Steve, and Michel.

Andy Halford

Yes, on the procurement side, we're still going through sort of lining up where the spend is, and clearly there are aspects in terms of nationality of provider which are different. There are differences between the technology sets, which are different, albeit over time they start to sort of normalise. So I think it's just a little bit early to say where the balance of benefit will come through from, but the sheer scale of the absolute spend, even if some of it is not something we can get to immediately, says there's got to be real opportunity sitting out there and that's what we're going to go after.

Vittorio Colao

Yes, and it's not only one way. There are many other things, many other US suppliers which are much bigger for them than for us.

Stephen Pusey

Yes. If I may, just to support Andy and add to that, don't forget the significant procurement in IT, where it's completely standard both ways in core routing, in core infrastructure. Certainly if you focus at the radio equipment that would be true but – and we both buy from Ericsson as well, so there's quite a lot of commonality there to consider.

Secondly, on the 900 question, we're quite new in the UK on 900, but certainly we're seeing the early benefits as we start to roll that out, a little more mature as we've been rolling it out in rural Italy and Spain, but we are definitely seeing the benefits of 900; re-farmed it has at least a 3db gain, which increases the footprint coverage quite significantly.

Vittorio Colao

Robin, James. No, Robert, James, okay.

Robin Bienenstock, Sanford Bernstein

Thanks very much. Two questions, if I may. It looks really like over the long run Europe is looking like a zero-sum game in terms of top-line growth, and you're currently getting the better of your competitors, which is a nice change, but given that there are new value chains perhaps on the horizon, I guess I'm asking, do you think you need consolidation? Some of your competitors are suggesting that you do, and are there any circumstances under which you'd participate in that?

And secondly, you talk about the increasing complexity that a lot of your enterprise customers are noting in terms of smartphones, tablets, proliferation of devices. That's also starting to get down into the retail segment as well, so how do you think about your retail skills? How important is that going forward, and is that going to lead to rising opex in the European environment in particular? Thanks.

Vittorio Colao

Maybe, Michel, you take the second part. I would say consolidation would be a good thing. There are a number of situations where I can see consolidation being beneficial to all. Clearly, the way it's going to go in the US is going to be important, because it indicates, you know, whether certain boundaries that maybe were self-imposed actually are not there. I'm not sure when you say 'you' whether you mean you the sector or you Vodafone. You, mean, me? Okay, that's very clear. We would consider. Honestly, we would consider, we would consider. And you might remember in '08 my kind of statement was we will be a supporter of consolidation, either passively or actively. I never ruled out active. You also have to see what's our market share. In some markets, we have market shares which probably would not allow us to go much more beyond; in other markets, maybe we'll consider, but I wouldn't rule out. And for sure we will not try to create a problem as to other if they want to consolidate.

Michel Combes

Yes. On retail, so, as you clearly pointed out that, for sure, that data is coming also in the retail space with the multi-devices, and we clearly want to position ourselves as a data-enabler, so we've started a journey of transformation of our retail stake. As for this year, we are increasing the capex and opex within the retail, but by shifting some resources from other space within the company, so, as you have seen the past two years we have decreased our opex and will continue to work in opex reductions, but we want to shift that. I guess that Steve mentioned what we are doing in IT in order to have the same type of system in retail but also online and customer care. We are, let's say, moving to data experts in all our shops in order to provide advice to our customers, live devices which will be presented in all the shops, so you can expect a real change of our retail experience in the next coming quarters; in all the countries we are driving that with [inaudible].

James Britton, Nomura

I have two questions, please. Firstly, would you see the prepaid segment, as the sort of more price-sensitive segment, as being a greater risk of cannibalisation moving usage towards messaging, away from voice and texts? And then how do you protect it against that shift in the prepaid segment?

And then, secondly, on network quality, we were at an event last week where one of your peer operators referenced a YouGov survey in the UK on network quality in mobile broadband. That supposedly showed 3 as having the best – ranking the best in 11 of the

12 categories on mobile broadband, and Vodafone actually showing the worst in the majority of categories. Could you just help us understand how that is so?

