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Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.
Good morning and good afternoon everyone. I’m delighted to announce today the merger of Vodafone India and Idea Cellular, which will create a new publicly listed telecoms market leader in India. We believe that this combination is great news to all of our stakeholders. I’m here in Mumbai with the M&A and the regulatory team, where this morning Kumar Birla and I announced the transaction to the local media and to our employees. Let me summarise for you now the key strategic and investor benefits of this merger, before handing over to Nick Read who is in London, and who will take you through the details of the synergies we expect, the transaction mechanisms and the capital structure of the new company. And then as always, we’ll take questions.

So, turning to page 3: first and foremost, we see clear customer benefits from the merger. The combined company will offer a best-in-class customer experience to all segments of the market: consumers, small businesses, enterprise and the public sector across India. The highly complementary footprint of the two businesses means that we will create unmatched network coverage, with over 1.2 billion Indians able to use our voice services and two thirds of the population connected via broadband data services. Our combined scale means that we will be able to afford to invest and to compete, ensuring sustainable consumer choice in a market that we still have at least five players. This will position us ideally to become the new champion of digital India, fulfilling the government’s objective of building a world-class Indian telecom infrastructure which will rapidly evolve from 4G to 4G+, and then over time to 5G technologies. This can be used to deliver a new wave of digital services for the mass market, in both urban and rural areas, fundamentally improving the life of every Indian. In particular, as a market leader we will be very strongly placed to drive financial inclusion through broad adoption of mobile payments. We also believe that this merger will create significant value for our shareholders, and for the shareholders of both companies. The combined entity will enjoy the deepest spectrum position in the market, enabling it to compete with leading rivals.

And in addition, opex and capex synergies worth $2.1 billion per annum by the fourth full year post closing will improve returns on capital from low current levels, enabling sustained investment levels and, over time, also improved return to shareholders. These synergies will also play a major role in deleveraging the combined company's balance sheet. Similarly, this transaction has important implications for Vodafone Group's balance sheet: by deconsolidating over $8 billion of debt, together with the $579 million in cash we will receive on closing from the Birla Group, we will lower the Group leverage by approximately 0.3 times. More importantly, we will own a large share of a much more valuable listed market leader in India, and this will create optionality for the future.

Page 4, we see six main investor benefits from this transaction from Vodafone India and Idea. First, we will be India’s largest telecom operator: number one or number two in 21 out of 22 circles, as measured by market share. Now, local scale is always very critical in telecoms, and Idea is the perfect fit for Vodafone India, because they are strong where we are weak and vice versa. This complementarity supports the second main benefit, which is the breadth of our combined footprint. Vodafone is more typically a leader in the major metros and urban market, whereas Idea has led the way in rural and semi-urban areas. With over 273,000 combined GSM sites and 189,000 3G or 4G sites, we will more than match our largest competitors in the market today.
Third, we have a highly competitive spectrum portfolio across low, mid and high bands. With a total of 163 data carriers, we will be very well positioned to meet the exploding demand for data in the future, providing leading network speeds and quality to our customers. Fourth, our distribution range will be unparalleled, with over two million combined retailers and 19,000 branded stores. The distribution scale will be a key advantage in providing a full range of digital services to Indian customers. Here I’m thinking about content, entertainment services, advanced enterprise solutions or mobile payments like M-Pesa. And finally, sixth, we expect substantial synergies with an NPV of about $10 billion, after taking into account spectrum liberalisation and integration costs.

I turn now to page 5. This explains the structure of the new company post-completion. Nick will describe the transaction mechanics required to reach this outcome in detail later on, but the end goal is what you see in this slide. Starting from the bottom of the page, you can see that the merged entity will consist of both Idea and Vodafone India mobile businesses on the left; the standalone towers owned by both Vodafone and Idea, together with Idea’s 11% stake in Indus Towers; a unified payment bank which combines Idea Money and M-Pesa services, supported by Aditya Birla Financial Services; and a variety of smaller subsidiaries including YOU Broadband which is a small wireless broadband provider which we agreed to acquire in 2016 and we are in the process of acquiring now. Importantly, Vodafone’s 42% Indus Towers stake will remain outside the new company, and we will explore strategic options to monetise part or whole of this valuable asset.

The new company will be jointly controlled by Vodafone with 45.1%, and the Idea promoters which are the companies in the Aditya Birla Group, which will have 26%. We have agreed a mechanism with the Birla Group to equalise this shareholding over time, and this will be explained by Nick later. Idea’s existing public shareholders will then own the remaining 28.9% of the company.

