Vodafone Group Plc

Half-Year Results and Strategy Update
Analyst and Investor Presentation

Tuesday 12 November 2013

Opening Remarks

Vittorio Colao

Chief Executive Officer, Vodafone Group Plc

So, good afternoon and welcome. Thank you for coming today. Today the organisation is a little bit different. Given the recent changes we thought it was a good opportunity for us to go more in detail with our future plans and how we see Vodafone evolving going forward. We'll also give you a chance to see and talk – and hopefully also talk over drinks and over coffee with some of the senior managers of Vodafone, some of whom have changed jobs, expanded their jobs. So it was a good opportunity to have a longer and broader exposure than usual.

The agenda for today, therefore, is this: Andy will, as always, go through the financial results. I will then come back and cover the strategic overview of what we intend to do. Paolo and Steve Pusey will cover the technology and the commercial differentiation plans, and then we will have a break and we'll have Q&A, if possible focused on those topics. After the break we will start with a review of the three businesses: Philipp Humm will talk about Europe, Nick Read about emerging markets and Nick Jeffery about enterprise. And then we will have a second Q&A session which I assume will be more focused on the performance in those three areas. Wrap-up at the end – two minutes – then drinks, and then chatting together.

You have, for sure, gone through all the highlights of the announcement of this morning so I don't need to go too much into the detail. Let me give you my highlevel comments, first of all, on performance. Performance I would call it okay-minus, probably with a couple of markets, especially in Europe, that should improve in the coming times, but very good performance in emerging markets; we are very pleased with the results there. Confirmed full guidance for the year, and of course approved the increase in the interim dividend by 8% and the increase – the intention to increase the full year by the same amount.

On the strategic progress I will cover the progress that we made in the various areas; we are very pleased with Vodafone Red. Paolo will cover in his presentation some of the detailed KPIs and why we think that this initiative that we undertook a year ago is very good. Good progress on enterprise: we continue with integration successfully at this point of Cable & Wireless. We are about to start, once the legal process is on track, the KDG integration, and of course, thanks also to the Verizon transaction, we will have a very good dividend cover and a commitment to continue to improve dividends over time.

And finally 'Project Spring', which is also another important topic for today, we see it – and we announced today Spring as an opportunity to really spring ahead; to really prepare for the upturn that we expect will happen in the medium term in the business in Europe, and also satisfy the demand that now we still – we really see picking up from data services, both in mature and in emerging markets. Spring has been increased to £7 billion; we will comment about that. The incremental free cash flow target is in excess of £1 billion by the fifth year of the programme. We will cover all of this in the various sections. Let me now turn to Andy for his financial review.

Financial Review

Andy Halford

Chief Financial Officer, Vodafone Group Plc

Thank you, Vittorio. Good afternoon everybody. So a slightly more complicated set of numbers than recently as you will have seen from the press release. Statutory, management view, discontinued operations, joint ventures, etc – I shall try to explain what is going on in the clearest way I possibly can do.

The first point is that the changes to the way that we have to report under the statutory view are taking businesses particularly like Italy, and no longer do we have a line in there for their revenue and their cost; we just basically take the share of the bottom line profit. That is not the way that we are managing our business, and hence the management view that I'm going to use throughout this presentation does include 77% of the revenue for Italy: its costs, its EBITDA, etc, as we have done in the past. The other reason why we'll stick with this is because when we do get the other 23% then in the future we will actually have the whole of its numbers right the way through.

The second complication is the US deal has actually caused a few complexities which we will come onto just in a second.

So, briefly then, the key numbers for the half year are the following: the service revenue at £20 billion; that is for the most recent quarter, the second quarter, 4.9% down year-on-year, with the regional split of that being AMAP a strong performance – 5.7% up; north and central Europe 4.9% down, and southern Europe 15.5% down. For the half year it's a reduction of 4.2%, and if you take out the MTR effect, it is down 1.5%.

The EBITDA at £6.6 billion before restructuring costs and before one regulatory settlement in Spain, £6.6 billion which is a 4.1% reduction year-on-year. The margin, which I'll go through in a little bit more detail later on, at a headline level is down 0.8 percentage points; if you normalise it, it is down only 0.3 percentage points.