Vittorio Colao

I'm sure Steve will justify himself. Let me take the first one. Prepaid is by definition more price-sensitive but not necessarily in the direction you were indicating, i.e. with move away form voice into data, but in general it's more price-sensitive. We have been re-strengthening our presence in prepaid. Sometimes, the decision quite frankly is: are we better off working off with a third party – an MVNO type of operator – which in some cases has worked very well because of distribution efficiencies and things like that; in other cases, it's our own operation. But I would say more it's a general price-sensitivity rather than more inclined necessarily to go to data, and that's more or less the direction we are working on.

James Britton

But just – I mean it's more of a market phenomenon. For your existing prepaid base, how do you stop them just moving their traffic onto instant messaging? Obviously they've got to buy their own smartphone, but how can you stop the youth segment today just not spending money with you?

Michel Combes

I would say it's the same as for postpaid, meaning that we are moving also in integrated tariffs in the prepaid. That's much more recent because up to now there were not so many smartphones, so with what Vittorio has said previously, with smartphones now coming at lower price-points, lower than €100, you will see in all the markets in which we do operate, we have started to implement 'top-up and get' mechanism, where you get allowance of voice, text and data together, so which means that let's say it's bundled, or we have also bundled, let's say, that you can buy – where you buy a few minutes, a few datas, and a few texts. So the same type of principle that we applied in the consumer contract, in order just to make sure that we sell a bundle of stuff.

Stephen Pusey

On the second question, we looked at those as well. It measures a whole range of things from broadband access in your home to mobility as well. We'd like to think our testing is more extensive. We've used a standard test, a totally independent German company, through 16 countries, with extensive eight-city majority testing, freely tested – not provisioned on certain sites that might steer it one way or the other. So, my only answer is we found what we found, and largely, in a survey of competitors, seeing the same things, so we will be looking into their methodology and how and what they do. We use regularly industry-standard, recognised testing methods in all these countries that you'll find evident in other independent tests like the *connect* test in Germany, etc.

Robert Grindle, Deutsche Bank

Actually, I can confirm. Of the two BlackBerrys in my pocket, one, which isn't on Vodafone, doesn't have coverage, and the one on the left does have coverage. There you go, Steve. Well done.

Stephen Pusey

Thank you.

Robert

But my question is: please could you make a comment about the early experience of LTE in Germany. Is it making you more excited about the opportunity to substitute fixed broadband in rural areas or even urban areas?

Stephen Pusey

Both do it? You go first.

Michel Combes

Well, from a commercial point of view, and probably Steve will add from a technology. So we have started to roll out 1,500 sites and we have now 10,000 customers up and running in Germany. We are getting more than 1,000 per week, and so we see a quite great experience from our customers. I guess that some of us, Vittorio included, has been able to test it, so the quality is quite compelling and we see it as a nice substitution tool. For example, in Germany, we're working on a lot of DSL lines through Deutsche Telekom. That, let's say, might be a nice way to improve the profitability of our fixed business.

Vittorio Colao

So, the answer is yes. We are very comforted by what we see.

Mark James, Liberum Capital

Going back to sort of smartphone economics, you are, in Europe, investing more in your customer base than you're extracting in terms of cost savings. Going against that, presumably, contract lines are lengthening. Customer lifetime values: could you give us any indication as to whether you think they are going down or going up in terms of the net present value of a customer to you, or a payback period or some sort of measure?

Michel Combes

So, customer lifetime value is increasing for different reasons. First of course the ARPU is increasing when we migrate from non-smartphones to smartphones. Second, we have leveraged this migration to smartphone in order to extend the duration of our contracts. That has been the case, for example, in the UK, but that is also the case in the

Netherlands. That's also the case in Spain, where we are introducing also the ability to move up to 24 months. That's also the case in Italy, where we go even slightly below 24 up to 30 months. And the third is that we see an improved churn, let's say, on those type of customers. Of course, that's still early days so we have to look at it very carefully in the next coming quarters. So for those different reasons, we are quite comfortable with the allocation of commercial resources that we are putting right now, and I guess, as Vittorio said earlier on, naturally a choice to have decided to push hard on smartphones, assuming that of course for each smartphone sold, we sell as well a data-attachment plan with the ability to monetise data with those type of devices.