Page 6. Let me describe how the controlling shareholders of the new company will work together to ensure its success, and how it will be managed. We have entered into a shareholder agreement as part of this transaction with the Aditya Birla Group, which is one of India’s oldest and most respected industrial companies, with interests ranging from metals to cement to telecoms to retail, and operating in 30 countries worldwide. We are convinced that the combined company will benefit from the combination of the Birla international and local expertise, together with our telecoms scale, technology leadership, global enterprise presence and procurement capabilities. Jointly, we’ll control the company, exercising our votes collectively as long as the shareholder agreement is in place. Specifically, each party will have three director appointment rights, and there will be six independent directors. Kumar Birla will become the Chairman of the new company as one of the three Birla Group directors’ appointments, and Vodafone Group will appoint the CFO. And then we will jointly appoint the CEO and the COO on the basis of the best person for the job. These appointments will only be made shortly before closing, together with the rest of the management, which will be drawn from the very rich talent and expertise bench of both companies. In the meantime, we want our teams to stay very, very focused on execution.

Turning back to the industrial rationale for the merger, I would say that this is a really fantastic and complementary combination. You can see here in the map on the left-hand side of the page that Vodafone-Idea will be either number one or number two by revenue market share in 21 out of 22 circles in India, and this will cover 99% of the revenue. Here, I can add that today we have eight circles where together we have less than 10% market share in the circle individually, and after the merger this will be zero. And in all circles but one, will be above 20%. And the one is the one in orange up in the chart there, and this is Jammu Kashmir. So essentially, we really reach the scale and the possibility to exploit our assets essentially everywhere. So, we will be a clear leader in all the metros and in most of the A and B circles, with a solid position across the most rural C circles. Because we tend to be strong where Idea is weak and vice versa, there are only six circles where we are exceeding the current regulatory revenue market share cap of 50%. However, as Nick will
comment later, the market is likely to look somewhat different by the time this cap is tested one year post completion, with Jio that still has to start charging in the coming weeks. So, the measurement of market share will be more meaningful in a few months.

Turning to page 8, you can see that we’ll have the largest customer base in the market, with 35% of total prepaid and post-paid customers, reported by a competitive spectrum position with a 27% share of spectrum. Given the spectrum caps, we expect small amounts of spectrum will be needed to be either sold or surrendered to the government in six out of 22 of the circles, but in general this is not a material change to our position.

Turn to page 9, revenue and EBITDA levels are also more important than customer market share, especially in a market as segmented as India. Revenues generate the scale required to be sustainably profitable, as I said before, supporting a virtuous circle of reinvestment, differentiation, and improved future profitability. And therefore, local scale in each circle as well as absolute overall scale becomes critical, and this merger will allow us to become a profitable challenger in several circles in which historically we have been generating revenue but not EBITDA.

Turning to page 10, the scale which Vodafone and Idea will together enjoy will enable the merged company to become India’s true digital champion. In aggregate, we have invested $21 billion in spectrum, with liberalised spectrum accounting for over 88% of our spectrum holding. As you can see from the chart on the top right, this allows us to enjoy a competitive spectrum position with the other market leaders. Across India, we’ll have 163 broadband carriers, with more than six carriers in 13 circles, allowing us to deliver more than – actually, up to 250Mbps speeds to the customers. We also expect to continue to lead the market in mobile voice quality, reflecting our advantage in terms of number of GSM sites and our solid sub-1Ghz nationwide spectrum position, which you can see in the bottom chart to the right-hand side.

Now I will hand over to Nick, who will walk you through the breakdown of the synergies, the transaction structure and the implication for Vodafone Group financial reporting going forward.

Nick Read

Thanks Vittorio, and good morning everyone. If we turn to page 11: as you would expect from an in-market mobile deal, the combination creates substantial cost and capex synergies, with an estimated annual run rate of $2.1 billion from the fourth year post closing before integration costs. This implies a net present value of approximately $10.5 billion. The synergies are quite a lot larger as a percentage of the combined opex and capex than you would have typically seen in European mergers, as a result of India’s unique circle-by-circle market structure. As we previously disclosed, Vodafone effectively generates all its EBITDA from just 12 out of the 22 circles in India, given these circles enjoy leading scale. Idea’s business has a similar dynamic. As Vittorio has already shown you, the compelling aspects of this combination is that we are typically strong where Idea is weak, and vice versa. As a result of coming together, we will be the number one or number two in all bar one circle, transforming the profitability of previously sub-scale operations.

As is typically the case, the majority of the savings are expected to come from network and IT, where we see three main areas of opportunity. By rationalising our combined site requirements, we will save energy and site rental costs. As part of the due diligence process, we’ve undertaken a detailed mapping exercise, looking at the overlaps between every one of our 273,000 combined sites. This analysis has shown that we can reduce the site count by over 20%. Wherever possible, we would aim to cut third-party sites rather than Indus Towers. With both companies only partway through their roll-out of 4G, we also expect substantial opex and capex savings through a
combination of site avoidance, relocating surplus equipment and other operational savings. Thirdly, by combining IT systems, we will generate significant purchasing and operational synergies.

In terms of distribution and customer service, we anticipate substantial scale efficiencies by harmonising channel partners and service centres. We also expect savings arising from lower rotational churn between the two customer bases. Finally, there are significant marketing and back-office efficiencies arising from the integration of overlapping functions. Approximately 60% of the synergy run rate of $2.1 billion is in operating costs, with the remainder in capex. The total integration costs, spread over four years following completion, are expected to be $2 billion.