The associate income line is the first one that has a distortion due to the US deal, so the accounting rules say that as of the date of the announcement of our intention to sell on 2 September, we no longer record the profits from the investment in Verizon Wireless, so this half year has essentially got a five month contribution in, whereas the equivalent period in the previous year had a six month contribution. That is the reason why the adjusted operating profit, down there at £5.7 billion – at a headline level it is down 8.3%, but actually if we had Verizon Wireless in on a five month basis in both periods, it is actually a 0.5% increase. So the 0.5% is the more comparable number there.

So, moving then onto the lower half of the profit and loss account. The financing costs, which I will talk about in a little bit more detail later, are a little lower than in the previous year, primarily due to mark-to-market benefits. The tax is slightly lower; on the face of it, that looks fairly straightforward. We have, however, got one complexity which is the accounting rules say that we should stop booking our share of the VZW profits at the end of 2 September; the accounting rules very perversely say that we should continue to book our share of the corporate tax charge on the profits from 3 September through to the deal completing. That is clearly a mismatch, and therefore what we have done here is put into the tax line – the £1,316 million – the Vodafone normal tax charge, plus the five month tax charge for Verizon Wireless, and then, down in the line below, 'Other net losses' we have included the tax charge for the US for the period from 3 September to 30 September. So, above the line £3,717 million is a comparable five month period both for profit and for tax. The other net losses and gains, therefore, has about £180 million of tax charge relating to the US, which, of course, remember, we get a cash tax dividend from Verizon Wireless still, so that is neutral in terms of cash. It has also got about £100 million of restructuring charges and about £100 million for the settlement of the TV tax Spanish regulatory case.

Now, another quite big item here – £14.7 billion of deferred tax – I will just touch upon this at a high level now and go through it in a little bit more detail in a moment. There are essentially two aspects to this: the first one is a £17.7 billion asset that we have created with regard to the historic losses that we have disclosed in our accounts but not put on the balance sheet previously. Offset against that is the $5 billion – or £3 billion – tax charge relating to the restructuring ahead of the US disposal. So the net of those two is the £14.7 billion number, and that results in the slightly unusually large profit for the year, at £18 billion, not quite exceeding our turnover, but £18 billion, and hopefully in the second half of the year when we book the accounting profit on the disposal of Verizon Wireless then we should end up with a profit that exceeds our revenue for the full year.

7.85p is the adjusted earnings per share; that is a 2.6% reduction, but again this has got the five month contribution from the US in for the current year, but six months the previous year. If you normalise that to the five months for both, then the adjusted ordinary earnings per share are up by 10.4%. As Vittorio has mentioned, the interim dividend has been increased by 8%, to 3.53 pence per share, and free cash flow for the half year, which again I'll come onto in more detail; just over £2 billion.

So, a quick walk, then, on the service revenue. So the first half of the previous year – on the left here – was £20 billion, and the right-hand side, the most recent half was also £20 billion, but a few items have moved in the middle. So on the left hand side, if one normalises for foreign exchange, and one includes particularly the Cable & Wireless contributions, the like-for-like number for the previous year was £20.9 billion, and then you can see here, consistent with the 4% reduction in the service revenue overall, that the increase in the income, particularly from the in-bundle, has not been quite sufficient to offset some of the pressures in the outer bundle, and the normal mobile termination rate cuts, which is roughly 2.7% of revenues in the period. We have now got 57% of our mobile service revenue in Europe coming in bundles; that is up from 48% a year ago, so getting more and more of our customers with their revenue streams committed is clearly moving significantly in the right direction.

This chart is then looking at the service revenue build-up by country, by operating business; this is focussing upon the exclusive of MTR numbers, so the -1.5% for the half year, and no great surprises – on the left-hand side, you can see many of our emerging markets, with particularly strong performances from Ghana, India, Turkey and Vodacom, and on the right hand side has been largely the more challenged of the European markets. One of the good things, looking forwards, is the mobile termination rate effect of about 2.7% should, in the fourth quarter, reduce somewhat and then be at a lower level for next year.