Vittorio Colao

And to be clear, the potential is exactly where you pointed. So, with more Android, with more RIM, we'll see what happens with Microsoft and Nokia, with more choice and better economics for us, a very proactive management of this equation of the three elements – the ARPU, the commercial cost, and the lifetime – can really yield very good results. Also because, in Europe, we start from low prices, so there is a natural upside. It has to be hard work. I have to be honest. Every time I go into the shops, I always ask the question, 'Do we make more money on this one or on that one? What do you think?'

Mark James

Can I push you for any quantification on that? If you think it's gone up, has it gone up 5% or 25%?

Michel Combes

I think that we will not give a precise figure on this one. Again, I guess that's what Vittorio mentioned and I think it's more qualitative answers. There is now a complete shift in the mindset of our countries on data economics and the ability to really manage ARPU uplift, which is generated by those integrated plans, and also the ability to monetise the extra data. We, for example, monitor how much of our customers reach the cap in the bundles and how much of those customers are turning to extra data in order to really uplift the ARPU, and then we have precise models in terms of device selections and price-plan selections. So I think we'll come back probably with some additional figures.

James Ratzer, New Street Research

I have two questions, please. The first one was regarding your strategies for dealing with some of the weakness in southern Europe. It seems as if in Spain you are cutting your pricing quite aggressively. There was quite a sharp drop in your average pricing in the recent quarter, and again you reduced prices in April, whereas, in Italy, you seem to be holding your pricing versus the competitors much higher. Why the kind of different strategy on pricing between the two markets, please? Do you think it's sustainable in Italy to hold your average pricing above the competitors if the economy remains weak?

And the second question, Vittorio, is on your slide about challenges ahead. You mentioned regulation. Clearly, the MTR threat is well documented. What other regulatory threats do you actually see at the moment?

Vittorio Colao

Let me quickly go through the second one, which is easy. It's clear the other one is data roaming. It's not big for us in economic terms. We have introduced price plans in December, which should take care of this. As of June 1st, every British customer going abroad will be notified of what he or she should do in order to get this new tariff, so we are proactively pushing this. That's another area, even if it's not big, but I would say mainly MTR under regulation.

On the first one, I would really give you a kind of direction of every market is different. Spain had high prices and high commercial costs, and Italy has lower prices and lower commercial costs. The sustainability of the commercial formula is very different. And in Spain, I think Michel and Shameel are doing the right thing in bringing prices down and trying to rationalise commercial costs. Because in a time of recession, you really want to lower prices and reduce your infrastructure – your commercial infrastructure. And of course this is a market thing that has to be more – if you want my opinion, comparing countries, Spain is an over-invested market, simple as that. Now, in Italy, you say we are more expensive. I think it depends on what you look at. I think we are very competitive and it's in the numbers. Is there anything more you want to add?

Michel Combes

No, no, no, no. As a starting point, the competitive perception in Spain and Italy was probably different, and so that's why we have to rebalance this perception in Spain, and that's what we are doing right now.

Emmet Kelly, Merrill Lynch

Just two questions: the first question is on the Indian wireless market. Essar has now exercised their put option. Could you just give us a quick update on what you have to do in terms of complying with foreign ownership rules there, and whether this might encourage you maybe to look at perhaps looking at a merger with a local Indian partner, and how you view consolidation in the Indian wireless space?

And the second question is a boring old tax question for Andy. But on the tax side, you've reported cash taxes this year of £2.6 billion. Can you just say whether this does include any back tax payments from the CFC and also from the European deferred tax liabilities reported a few years ago? Thank you.

Vittorio Colao

Let me pass both questions – the boring one and the fun, exciting one on India – to Andy.