Turning to page 12, the M&A rules in India have been clearly set out by the government, and these imply three areas of potential dis-synergies. Firstly, there is the cost to liberalise Vodafone’s spectrum in 13 circles, as technically Vodafone India will be acquired by Idea within the merger agreement. We estimate the NPV cost at approximately $500 million. Secondly, in six circles we will need to give up certain spectrum in areas where we breach the regulated spectrum caps. To remind you, the caps stipulate that within any circle you cannot own more than 50% of any particular band, or more than 25% of the total spectrum available within the circle. Given that this is effectively a sunk cost for the business which is already reflected in the balance sheet position, this is not in our view a financial dis-synergy. In some circles, we may be able to sell spectrum to our competitors, generating cash inflows for the business, and in others we will need to simply surrender it to the government, who will look to re-auction it over time.

We also need to meet circle-by-circle revenue and customer market share caps, which have been set at 50% and are tested one year after closing. As you saw earlier, as of the quarter ending December 2016, we exceeded the 50% revenue market share cap in six circles. However, Jio has not yet begun charging its customers. Once it begins in April, we would expect revenue market shares to adjust. We are confident that both Idea and ourselves will at least maintain our market share relative to the other existing players, but logically, our revenue market share will fall as the new entrants convert a proportion of its 100 million customers into revenues. With the revenue market share cap tested one year after deal completion, and therefore perhaps two years or possibly more from now, we believe it’s unlikely that we will face material revenue dis-synergies. We do not view the customer market share caps as being material, given the extensive multi-SIMing activity in the market.

If we turn to page 13, I will now go through some of the key transaction details from a technical and financial perspective. The combination of Vodafone India and Idea has been structured as a merger of equals. Vodafone will contribute Vodafone India, excluding our stake in Indus Towers, but including our standalone towers. We will also contribute $369 million more net debt than Idea at closing, which as of the end of December 2016 would have implied net debt of $8.2 billion, in exchange for 50% of the combined company’s equity. In practice, this means that on closing, Idea will issue 3.63 billion shares to Vodafone, which is equal to the current diluted share count of Idea. Idea will contribute its mobile operations, its standalone towers, its 11.2% stake in Indus and its existing debt for the other 50% of the equity. Concurrent with completion of the merger, the Birla Group will acquire a further 4.94% stake in the combined entity from Vodafone for $579 million in cash. This will leave Vodafone with a 45.1% stake in the combined company, the Birla Group with 26% and Idea’s existing minority shareholders with 28.9%. We have also agreed a mechanism to bring the Birla Group’s shareholding to the same level as Vodafone’s over time, which I will describe shortly.

In terms of the value equation, both Vodafone India and Idea’s mobile operations have been valued at a similar multiple. Based on the 30-day volume-weighted average share price of Idea up to 27th January 2017, which was the last trading day prior to the leak announcement on 30th
January 2017, this implies a value for our business of 6.4 times LTM EV/EBITDA, and a standalone enterprise value of Vodafone India of $12.4 billion. The transaction is subject to a number of regulatory approvals, the main ones being the Competition Commission of India and the Department of Telecoms. In addition, Idea shareholders will need to approve the transaction. We intend to make a fast start on this process, and aim to complete the transaction during calendar 2018. The transaction also accelerates a number of monetisation options for our towers in India, as I will describe later.

Turning to page 14, let me take a moment to explain the equalisation mechanism that we have agreed. Reflecting the spirit of the partnership agreement that we have reached, Vodafone are committed to equalise its level of ownership with the Birla Group over a period of time. For completion, both parties have agreed to a three-year standstill agreement, so neither of us will be able to buy or sell shares during this period. However, the Birla Group will have the right to purchase up to 9.5% stake in the combined entity from Vodafone during this period at an equity valuation of $14.1 billion, which is equal to 130 rupees per Idea share. This implies an 80% premium relative to the undisturbed share price of Idea. If this right is exercised, Vodafone would receive proceeds up to $1.34 billion in cash depending on the FX rate at the time, and the shareholdings for both parties would equalise to approximately 35.5%. At the beginning of the fourth year after completion, if the Birla Group has not yet taken up its right to acquire shares, it has the opportunity to inform Vodafone how many shares it intends to purchase from zero up to 9.5%. It is then committed to acquiring this proportion of shares from Vodafone at a time that it chooses during the subsequent 12 months at the prevailing market price. As a result, from the beginning of the fourth year post closing, Vodafone is free to sell the remaining proportion of its shares that have not been committed to the Birla Group. If equalisation of the stakes has not been achieved after four years, Vodafone is required to sell sufficient shares to at least equalise its stake with the Birla Group over the following five-year period. Note that the shareholder agreement including the equalisation mechanism will only remain in force if each party owns at least 26% of the combined company before the end of March 2020, or at least 21% thereafter.