Now, we've got sessions later on where Philipp and Nick will talk about the regions in more detail and the operating businesses in more detail, so I will not be repetitious here, but I thought it just useful as a reminder, just to show you the contribution that each of the regions makes to the overall numbers. So, in red here, northern and central Europe, 47% of the Group's service revenue, 43% of the EBITDA and 33% of the operating free cash flow. Southern Europe, the equivalent numbers: 22%, 23% and 26%, and I think pretty noticeably AMAP, in the darker blue here, is now roughly between 30% and 40% across all of those metrics, with particularly the operating free cash flow in the AMAP region now being the biggest contributor. In Europe, again, more of the themes here will be pulled out by Philipp, but a big push on smartphones continuing: now 39% of our customers, compared with 31% a year ago, and in AMAP our work on data and selling data through has some very beneficial impacts upon margin.

So, talking to the margin a little bit more, last year the margin was 30.8%; if we normalise that for foreign exchange and M&A, the equivalent number is 30.3%, and the number for this half year was 30.0%, so on a like-for-like basis down by 0.3 percentage points, and by country you can see that that is the northern European and southern European markets; some of those have seen compression of margins during that period, but we have made very good progress in the emerging markets, and hence the overall balance is that small reduction. The second half we are saying we expect the rate of reduction to be a little bit higher; partly because some of the investment we'll be putting in on A&R in markets like Germany.

Costs: the focus there continues unabated and indeed accelerated in several respects. So we said at the start of the year that we would take £0.3 billion out of the operating expenses of the business; that is something that we are on track to achieve. We have a number of initiatives there, taking down the number of network operation centres by circa 85%, sharing increasing amounts of our network; our shared services that we set up with the centres there three, four years ago are now at an annualised run rate of about £100 million of cash core saving, and we will for the first time have over €10 billion worth of procurement going through the central procurement activity that we set up also around that point in time, and at the start of the year we took out a lot of cost in the support area with our run-rate there being 10% lower than it was previously.

Now onto a topic that I seem to have had a fair number of questions on during the course of the day, for some reason: tax. So, let me just start – there are sort of two or three parts to this. We have, as many people will know here, had a significant number of agreed tax losses for many years, going back pretty much to the time of the Mannesmann deal, all of which have been disclosed in our annual report and accounts. Up until recently, because of clarity about the structure of the Group and various other factors, we have only recognised a small proportion of those actually as value on our own balance sheet, so about £2.8 billion. Now that we have got the clarity of the future direction with the US, and we are now clear as to the structure of the Group going forwards, the application of our fact pattern to the accounting standards means that we have got to put a value on those losses and actually put it on the balance sheet for the first time. So we have put a £17.7 billion asset on the balance sheet on top of what we have already, so that the closing deferred tax asset is now about £20 billion. The effective tax rate for the period under all the US complexities, etc, hopefully ironed out, 31.3%, so a little bit higher than where we've been before, primarily due to the higher mix, particularly in the first five months of the US business profits versus the rest of the Group profits. The split of the 31.3%, which is probably the most important thing going forwards, is the continuing operations at about 28%, and the discontinuing operations at 33.5%. So on a go forward basis we would expect once the US deal is done, that our P&L and indeed cash tax rate will be in the mid to high twenties, and then, on top of that, we will have to amortise the deferred tax asset which we are setting up, but somewhere in the mid to high twenties is what you should be thinking for the P&L and the cash tax rate going forwards. And then, finally we have taken a charge in the first half for the tax cost of preparing, essentially, for the US disposal, so $5 billion or £3 billion liability now sitting on the balance sheet in respect of that.

Now, onto financing costs: £0.6 billion of financing costs this year compared with £0.8 billion last year. One major factor and one smaller one: the smaller one is the debt level is a little higher on average in this half than in the comparable half a year ago, but the more significant feature is because of the amount of fixing we have done and slightly rising interest rates we have actually gained from that this year whereas we lost slightly last year, and hence that is the largest part of the swing in those numbers between the two periods. The average cost of that debt at 5.2% quite influenced by proportionate debt that is in India, which is much more expensive, so without that it would be more at around 4.2%.

So in terms of the cash flow for the business, we have got £2 billion of cash flow in the period, which is slightly lower than the same time last year. No major movements here between periods – the EBITDA just a fraction down; the capital additions plus the working capital were about £3.4 billion / £3.5 billion in both periods; the interest costs we just talked about; the tax which in part is covered by the tax distribution dividend from Verizon Wireless – the net number there has remained at about £1.25 billion – and then net dividends that we have paid out during the period. So overall free cash flow down slightly, consistent with EBITDA, but broadly in the same range.