Andy Halford

The second one was 'no' and the first one was 'yes'. Let me take them in order. The rules on foreign ownership are fairly complicated, but the simple answer is that, for a very small percentage of our stake – probably 2%, 3% maybe – we would probably look to find a local partner, but it would not be more than that.

And secondly, the £2.6 billion are ongoing taxes. It is not the exceptional settlements in the UK or any other things.

Andrew Beale, Arete Research

A couple of Verizon questions; you'd be disappointed if you didn't get them, I guess. The Verizon Wireless cash balance at the first quarter was about $7 billion in round numbers. I guess, even dealing with all the maturities, May and November, it's probably going to end the year nearer $12 billion. I guess the first question is: what do you think of that balance sheet and whether it makes any sense?

And secondly, just on the cooperation with Verizon, I guess the chipsets get – are starting to come global in terms of multi-standard, able to do CDMA, LTE, HSPA and so on. Is there anything that you're thinking of doing or that you are doing with your vendors in terms of pushing sort of multi-standard handsets into at least the high-end smartphones, such that you could traffic-steer in a different way to improve the financials of Verizon and perhaps buy in bulk much more efficiently for both of you?

Andy Halford

Yes. So, you are right, Andrew, that the net debt figure in the Verizon Wireless business is masking there is long-dated debt that is not economic to prepay, and therefore cash balances will accumulate. Some of the debt does need repaying, some of it actually quite imminently, but once that is done we should start to see the cash balance starting to build. All I can say is, clearly, over the quarters of the year and as we go into next year with a cash balance building that will not be earning huge amounts of interest, then obviously we would hope that there will be further discussions about what we can do to actually make sure that shareholders are getting greater value from that, but that's a discussion in a – that will happen in due course.

Stephen Pusey

And yes, chipsets offers an opportunity for us both to work together. Obviously in the short term, for LTE Verizon needs to get the CDMA/LTE mix out, but similarly, as they evolve their – particularly their handset strategy having the opportunity to operate with HSPDA is attractive, and they are, of course, working with us on that.

Will Draper, Espirito Santo

Just reading the *Sunday Telegraph* last weekend there was a big article on mobile health and some recommendations at the EU level, which may come into force. What does Vodafone's research show on the issue of impact on health? What do you need to do on this issue to be a socially responsible corporate? Do you take it seriously, for example? What can you do about it? And should investors be worried about this whole issue, which appears to be just breaking?

Vittorio Colao

Yes. I'll give you a kind of broader answer and maybe, Steve, you want to add. First of all, it is a topic that, at the board level, of course, and throughout the year, we follow continuously. We continuously track also with Verizon, which is another area that, of course, as you would imagine, we compared notes a lot about. We access whatever are the results of independent research. We keep reading and keep looking and, so far, we are comforted that there is no evidence – no scientific evidence – of a connection between illnesses and the use of mobile phones. So, the best thing that we can do is to help independent research, and researchers continue to research, and research as much as they can, but so far we are comforted that there is no apparent risk in the use of mobile phones. And I think that the only thing we can do is really to rely on independent research because this is the most reassuring thing for the customers. That it is not our research saying something; it's independent research.

Stephen Pusey

I think you've said it all there, actually. There's not much to add. We're actively supporting the research and there's no evidence thus far.

Maurice Patrick, Barclays

A question on capex: some other companies are increasing capex, more in emerging markets. You stressed the network advantage you have at the moment. I wonder why you didn't consider increasing it yourselves, and what – was it because you didn't want to or you're tempted to? At the recent management offsite, you hinted towards thinking about it; not being wedded to increasing it. So just your thoughts on could it go up, would it go up, what would stop you in the future?

Stephen Pusey

We pace our capex with the opportunity on returns. We have a model where we measure very accurately the returns on every base station, every IT investment, and we're investing in capex at a pace that we feel comfortable it gets the returns we would expect. In some cases, you push out a network earlier, like India, where you expect returns to come over a prolonged period, but basically the answer is we're comfortable with the pace versus the return and opportunity that we see, and keeping that advantage that we feel is important.