So, moving onto the capital structure. Both parents are committed to maintaining appropriate leverage prior to closing and on an ongoing basis. Let me take a few minutes to just describe why the new company is projected to be self-funding going forward, despite relatively high initial debt levels. At the end of last quarter, Idea’s reported net debt was approximately $7.3 billion. After taking into account certain proforma adjustments, for the purposes of the transaction mechanism this rises to around $7.9 billion. In order to equalise the equity valuations of the two companies, Vodafone will contribute $369 million more debt than Idea’s adjusted net debt at closing. So, as of the end of December 2016, Vodafone India would have a proforma net debt of $8.2 billion, giving the combined entity $16.1 billion of proforma net debt. This is equivalent to 4.4 times LTM/EBITDA, which is clearly higher than we plan to target over the longer-term.

The first step to reduce leverage will be tower sales, which I will describe in more detail shortly. These would reduce leverage to 4.1 times. Secondly, the company will aim to capture synergies as fast as possible post-closing. Once fully realised, these will further reduce leverage to approximately three times. Last but not least, the market is currently severely depressed by Jio’s free offers, so a potential recovery in revenue and profitability levels post-Jio charging could improve leverage revenue further. It’s also important to remember that the debt held by the new entity is primarily spectrum debt, owed to the government over a long period, typically at least ten years. This debt carries no covenants, further improving financial flexibility for the new company and giving it time to capture operational synergies and de-lever. Longer-term, we have agreed appropriate levels of leverage as part of the shareholder agreement with the Birla Group. Once leverage reaches the minimum level, all excess cash will be returned to shareholders.
Turning to page 16, monetising tower assets is an important part of the net debt reduction. Vodafone India has around 10,500 standalone towers with 15,900 tenancies, and Idea has around 9,000 towers and 15,400 tenancies. In addition, Idea also owns 11.2% stake in Indus Towers. Note that any tower sale proceeds received by either company prior to closing will not affect the valuation terms I described earlier. Additionally, separating Indus Towers from Vodafone India Ltd as part of the transaction crystallises the opportunity to explore strategic options to monetise some or all of this valuable asset for the Vodafone Group.

Turning to page 17. Before handing back to Vittorio to summarise, let me finish with a quick overview of the accounting implications for the Group arising from this transaction. Under IFRS rules we are immediately required to deconsolidate any material entity which we are reasonably certain will no longer be controlled by the Group going forward. So, for our FY17 results in May and until completion, India will no longer be included in our revenues or EBITDA, and we will show it as a single line in our management reporting. India’s net debt will remain on the balance sheet but we will also report our leverage on a pro forma basis excluding India. However, we will continue to provide our normal operational and financial disclosure on the performance of Vodafone India. Once the deal completes, we will treat our 45% stake in the new company as a joint venture accounted for under the equity method. At this point, we will fully deconsolidate India’s net debt and receive $579 million in cash from the Birla Group. Based on the expected net debt outlook for the year end, including the proforma of the Netherlands, this would improve Group leverage ratio by around 0.3 times net debt to EBITDA.

A further important consideration is the reduction in spectrum outlays for the Group going forwards. Over the past seven years, we have spent a little over €3 billion annually on spectrum, as the 4G auctions in Europe coincided with 3G and 4G auctions in India. India represented almost half of our total outlays, or €1.5 billion per year. By creating an asset with such deep spectrum position and the option to sell funds, we substantially reduced the demands on the Group’s balance sheet going forward. Additionally, India does not currently generate cash flows for the Group after taking into account spectrum payments, so deconsolidation is immediately accretive and does not affect our dividend cover.

For guidance purposes, we will continue to judge our FY17 performance including India, so there is no change to our outlook to achieve the lower end of our 3–6% EBITDA growth range and at least €4 billion of free cash flow. However, looking forward to FY18, we will not be giving guidance for India, consistent with local market practice. Consequently, our Group guidance for profitability and free cash flow will be set excluding India going forwards. And on that summary, I will give back to Vittorio.

**Vittorio Colao**

Great. So, I know you all want to ask a lot of questions, but let me summarise the key takeaways from this merger between Vodafone and Idea. We are creating a very strong champion for digital India with unparalleled broadband reach, which will enable all Indians in both rural and urban areas to enjoy a range of new digital services. We are merging with a listed asset and gaining a deep spectrum position to compete with other market leaders. We are enabling significant value creation for all shareholders of both companies, who will benefit from synergies with an NPV of $10 billion. We will explore strategic options including the full or partial sales of our 42% stake in Indus Towers, which could create further value for the Group. And last but not least, we are also deleveraging our balance sheet by over $8 billion, as Nick has just described. This will not also affect our dividend cover, as currently India does not generate positive cash flows for the Group, so the transaction is cash flow accretive for the Group in the first year.
So, Nick and I will take your questions now. Given that Nick and I are in two different places, we would like to ask you a little bit of patience and please ask only one question and one follow-up at a time. Operator, over to you.