So onto the balance sheet, the net debt at the start of the period was £27 billion, and net debt at the close was £25.7 billion – the key components there: the £2 billion of the free cash flow that was on the previous slide, the back end of the share buyback programme that was the remaining billion of the £1.5 billion, the Verizon Wireless dividend that we received earlier at £2.1 billion, our own equity dividends paid £3.4 billion, small amounts on spectrum, foreign exchange has worked to our advantage in the debt sense, both dollar and rupee primarily, and 'other' is relatively small in the overall scheme of things. So closing net debt £25.7 billion – obviously since the end of the period we have closed on the KDG deal and hence the debt level now is a little bit higher, but hopefully that will then bounce back once the US deal then closes.

So we showed this chart on 2 September just to show what broadly will be the profile of our debt as we go through the balance of this year. So £25.7 billion is the closing September debt, then the KDG acquisition, overall – now this is actually assuming that we have brought in 100% of the equity; we have actually brought in a little bit less than that at this point in time. That would increase it by £9.2 billion, and then the US transaction, the retained cash from that, that's £20.4 billion, bringing us to a pro forma of about £14.5 billion. This assumes that all the US tax will be paid on completion; that is unlikely to happen, so, if anything, the debt level may be a little bit lower than is on here.

So in terms of returns we have announced an 8% increase in the interim dividend consistent with what we said back in September; we had said that if this deal goes ahead that we will be proposing an 11p dividend for the year in total, which would be an 8% increase, with the intent of growing it thereafter. The level of dividend cover through the reduction in the share count will significantly improve as a consequence of the deal and hence the US deal will be accretive to free cash flow per share.

Now guidance, which on one level has got a little bit complicated – we said at the start of the year that we would be at the £12-£12.8 billion range; when we announced the US deal, we said that actually on a go-forwards basis it's probably a little bit more meaningful to know what the numbers would be without the US in, but with the extra 23% in for Italy, so directionally we take something like £7 billion or £8 billion out of the original number being the estimate at that time of the profit contribution from Verizon Wireless; we then add in £0.3 billion for the 23% of Vodafone Italy that in the future we will own, and then, because of the change in the rules on joint venture accounting, a small amount of change to make there to give a figure of around £5 billion for this year on essentially the basis that the Group will be in in the future, and the same work on the free cash flow, where we started with £7 billion, roughly £3 billion comes out for Verizon Wireless, Vodafone Italy £0.2 billion, the JVs £0.2 billion, and a range of £4.5 billion to £5 billion; those were the numbers we gave out in September, and that is where we expect to be still for the full year.

We said at the start of the year capital expenditure would be roughly the same level it was last year; that is still our view with the one exception which we'll hear about later, that we would expect that some of the projects of growing capital spend will come into the current year at about £0.5 billion. However, it will come into the current year very late, and therefore it is not likely to have a significant tax – sorry, interest and cash expense in the current year, so the £0.5 billion is capex and not a cash item. Half 2 margin we've said will decline a little bit more than in the first half, and of course all of these do not assume anything to do with KDG, because that was just getting a little bit too complicated. So the general shape of it is that we should be around £5 billion, and between £4.5 billion and £5 billion on the cash side.

So, finally, just, sort of in summary, I think we are in reasonable shape and especially after the deal in the US closes. We have reconfirmed the outlook. The balance sheet will be in a very strong position – an 8% in the dividend for the interim and then for the final. Dividend cover significantly improved, and the funding is in place essentially for the Project Spring. In fact, I was looking at the man on the right, who I think turned up on the last – showed up last time, and I thought maybe it was an update to this, and the caption here should be, 'Let me check; is this the $130 billion bag size?' With that, I will hand back over to Vittorio.

Strategy Update

Vittorio Colao

Very good. So what I would like to do now, in the next 20 minutes or so, is to cover the strategic update, give you a little bit of the sense of how we feel about the markets and the market conditions, and then of course cover how we think we can grab the opportunities that in the short and medium term we have in front of us.