Maurice Patrick

Just quickly on the traffic growth, it slowed towards the end of the year as you did more optimisation techniques. Is that the delaying of inevitable growth or is that a structural shift in consumer behaviour?

Vittorio Colao

If I might make a comment on that, because it's important. The vast majority, unlike other areas of the world, the vast majority of European traffic is mobile broadband. It's not smartphones today. And a small, very small percentage of high mobile broadband users capture a large part of the network usage. A part of these pay for it, which is very good; a part of these kind of, you know, abuse. And as part of our strategy of yield management is to say, 'If you're on the motorway, take out the truck which go very slow to free up for seven cars that pay the full ticket and go fast.' So, this is a little bit what is happening. We have not restrained any smartphone user. We have not got any complaints of any kind. I think it's a convergence, if you want, of traffic and revenue growth rates, which, in the end, is healthy.

Stephen Howard, HSBC

Just returning to the Netherlands and following on from the point that you have just made, Vittorio, if you look at the tariff structure there, customers who are spending more than €40 are permitted to use VOIP services, where those who are not spending that much are not permitted to use the VOIP service. I guess certain regulators might regard that as restraining customers' ability to use the service. Have you run into any net neutrality-style regulatory issues on this? How do you tell if the customer actually is using VoIP? Presumably that involves deep packet inspection, and that in turn may also raise some regulatory issues. That was my first question.

The second question: just looking at your stats on the lead that your great historic track record of investment has given you in terms of the ability to offer faster broadband speeds than your competitors, I note that the comparison you're making there is with your leading competitor, and given that we may now be getting into a world where historic underinvestment is beginning to tell, I'm just wondering how the gap would look if you were comparing it not with the number two but with the number three and number four. Are those guys beginning to feel the pain? Is that forcing them to sell the data at a sensible price? Thanks.

Michel Combes

On voice over IP, in the Netherlands as in all other countries, I guess that we are fully transparent and compliant, meaning that we give the choice to the customer to be able to use voice over IP. In that case, he has to subscribe to the right plans in order to do so, and you're right to say that, in the Netherlands, it's for the plans above €40 and then he has to pay €5 per month on top of it to be able to use voice over IP. There is no discrimination in between service providers. That's just, let's say – not discrimination but let's say a tariff which is based on applications, and so that's completely compliable and compliant with the European regulation. Then, of course, we have mechanisms in order to enforce it and to make sure that customers respect what he has signed for in the contractual terms with us.

Vittorio Colao

Let me also take a little bit the political side of it, because there was a little bit of a political context that you were describing. In Europe, we have lower prices in general, lower spending per customer in general than in places like the US. In Europe, we need investment – we need investment in fixed infrastructure; we need investment in broad infrastructure – and in Europe we need employment. Now, this is the political context. So, I have prices which are going down 11%, 12%, 13%. I think this quarter is the first quarter where the India price decline is lower than Italy or Spain, for example. So, this is the context where we are.

Those of you who are journalists in the audience, you shouldn't forget this. We are in a price deflationary – 10%, 12%, 13%, 15% – environment, in an investment-hungry and an employment-hungry environment. I think the European regulators are taking a sensible approach in this space, where they say, 'This is a transition phase, moving from a certain world to the world of data. We need to have solid economics,' and the debate on net neutrality in Europe, I think, has been much healthier and more investment-friendly and business-friendly than, for example, in the US. Now, will it stay like that? We work hard to make it stay like that. But let's keep in mind lower prices, declining prices, and data pricing, which is clearly lower than, for example, in the US.

Stephen Pusey

Just very quickly, we do measure against all competitors, and it's not the case in all countries but we have seen a differentiated performance gap year on year, so one would only assume they're making choices, and particularly the consistency of the record of data performance. Someone can make an investment in one city but not consistently across 10, etc. So, that's where you'll see the evidence of the consistency of that data experience, which is –

Vittorio Colao

Or on the train lines, or on the islands or whatever.