Q&A

Akhil Dattani

Yes, hi, good morning. Thanks very much for the questions. So firstly, just on your synergy targets, as you’ve both run through you’re guiding to $2.1 billion run rate of synergy, 60% of which is opex. If we layer that onto the existing businesses, that implies an EBITDA margin of about 40%, which is obviously quite some way above where Bharti is. So, I just wondered if you could talk us through how you think about that. Is that the right way to look at it? Can we really layer this on? Is that really how you think about the margin target, or are there offsetting issues related to that?

And then the second thing, just linked to it the around merger multiples, I guess just interested in your thoughts around how you arrived at the initial multiples of about 6.3–6.4 times and the relative value of these assets? I guess, just mindful of the fact that Idea’s EBITDA is declining quite a bit faster than yours. Are there other offsetting issues that helped you come to the view that they’re worth the similar multiple? Thanks a lot.

Vittorio Colao

Akhil, thank you for both questions. I would give the first one to Nick. I think you are not right. I think actually, we did that test, but Nick can elaborate on that. And on the multiples, I would like to involve Pierre Klotz who is sitting next to me, Director of M&A, who can give you the whole details of the valuation. Nick?

Nick Read

Yes, Akhil, so just to build a little bit on what you’re saying. What you’re effectively doing is taking our proforma 2016 numbers as two combined entities and then just layering on the synergies, which – yes, you would get to something in the range of 40%-odd margin. I think the important thing is if you’re benchmarking against Bharti, you should be benchmarking, say, two quarters ago? I think end of September quarter, their mobile business was more around the same level. So, you’re talking two scale businesses of a similar size. So, I don’t think it’s a particularly big stretch to say that could be possible. I think importantly, just understand the unique nature of this transaction versus other typical ones. Highly complementary footprint, which we’ve reinforced, but also we’ve got a substantial inefficiency in the fact that we’ve had a low amount of spectrum. Bringing the two businesses together really allows us to consolidate and optimise with a better, more appropriate spectrum footprint. And then finally, we’re both in the midst of rolling out 4G so there’s a lot of savings to be made by avoiding rolling out the 4G network. So, I think the synergies are at appropriate levels for us.

Pierre Klotz

Okay, in terms of the multiples: if you look at the merger ratio it’s 50/50, and with reference to the undisturbed share price of Idea before the leak announcement that we made at the end of January, it implies an enterprise value of $12.4 billion for Vodafone India and about $10.8 billion
for Idea excluding its stake in Indus Towers. We think that those multiples of 6.4 for our business and 6.3 for theirs are very fair in light of the two attributes of the two businesses.

Akhil Dattani

Sorry, just on that – thanks very much for your answer – I guess just to clarify on the second point about it being a fair multiple, I guess all I’m trying to understand is: if you look forward one year, I guess very similar to Nick’s point about how we think about synergies, their EBITDA run rate was a much faster decline than yours. So, I guess I’m just trying to understand what are the offsetting points that justify in your mind an equal multiple for the two assets?

Nick Read

Akhil, I would just look at it – it’s a point in time, two businesses performing; they’ve been growing well, they’ve been managed well. It’s a negotiation at a point in time on what is fair, looking at the standalone business and its prospects. And the size of the prize on the synergies was substantial.

Operator

Our next question is over to the line of Nick Delfas at Redburn. Please go ahead.

Nick Delfas

Yes, thanks very much indeed. Very interesting deal, and I just wanted to ask on Indus: are you going to be able to co-ordinate and sell a controlling stake in Indus between yourselves and the merged company? And if so, when?

And secondly, if you could give us an update on what’s been happening through March, which I believe is the last chance for people to take advantage of some of the discounted offers from Jio and get the 28Gb offer into perpetuity? Thanks very much.

Vittorio Colao

Yes. I’m not so sure that I’m keen to talk in this call about trading and other stuff. Maybe Nick, you want to make some comment, but I would stay light on that.

On Indus, Nick, the reality is that the Indus agreements are written in such a way that the three partners altogether influence the destination of their stakes. So, it’s obvious that the fact that now us and Idea are together makes our voice at the table stronger for both their 11% and or 42%. But let me say that essentially, our interests are aligned to the ones of Airtel and, if anything, Airtel has been patient in waiting for this deal to happen to then start the formal discussion on what to do with the stake. So, I wouldn’t characterise as control versus non-control; I would characterise as this agreement, the Vodafone India/Idea merger, will unleash the opportunities on the Indus Tower one. And we will be all aligned in a good monetisation solution. Nick?

Nick Delfas

And on timing of that, is that something we should expect only after closing?

Vittorio Colao

Not necessarily, but I wouldn’t comment on that. It can be also before closing. It’s not necessarily – it depends on what the direction is. Let me say that we have explored a number of opportunities,
but at the end of the day we need to sit the three of us around the table and agree on the direction of travel. And then depending on the solutions, it could also happen before.