Those of you who have met with me recently have heard me talking about chapter 3 of Vodafone history, chapter 1 being formation of Vodafone and especially the great ride of mobile penetration and voice and the glorious years of Mannesmann and AirTouch. Chapter 2 has been the long 10 years in which we expanded internationally into emerging markets, but we also rationalised the minorities and what I would call the 'leftovers' from phase 1. And chapter 3 is basically now. It actually started a little bit earlier; it started last year with the Vodafone 2015 strategy. It's about moving from a traditional, old, metered company, mostly voice company into the data world, to be more convergent, go deeper into existing markets, being more enterprise-focussed, and of course continue to leverage on the group scale. That's basically where we are today, and that is what we see as the development for the next phase.

Now we already made progress in that direction, and we are already different to what people used to think. Two-thirds of our customers are coming already from emerging markets and about a third of our revenues. We have already a pretty sizeable data component in our revenues: 35%. I personally believe it will get to 50% very quickly. And of course, enterprise, especially after the Cable & Wireless and the KDG transaction is now about – you know, just a little bit below 30% of our total, with fixed line pro forma here for KDG being now 21%.

So there has been already a quite consistent shift, a strategic shift of Vodafone that started, you know, one or two years ago, into the direction that the chapter 3 is indicating. In the meantime we, I think, have been pretty – how can I say? – balanced in allocating the resources of the company between investment into the business, be it organic, be it spectrum, be it capex, and rewards to our shareholders. Of the £71.4 billion that the business has generated, about £32bn or £37bn – if you include M&A – has been invested into the business. About £27bn has been returned to shareholders, and this is clearly before the additional £54bn that we have from the Verizon transaction. And if you look at the left part of the chart, and you see the kind of sources of funds, more than two-thirds come from the business itself, and about £15 billion from disposing assets, and this is, I think, a very balanced, but also very telling, I hope, story of how we manage the business, balancing good return from our own assets, and of course, return to our shareholders over time, and this is what we intend to continue to do with the new situation and the strong balance sheet that Andy has described before.

Now, where is Vodafone today? This is a bit of a pictorial presentation; I apologise if this doesn't fit all the IR criteria. The bubble on the top are the way Vodafone used to be described; before when I was talking to some people they were saying, 'Well, you are basically a big minority', more than half of your profits coming from Verizon Wireless, then, you know, another thing which is Europe with an attached kind of emerging market business. The way we are now, now that we have full control of 100% of what we have is really what we manage, we really look at the business, and this is the way you look at the business this afternoon with the second half of the day, as three main different businesses: a European consumer business, an emerging markets consumer business, and an enterprise business which is predominantly European but not anymore European-only, and much more spread across also territories where we don't have networks. And this is very important because this is the shape we want to give to the business going forward. We have, and we will have, a number 1 or number 2 position across the three of them; more number 1s in certain areas than number 2s.

Of course the trends – recent trends and future trends are different. In Europe we have got clearly some headwinds from the recession and from the pressures on us. We see signs, and I will talk about it, of this potentially bottoming and starting to go in a bit of a recovery mode. Very different in the second business, in the emerging market consumer, where we have decided to put pictorially two green arrows up; one is because the trend is good, and the second because we think it's going to be better with data. Quite frankly, data in emerging markets – I have said this already probably two or three times on these kind of occasions – data is going to be the positive story; Nick Read will talk about it, and I will also elaborate on it in emerging markets. Then enterprise is more steady, regular growth that we see in front of us. It's not going to be only mobile – we will talk a lot about it – it's actually going to be a lot of opportunities for us that come from services, from solutions, from things that already today we are selling, and as I said, not just necessarily only where we have our own network footprint – also outside of it.

So, where do I want to bring the company? And here I took the five years from now, you know, vision, because, you know, its five years before, five years after, taking a longer-term view of what we can really achieve. We are very determined in European consumer to be a converged player in all markets in different ways, but clearly to provide full services to all the customers that we serve in the main markets, maintaining and strengthening, as you will see, a strong leadership in mobile, which is where we come from and which is what is recognised to be our strength. In emerging markets, the objective is simply to be a strong leader; we are de facto a strong leader in all of the emerging markets where we work. And to be the first choice for data – not defining whether data is mobile or fixed, but clearly it's going to be more mobile in emerging markets because of the absence of fixed line. In enterprise, the mission is to continue to be a major international player – we are already today, I think, number 2 in voice and number 5 overall – to be a major player following or supporting our customers wherever they go, with services and with, you know, any kind of need they might express.