Ottavio Adorisio

Three questions of my side. The first one, I was better to start from the answer you just gave on the political question. It's true that prices are coming down and capex is going up or capex is remaining stable. They're reporting at you have to look at how to basically plan for the investments going forward. But how do you reply to the regulator that we look at Vodafone and any generally any incumbent mobile operator and see probably the most profitable industry at the moment, with 40% plus on EBITDA margins in a number of markets and only 10% capex of sales – that's your guidance to remain stable – so there is an abundance of cash already to invest, and probably it's the case that the price for voice at the moment is well, well above cost. The costs – probably the data show you what the real cost of running a network.

The second one is on the Netherlands. There looks to be quite a focus on that. I look on the headline numbers, and revenues and EBITDA look to be down 7%. In the text, basically it's £44 million over £608.12 million. So roughly 7.2%, back of the envelope. In the text, you say that's actually going up, so I would be grateful if you can just give me the adjustments you make.

The third one is on depreciation. In the past we have quite a moving piece on that one, because it's very important for your guidance. Could you just trace your depreciation assumptions for next year?

And the fourth – no, I don't want to continue that one.

Vittorio Colao

No, four is really outside the rules. Do you want to take the Netherlands first?

Michel Combes

On the second one, so on the Netherlands, there is an impact in Q4 of MTRs, so if you correct by MTRs in fact we are at plus 3%, which is quite comparable with the previous quarter, which was around plus 8%, so we are, by the way, the only operator to be in positive territory. And if you look at our EBITDA margin in the Netherlands this year it has improved thanks to a strong opex management minus 6.0%, and of course which has allowed us to finance commercial resources in order to push smartphones, as it is one of the countries, as you have seen in previous slides, where we have really been able to equip many customers in smartphones and to unlock additional revenue.

Vittorio Colao

Depreciation?

Andy Halford

Not specifically guiding forwards on depreciation, but I'd say it is running just a little low, below the capex level, and that is thematically where I'd expect it to continue to trend.

Vittorio Colao

The answer to regulators is very simple. If you need investment and if you need employment, you need to preserve margins. It is wrong to look at margin before investments, because there is risk associated with investment, so that's what basically we say what the others say. I don't know but it's our position, and disciplined deployment of capital is going to be I think the rule in our sector more and more.

Ottavio Adorisio

Do you adjust for MTRs to calculate the organic?

Vittorio Colao

Sorry?

Participant

To calculate the organic growth for EBITDA, you basically state in the text –

Michel Combes

No, no, no, I was just mentioning, so for revenue it's plus 3% is a real figure, and I was just comparing it to the previous quarter, which was plus 8% and that's an impact on, let's say, coming from MTRs. For EBITDA margin, which is based on, let's say, reporting figures, the EBITDA margin is improving.

Jerry Dellis, Jeffries

Two questions, please: firstly, on EBITDA margins, your guidance calls for margins to decline a bit less in 2012. Clearly, there was quite a strong stabilisation in the second half. How should we think about 2012 margins relative to the H2 trend, particularly thinking in terms of maybe less operating leverage benefit and also, obviously, the stiffer MTR headwind that we'll see next year.

And then, secondly, in terms of capex, Everything Everywhere has become the latest operator to embark on a fairly aggressive base station swap-out programme. I just wondered from Steve how your single RAN approach is different to that, and why you wouldn't accelerate it to get some of those cost savings through a bit quicker.

Andy Halford

Look, accurately forecasting exactly where the margin is going to be is always quite tricky. You are absolutely right that the erosion in the first half of last year was higher than in the second half. We have said for this coming year that we expect to see further improvements, so, directionally, we are in the same sort of zone as we were in for the second half of last year. Some of that is going to come from the smartphone launches. We had quite a lot of those in the early part of last year. Obviously that is now more sort of normal course and speed. Part of it is that the smartphone device cost is itself starting to decrease the ranges wider; part of it is the revenue pull through from the early smartphone adopters; and part of it is the cost initiatives that we're undertaking. So, you know, exactly where we're going to be I don't know, but it's certainly heading in the right direction.