Nick, any comment on the second part of Nick’s question?

Nick Read

Yeah, look, let’s not go into lots of detail on trading, but the headline would be something along – I would say quarter over quarter, a similar de-acceleration that we saw Q3 over Q2. However, it’s been very interesting trading within the quarter, because we’re seeing recharge activity stabilising. We are seeing the retention of our high-value customers, given increased bundle sizes, but obviously their ARPU is slightly diluted. Both low-value and medium-value RPUs are stabilising. So, I would say we’ve seen some encouraging signs of stabilisation, and obviously we’ll have to see the dynamic once Jio starts charging in April.

Nick Delfas

Brilliant, thanks very much indeed.

Vittorio Colao

Yes. And again Nick, I’m here in India, and don’t forget this is an incredibly reactive market. So, my guess is that the Jio customers will wait until the last, whatever, five days probably, hoping that they get a better offer or something more. So, there’s a lot of expectation in the market, and as everything in India, everything happens very quickly. So, I cannot comment any further.

Nick Delfas

Brilliant, thanks very much.

Operator

We are now over to the line of Robert Grindle at Deutsche Bank. Please go ahead.

Robert Grindle

Yes, good morning. My question is about the completion date which, if it’s at the start of calendar 2018, it’s not too far away. But the end of calendar 2018 is the best part of two years away, in what you’ve described as a quick-moving market just there. So, perhaps you could help us with what are the key milestones to completion? Are you hoping for an early date in 2018? And in the interim, how does it work on things like capex? Is there a minimum expenditure both sides have agreed to? Thank you.

Vittorio Colao

Yes, Robert, thank you for your question. The completion window is anywhere between 12 and 18 months. So, it’s hard to predict whether it’s going to be 12 or 18 or 15, but this is essentially where we are. There’s no possibility to do any agreement on capex before closing, but we can do as we have always done, a lot of commercial agreements; not only with Idea incidentally, but also with others. So, I would say agreements as in pre-integration: not possible. Commercial opportunities to reduce costs and to rationalise capital deployment: I would say as before, and even more motivated than before.
Robert Grindle

Thank you.

Operator

We’re now over to Andrew Lee at Goldman Sachs. Please go ahead, your line is open.

Andrew Lee

Thank you, hi everyone. Just a couple of two follow-ups really. Just firstly to follow up on Akhil’s question on the synergy targets, just if there’s any more colour you can give us on the comps you’ve been using, over and above that Bharti 40% EBITDA margin two quarters ago as a kind of sense check for your targets?

And then just secondly on the cash usage, the two potential things you can sell. So firstly, if you could talk about the potential – what you’d planned to do with the cash if you were to sell your stake in the Indus Towers? And then what will you do with your – or what do you plan to do with your equalising stake sale proceeds? Can we think of this as a key support to your Group dividend commitment? Thank you.

Vittorio Colao

Yes, on the synergies I can only reiterate what Nick said – and again, Nick, feel free to comment. We didn’t work the synergies – and I know because I was in the room physically – we didn’t work the synergies based on comps. This is not an estimate. We were in the room with our teams and we looked at the detail – I guess it’s called bottom-up – the detail of how much you would save per site, how much you would save in electricity, how much in diesel, how much in transmission; the tenancy, how many tenants; what our grid is and so on, So, it’s a very, I would say, comfortable estimate. Don’t forget that much of this infrastructure is actually on a single provider, which is Indus. So, even from an operational point of view, if anything it is simpler than in Europe or in other similar situations. So, that’s one thing.

Second thing on the sanity check, and this relates to the question about Bharti before. On the sanity check of the projections, don’t forget that, as Nick said, in the circles where we are leader, we are already profitable and we are already robustly profitable, and I assume that the same is true for Idea. The beauty – and this is very important for investors and analysts to understand – the beauty of this deal is that you transform the profitability of places where today you don’t get any cash out, actually by even saving costs. So, it’s almost like a step up of our economic model in a number of circles. Now, when you think circle, don’t think province but think – some of them are as large as France. So, it’s an estimate that does not work on comparables, because I don’t find in the world a comparable to India, I don’t find in the world another Indus Towers and I don’t find in the world places where the operational leverage of optimising spectrum utilisation is so high. It’s a bottom-up estimate.

Nick, do you want to add anything?

Nick Read

Yes, one final build on the point is that we have leadership positions in a number of circles today, and we have that comp as well in terms of EBITDA margin where we are a fully scaled leading position. So, we know how to operate at those sorts of margins.
On the second point of cash, I think what you were saying was: where is the cash going in? Clearly, any disposal of the standalone towers is going into this entity to de-lever it. Any disposal on the Indus stake that we have sits outside the perimeter of this venture, and therefore that's cash for the Group's use. Now, whether that ultimately goes into supporting the entity longer-term or comes out, we have to see. We're looking at various options.

Andrew Lee

Thank you very much, that was really clear.