Now, Project Spring for me is the opportunity to turbo-charge this vision – and I will talk a bit about also the economic environment that we expect – and to really push forward with a stronger differentiation vis-à-vis our competitors, based on the elements, that Paolo Bertoluzzo will cover in his presentation, which we highlighted to you one year ago, which are the connection – the best connection part – the customer experience and the integrated worry-free solutions, plus of course an efficient organisation that we need to achieve. But it is a great opportunity in my ambition to see the Vodafone brand spring ahead; it's not enough ahead today, I think, relative to some competitors, and, again, put some clear water at least against number 3, number 4, in our markets, but possibly also against some of our core contenders.

We are not starting from scratch; as I said, we started one year ago. We announced the new Vodafone 2015 strategy – to be covered by my colleagues. I would say that we have made some good progress. In consumer, Vodafone Red is a good success – 7.5m customers. Paolo will give in his presentation some KPIs and some details. For me the most important thing is the financials are in line with what we expected; date usage is higher and satisfaction is higher, so this means customers like it to the point that, even if there is a little bit of disagreement between myself and my team, I'm raising the target for the year; it's going to be 11 or 12 million – we don't know, but let's say between 11 and 12 million, not 10 million as we declared earlier. We continue of course to have lot of other innovation and new services in emerging markets in consumer.

In enterprise the progress is good; we have created the division that Nick Jeffery will introduce today. The integration of Cable & Wireless Worldwide has been a success, and we continue very well in the areas of growth that we have selected, especially Machine-to-Machine carrier services, and Nick will cover, with a few words, hosting and some other initiatives that we had there. On networks, we have, now that the spectrum is available, eventually, 4G working in 14 markets. We have unified communication capabilities in 12 markets; this does not mean we are big in unified communications in 12 markets; that's the ambition, but we have 12 where we can, if we want, deploy solutions.

And I have to say that our network and technology performance, if I'm honest, it is not where I would like it to be everywhere, but it has improved quite a bit; 80% of our data sessions now are above 1Mbps per second, which means that they are video capable, and half of our network is already in Europe at the highest HSPA rate, but we will do more there.

And finally, as Andy said, we are continuing to try to leverage on the lower cost part of Vodafone; the shared service centre will get to above 10,000 people sharing their competence for different topics, and we are on track to deliver our own £300 million saving. Which means that Spring is a turbo-charge of an existing programme, but it is also, I think, a big strengthening of our ambition to go towards the five-year objective or five-year vision that I described before.

One aspect of what we have that I think is very important because often we talk about spectrum; now we don't have the spectrum strength of my friend, Lowell McAdam, of which of course I'm very jealous – of the spectrum of course. But we have a pretty good position in spectrum that sometimes is a little bit overlooked. We spent money to buy 800MHz frequencies, we spent money to buy enough at the higher frequencies to guarantee, you know, infill of our networks, but basically today we have in all of our large markets a very solid number 1 or – just by an inch – number 2 position in spectrum – especially measured by an external independent agency, a first or co-first already delivered speed of network, with the exception of one country – Germany – where I want to be there soon. The network is being modernised; they had a lot of questions all the time, 'Ah, but would you be able to cope with an increase of data?' Now the good news is that data is increasing a lot – Steve Pusey will talk about it – this quarter again we have another acceleration of data growth; but no deterioration of performance is visible. This is happening because we have half of our network which is already modernised, and two-thirds which is already capable of transmitting the backhaul at high speed. So, the constant investment level that we have got in the last five years, at least in the years of my tenure, actually is paying off because we never cut capex in any way, because we knew that this would happen.

Now, in terms of market, how is this strategy, what type of markets is this strategy going to find, are we going to get much better markets or much worse markets? Now, I cannot say that things will happen overnight, but we are turning mildly more optimistic about the European telecommunications market; we think it is approaching a turning point. As I always say, I am cautious in not calling quarters and not being overenthusiastic about things, because I learnt that life doesn't change suddenly one morning, but we are becoming a little bit more optimistic. I would like to cover the four elements: economic environment, demand, supply and regulation one by one and go quickly through them.