Vittorio Colao

Good, yes.

Participant

I'll go through a couple of really boring numbers questions and maybe a less boring one outside numbers.

First, on the operating profit guidance, just a point of clarification. The 11 to 11.8, does that bake in all Verizon – sorry, iPhone costs for Verizon Wireless, or is it just currency adjusted? That is point one.

Secondly, on working capital, it seems the guidance implies sort of ongoing £300 million benefit from working capital. Can you just give us an idea of how you get that? Is it just –

is there no end to the pain your suppliers go through or is there any trade debtors improvement that you can realise?

And then finally, just on the UK spectrum for next year, now that you're re-farming the 900, are you comfortable that you've got enough sub 1 GHz spectrum for your needs or do you think you'll try and pick up some more in the spectrum – in the auction, sorry?

Andy Halford

Right, so let me take the first two there. So, the 11 to 11.8 is taking our best view of everything we can see, including the Verizon Wireless iPhone effect. Obviously, that is still early days and volumes are not the easiest things to project accurately, but hopefully that would be well accommodated within the breadth of that range.

Secondly, on the working capital, we have said, for the year we are now in, we expect that by inference there is still some working capital benefit. I am not saying that necessarily after this coming year we are still living with even further working capital benefit. So I think there is a point, to your question, where you can get to and thereafter it does become a lot tougher. So, some further working capital in the year that we are now in, but I would be thinking thereafter at a pretty negligible level.

Stephen Pusey

We're very comfortable with our spectrum holding right now. We're only 38% through our second carrier on 2.1, but you're buying spectrum for the future, so it's a future consideration not a current one. It's always nice to have more spectrum for the future, but we don't comment on current spectrum auctions.

Simon Weeden, Citi

Yes, thanks. One that you were asked earlier but didn't choose to elaborate on at the time too much was your ambition for becoming larger in India, and whether or not changes in the consolidation rules there would give you an opportunity to step up.

And I also wanted to ask, again on the theme of the southern European markets and the pressure you're seeing there, is there a risk and perhaps a growing impending risk that we see quite a material rebasing downwards of profitability in the larger southern European markets if we see continuation of the current revenue trends, based on your experience in Greece in particular? I'd be interested to hear what you thought about that.

Vittorio Colao

Yes. Do you want to say a few words about India?

Nick Read

Just in terms of India's performance, I would say that generally we are very pleased. 18.7% service revenue growth, so we've come out of the fiscal year with a good degree of momentum. Is this working? Yes. So, good degree of momentum. I would say the brand's working well, distribution's working well, we're expanding the network. Obviously, we've got plans for 3G, so we've done about 5,500 sites; we're aiming to do 12,000 exit by the end of this fiscal year. So my view is we've got good momentum.

In terms of consolidation, clearly we wait for the outcome of the new telecom policy 2011. We hope it's more in line with 2009, which we took a slight deviation since then, but if it's along those lines I think it could be encouraging. In which case, it's natural that there will be consolidation. Whether we're passive or active, we will have to see.

Vittorio Colao

Yes, it depends, quite frankly, as Nick said, it depends on the rules. If the rules come out in certain ways we might be looking at partial things, circle by circle, or nothing or theoretically a bigger thing. Clearly, the important thing for us is now to go through this new phase of writing the new rules. That will define, really, the strategy and the possible ambitions.

Michel Combes

In southern Europe, I guess that in Italy and Portugal we have been quite resilient from a margin point of view, meaning that we have been able to adjust the cost structure to the pressure that we have experienced on the revenue. So of course it will depend on, let's say, how the competitive situation will evolve, but we see some, let's say, maybe slight improvement in those two countries.

In Spain, that's slightly more difficult, and as you have seen our EBITDA margin has been under pressure due to the revenue reduction and, as Vittorio has pointed out earlier, we are slightly changing the model in Spain, meaning re-basing our tariffs and improving our commercial spend, so we might expect to have still some pressure in Spain during this transition phase of the model, which would align this country more on some other type of interest.