Operator

We're now over to Polo Tang at UBS. Please go ahead, Polo.

Polo Tang

Thanks for taking the question. I just had a question in terms of balance sheet for the merged entity, because you talked about once the merged entity de-levers to a certain point, you'll start paying out dividends. So, if you could just clarify what that leverage threshold is, and how soon do you expect the merged entity to be paying out dividends?

And there is a more generic point on the merged entity going forward, because at three times leverage, does that give the merged entity enough financial flexibility to invest going forward? Thanks.

Pierre Klotz

Just in terms of leverage, there is an agreement with regards to capital structure and dividend policy that we've agreed with the Aditya Birla Group, but we're not disclosing any details on that agreement at this point in time.

Vittorio Colao

I would say we are confident that the agreement will determine the liberation of excess cash, and again we discussed with our partner and they have the same intent. So, I would say we have an agreement. The agreement takes care of debt levels at the high end and the bottom end, and both of us have an interest in liberating cash when the cash is available.

Nick Read

And the final point I'd just make, Polo, is that we're confident the business will be self-funding based on the current plan of record between the two businesses.

Operator

We're now over to Simon Weeden at Citi. Please go ahead, Simon, your line is open.

Simon Weeden

Hello, I have a pretty simple one. I just wanted to check that the terms of what seems to be a put-option to Aditya Birla is as you've written it, 130 rupees per share, and that remains the case throughout the three-year period? So, you're not adjusting for any dividends that were paid or normal performance you would expect from the stock in the market in terms of that 130?
Pierre Klotz

That 130 is a fixed price.

Simon Weeden

Thank you.

Operator

Okay, we’re now over to David Wright at Bank of America. Please go ahead, your line is open.

David Wright

Yes, thank you guys. A couple of questions that I think are related; one of them probably follows Robert’s. Are there any kind of earn-out calculations or obligations over the next 12 months into completion? For instance, how your business and/or Idea’s business performs over the next 12 months, whether that might impact the valuation multiples or the consideration paid to each other?

And my second question is just a little wider, really. Vittorio, this is the second time you’ve done a deal of this nature, if I may compare this to the Netherlands, just in terms of the capital structure, i.e. deconsolidating the business into a more leveraged joint venture model. Although I do appreciate of course, the scenarios are quite different other than that. But is that a model that you could see more pervasive in the Vodafone Group as we move forward? Or these very specific situations; for instance, you would not consider anything similar with any members of the Liberty Group? Thank you.

Vittorio Colao

Yes, thank you for the question. Let me give you the answer starting from the end, and then going back. First of all, there’s no model here. This is simply – each situation has to be addressed in the best possible way. Completely different cases here. The Netherlands was a case of convergence, and there was a converged asset that – and the mobile asset, and each of us wanted the other one. And again, being pragmatic and strategic at the same time but not religious, my job is to do what is in the interests of shareholders and what creates stronger assets. And that’s what I’m doing, and if that requires sometimes for a period of time – or maybe for a long time, it depends – sharing control with somebody else, if that creates financial value, why not? And so, that’s the thing.

Here, the motivation is really compelling. And again, I have to repeat it because I think it is the important thing. Here you have a continent, the Indian continent, divided in circles, where roughly in half we had good returns and half we were sub-scale. And by coincidence, there was a partner exactly in the opposite symmetrical situation. So, here the value creation comes exactly from spectrum and from sharing of a common infrastructure. And suddenly, places that were not good suddenly become good. So, it is a good deal. Now, if the cost of this is sharing control with a very reputable local partner, I would say it’s even actually a plus, because we have more Indian local expertise and more clout than if we are alone. So, I wouldn’t call it a model; it’s not a model. Every situation has to be assessed individually.

On the conditions: we have, I would say, ordinary, normal market conditions which we don’t disclose but we put in all deals. And then the real point is partners are committed to maintain good leverage at closing, and that’s what I would say. You want to add anything, Pierre?
Pierre Klotz

Yes, sure, I just confirm your question: there is no earn-out in the transaction. We have a right to contribute $369 million more net debt than Idea's net debt at closing. And of course, we've already agreed some customary closing adjustments, as you would expect.

David Wright

That's actually very clear guys, I appreciate that. But Vittorio, can I just follow-up? Was there ever any possibility or intention on your side to even maybe try and control this asset? Or has it always been a joint venture from the very first discussion?

Vittorio Colao

That was never discussed. Again, these are relationships that you develop over time, and again, journalists were asking us this morning: when did the talks start? And it's very difficult to say when did the talks start, because if I go into my Outlook and I put 'Kumar Birla', I get 10 or 12 meetings and events and so on. Control was shared as a requirement of the combination and we never even discussed who is – it's going to be co-control. I mean, this has been always the discussion.

Operator

We now go to the line of Maurice Patrick of Barclays. Please go ahead, your line is open.