On economic environment, I mean, I do not have to explain to you that the last five years have been probably among the worst that we could have; only Germany got a positive growth in the last five years. There are forecasts for returns to growth in the next two almost everywhere in Europe, and clearly the expected situation of the next five years is much better than what we had had. Now, of course, who knows whether the numbers will be exactly the ones that are on the green map? By definition, they will not be those, but for sure what we had behind us was probably the worst period in the telecoms sector in Europe. Now, it's important – I'm often asked, especially by investors, how correlated we are with GDP and the economy, and is the degree of correlation increasing or decreasing. And here I don't have – I'm not an economist; I don't have a quantitative answer. For sure what we have seen, however, is that discounting and price pressures in the recession have been particularly negative, because clearly with low consumer confidence and lower disposable income people are much more sensitive to that. We are not completely correlated to GDP, and of course industry structure weights a lot. But, you know, this type of change in outlook clearly will help.

More positive is on the demand front; as I said data is accelerating again. The blue bar is the data – European total consumption, you see the bar suddenly goes higher; Steve will have some more comments on that, but in the last quarter again we have seen some real acceleration of data. And the other part of the chart, the right-hand part, indicates why. The why is clearly smartphones, but not just smartphones; it's also tablets. Cheaper smartphones are good, because they bring on board – frankly, a variety of operating systems are good, because they bring on board customers who have different spending capabilities. But also, what is really very good is that tablets are finally starting to make a difference; you see the red part of the chart – last year, I think, tablets have oversold laptops, and I have to say the multiplicity of devices – Paolo will talk about it in his presentation – the multiplicity of devices is something that is not just restricted to people like us – professionals or people who have, you know, a very intense intellectual type of life, but it is becoming more of a norm also in the families. This, of course, will continue to push up the demand side of data, and that's good news because, as I said, we have prepared, and we will prepare even further, our networks for that.

The other big trend is the request for unified communication; this is not the same across all markets, and sometimes people challenge me and say, 'Oh, this is a big threat for Vodafone'; I mean, the way I see it, it's not a big threat because the European market is about £80 billion in mobile, and we have about 30% of it; of course, we can have the ambition to go up and get 35%, 40%, 50% but that will come at a cost, and the cost would be price, and that's the history of our sector. It's difficult to go much more beyond market share without triggering price reactions, so you can have the market share but it's a lower-value market. Instead, there's another £80 billion market in broadband, fixed communication and TV, where Vodafone has a very limited share – a few percentage points on a European basis – which we see as an opportunity to get into. Of course it is an opportunity that has to be exploited in an intelligent way, with different formulas, with different strategic approaches; that's what we are doing, and again progress has been made here as well, with the KDG acquisition, with the decision to build fibre and to launch the IPTV in Portugal, where we already about almost 100,000 customers on IPTV, with the decision to invest in Spain, and today we will talk about a similar decision for Italy.

Regulation: regulation is the final aspect of Europe. I have to say that we have talked a lot about regulation and the most common term used was always, 'headwinds, headwinds, headwinds'. Again I'm not here to say there is going to be tailwinds, but at least there's going to be an absence of headwinds or much weaker headwinds going ahead. Why? The way I look at regulation there's three things.

The first is the rates – the regulated rates – we're talking about MTRs and roaming. MTRs have come down quite a bit; roaming there's a glidepath and there is a solution, if you think that if you take the whole sector, around 75% of the reduction in revenues in the mobile component have come either from MTR or from roaming. Both of them – MTR because of the low level where they are today, and roaming because there is a glidepath – in any case will have lower weight in our future. So I think that will be less impactful going forward.

The second aspect that has created competition, or artificial competition, as we call it here, is the presence of asymmetries to help new entrants – so spectrum reserved, or strange spectrum auction conditions, or even mandated MVNOs. Here again, the intention in the proposal from the European Union seemed to indicate a much stronger support for a pan-European consistent or more consistent approach to these topics, taking away some of the extreme conditions that, in the past, have created this level of artificial competition.