Vittorio Colao

Okay, one more or two more.

Lawrence Sugarman, RBS

Thanks. Cost developments have obviously been good in Western Europe, and we're now seeing inflationary pressures rising. Some of that, I assume, will be offset with some of the efficiencies, particularly around the energy issues that you've already raised, but do you see that as something that presents a problem?

Secondly, with respect to the inflationary pressures in the emerging markets, some of the operators are talking about how those inflationary pressures are impacting on consumer spending, and therefore potentially hurting revenue trends. Do you see that as something that we should be concerned about as well as the year progresses?

Michel Combes

In Europe, as we have already pointed out, I guess that in the past two years we have decreased in absolute terms our opex by 4% each year, so which means more or less £500 million decrease of our cost structure, so now it's really in the DNA of the company to really manage those costs in a very efficient manner and to try to continue to push them down in order to offset of course the pressure that you're mentioning, inflationary but also traffic driven by this shift to data. On top of that, we have a slight shift, as Vittorio has already explained, meaning that in order to manage our cost structure, we are having to tackle probably slightly more in the next coming 12 months our commercial spend in order really to make sure that so, let's say, our A&R are allocated in a way which will drive data profitability. So, remaining focused on opex as a whole, and we have well delivered, and shifting on commercial spend in order to make sure that we do it in a profitable manner.

Vittorio Colao

Emerging markets, Nick?

Nick Read

Yes, so in terms of pressure, inflationary pressure, if I put Egypt to one side, which is obviously going through some structural changes, I would say generally across India and across Africa no, we're not seeing trends in terms of down. Minutes of use are up, demand is there for mobile services, penetration still long way to go, and we're already seeing an uplift in data. Data as a per cent of service revenue is really starting to move up as you saw with India, with 66% growth in the fourth quarter. So my view is at the moment, no, we're not seeing any drag factor there.

Vittorio Colao

One more.

Morten Singleton, Investec

Thanks. Just picking up on the debate we were talking about earlier with regards to the EU adopting a bit more of a grown-up approach towards your ability to generate revenues and profit in a data world where voice is declining, one of the potential opportunities in that space that we've heard talked more and more about is the idea of two-sided markets, and we've heard you talking a bit about that in particular. Can you give us an update on whether you're in any active discussions with any of the major content providers, whether we could see any deals towards the end of this year, and whether you think that this could end up being a major material element of your revenue profile going forwards?

Vittorio Colao

I'm not sure I understand what's a two-sided market.

Morten Singleton

Charging for the likes of YouTube for delivering content to your customers over your network.

Vittorio Colao

Yes. I'm not so sure we really want – of course we are in discussions. We are discussing models, different models. I cannot say that we are kind of firming down, you know, contracts or things like that. Keep in mind that this is essential for fixed-line providers; it's a little bit less so for us. I am keen to see the consumer side of the story well established, so the integrated pricing, the differentiated quality of service and the tiered pricing first, and then there is a discussion on how to handle the other part of the story.

I would say that probably the world will end up divided in two camps. There will be people who say, 'No, thank you very much; no way,' and YouTube and Google might end up in that camp, because this is kind of less premium type of content, and real premium content players, who actually could see distribution costs as more efficient than physical costs.

The important thing from my strategic and also from a regulatory point of view perspective is to preserve two principles. One is choice, so not try to force a different system, but give choice of different systems. And second, non-discrimination, so same type of services treated the same way. These are the two, I think, principles that when I'm in discussion with Europe – you said 'grown up'. I would say, yes, it's grown up, but it's also because I think we are taking reasonable positions, and it's very important for me to seek – preserve reasonable positions, otherwise the political push back could be very strong. But these are the two principles: non-discrimination and choice.

I thank you all for your attention today. Three key takeaways: doing well in most markets and only two actually, and not huge, doing less well; good growth from our chosen areas; and capital discipline without cutting investment. Thank you very much.