Maurice Patrick

Yes, morning guys, a quick one on spectrum and cash flow. So, often questions come up around your Group cash flow: does it cover dividends sort of post-spectrum? I guess looking back, you yourselves made the point that your spectrum bill in India has been significant over the past years. So, now that you have the agreed venture, presumably you have very strong synergies from combining your spectrum portfolio as one core network, two bases, that kind of stuff. So presumably, the need for additional spectrum inside the Idea/Vodafone business will be very low for the next sort of five years plus. Is that how you see it? Thanks.

Nick Read

Yes, I would see it exactly like that.

Maurice Patrick

Great, thank you.

Operator

Okay, we're now over to James Ratzer at New Street Research. Please go ahead.

James Ratzer

Yes, good morning, thank you very much and congratulations on the deal. Had two quick questions please. The first one, just to follow up on, I think, one of the earlier questions around the dividend. I mean, given the synergies will take three to four years to materialise, you say you've got $2 billion of integration costs as well, should we expect any dividend to be paid from the new
company at any time over the next four years? Or will dividends only start to be paid once the synergies are fully realised and the integration costs are finished?

And then the second question please is: if I take the undisturbed price of Idea and attribute about 50% of the synergies to them, it would imply an equity price of around 160 rupees of share. So, with that in mind, I was just wondering why you’re willing to sell down the stake to the Birla family at only 130 rupees per share please? Thank you.

**Vittorio Colao**

Yes. Let me say first of all, I tend to agree with you: we don’t expect in the short term a dividend coming out of the joint venture. The objective is clearly to delever, as Nick said before in his presentation. We start from 4.4 times and we’ll come down, we think, rather quickly. But as you said, excess cash will be distributed, but first we need to leverage down.

Second, your calculation is correct but it would be hard to see anybody paying for 100% of the synergies even before starting to get them. So, we think that the value that we have indicated is a reasonable value. I think it’s 80% more than the undisturbed price – at least, that’s what Kumar told me today – which is a pretty high recognition of the confidence in getting synergies. But getting 100% from day zero, even before starting, I’m afraid I’m not as good as a negotiator to get that. And it would be really amazing to get 100% of synergies from day zero.

**James Ratzer**

Okay, great, thank you very much.

**Vittorio Colao**

But still, it’s pretty feasible

**Operator**

Sorry, we have time for just one more question, and that is over to the line of Justin Funnell at Credit Suisse. Please go ahead, your line is open.

**Justin Funnell**

Okay. Yes, I just wanted to try and get two in. So, Vittorio, obviously in the past the idea of India was to provide growth for the Group. It’s also been a reasonably significant consumer of your capital. I’m just wondering what the bigger picture is for your strategy now? Does this open you up to consider new growth opportunities back in Europe, such as fibre for example?

And then secondly: you may have detailed this, but is there an adjustment mechanism in the deal if either Idea or Vodafone underperforms relative to each other in the next 18 months? Thank you.

**Vittorio Colao**

Let me ask Pierre to answer the second question, and then I conclude with the broader big picture question that you kindly asked, Justin. The special conditions in case, Pierre?

**Pierre Klotz**

Sorry Justin, would you mind repeating your question?
Justin Funnell

Yes. Obviously, it could be 18 months, and things seem to change quite quickly in India. So, if either of these assets performs differently to each other – one does better, one does worse – is there a potential adjustment mechanism in the valuation and the relationship?

Vittorio Colao

If this is the question, I can answer. The two companies will be adequately funded at the moment of completion, and there are marked clauses that give us protection, as you would expect. So, I would say between now and closing there are certain conditions that will have to be met in order for the merger to happen. Do you want to add anything more?

Pierre Klotz

No, very clear.

Vittorio Colao

Yes, let me go instead to the bigger question, which is: where does this leave Vodafone? And why I think that this is a great transaction. I think this is a great transaction in itself, as I said before, because we have suddenly improved the quality and the long-term prospect of this asset. This asset will continue to grow, and we will benefit from its growth. But of course, we are gaining optionality. So, now we will own an asset which is listed; don’t forget that we were trying to do an IPO, now we will have an asset which is listed. We will have co-control, but potentially with some cash being liberated by either Indus or the shares that we have to sell. And of course, as Nick said, we are improving also our debt level thanks to the deconsolidation. So, we gain optionality in India, but we also gain more freedom at Group level to consider other strategic developments; which, by the way, continue to be the same, so it continues to be convergence, it continues to be finding growth in the new areas of data, IoT, enterprise services and all the other things that we have always been talking about.

So, to conclude, and thank you for your question: I think this is a very good deal in itself. Big synergies, strong asset, wonderful spectrum allocation and, I think, a smart financial construction and engineering. But also, very importantly: it leaves us exposed to India with optionality but without being then restrained in the broader Vodafone strategy.

I would close here. I would thank you all. Thank you, Hugh, for supporting us. And I look forward to meeting some of you, or actually Nick meeting some investors and some of you, in the course of the next two or three weeks. Thank you.