And finally, on consolidation, again we haven't seen yet the practical manifestation of the new positions, but at least in the statements the so-called mood music is a bit changed now; the wording coming out of the new European Commission is more to favour cross-country integrations and to be less demanding in terms of number of players in each market, and a little bit more inclined to favour return on investment as opposed to sheer number of players in a market. As I say, these are intentions; we recognise those intentions; we now have a couple of test cases and one particularly in Germany which will be very important to assess the situation. But, as I said, in general, if one looks at Europe and looks back for a second – you know, we pause: I look back at what the last five years; I look forward – I can see a better environment materialising. Materialising when? In the next two years: maybe at the back end, maybe at the front end, maybe in the middle. But, you know, we can see a better business environment for our sector.

Different music in emerging markets – completely different music because, of course, here it's easy to be optimistic with emerging markets; the question is: how optimistic? How much do you want to be optimistic? And here economic environment is better – clearly reaccelerating. Demand is not just for data but it's also for voice, and voice is priced low so there is less risk there. Data traffic growth in emerging markets has been above 100%, with India now our second largest country. And there's also demand for other services, especially financial services like money transfer and so on. Regulation we cannot say that it is particularly predictable in emerging markets, but at least it's becoming more foreign-investor friendly, and we see that there is a better understanding of the long-term dynamics of foreign investment, infrastructure investment and then GDP growth in the country, which we think will be more positive for us. Vodafone has been, I think, fairly successful in choosing local partners which really deliver value in all markets. In almost all markets, with the exception of Turkey, we have local partners that actually have strengthened our companies, and we think this is a proof that in those environments, with the right recipe, you can be successful. And finally again, consolidation I expect it more into emerging markets; the big win here would clearly be India.

I will not comment on the expected growth of the emerging markets, I will just use this chart – actually the part of the chart which is less important, which is the geographic map – to say that these big emerging markets where we are, are the ones, the good ones, the ones where everybody would like to be because of the size of the population, because of the wealth of the economy, because of the prospects of Turkey, India, Egypt, South Africa, these are the good ones, and there is something in those markets that I always say it is completely under-assessed or underestimated; and it's not the one on the left part of the chart that everybody knows. Of course, there is no fixed line, or very limited fixed line, in those markets, and a huge mobile opportunity, which means that the whole opportunity coming from bringing communication into the markets will be more on the mobile side than on the fixed side.

Where it is overlooked is the one often the one on the right hand, where the demography of the population, makes the population with the same type of total numbers more appealing than in mature markets. In a normal European country you can have 18% but also 15% or 16% of the population being in the young bracket, and many more in the old ones; in the emerging markets you can get as high as 35%, so the same 80 million people of Turkey or of Egypt or of India are worth much more if you recognise the vision that I described before – a vision of data, a vision of application, a vision of stronger uptake of all these services – are worth more in emerging markets, because the population is young and this is where the smartphones will go, and this is where the entrepreneurialism, at the small-company level, will actually generate much more uptake of our services than in mature markets where actually you're talking about very few or much fewer young people.

So, good news on that front, and if you put everything together – you put the emerging markets and the mature market situations together, and you put together our strategy that we described before and the vision for each of the three businesses together – then you understand why I see Project Spring as the opportunity to really accelerate and extend our current strategy, and really strengthen the company for the future.

The things that are written on the pink part of this chart are already happening, whether it's 3G or 4G; it's just starting to deliver very high data, whether it's our unified services – which are happening and we are making an inroad there – whether it is the opportunity to expand with large accounts in new services or new geographic areas. Spring is for us the opportunity to strengthen a strategy which was already starting to be implementing, and three clear missions for the three areas of the business, to really leap ahead and to really strengthen and ride these trends that I just described.

So, we looked at it – I said we would work hard between – we started looking at a Spring type of concept in the spring – believe it or not – and – but that's not why it's called Spring. We partially knew that this was coming, which also explains why we decided to retain the Verizon Wireless dividends because we thought it was the intelligent thing to do while we were working on things, and when the Verizon Wireless thing came we announced £6 billion; now we looked at all the opportunities and we decided to make the total £7 billion. As you can see in the right column its [approximately] £3 billion on European mobile, £1.5 billion in AMAP mobile, £1 billion in unified communications, £0.5 billion in enterprise and £1 billion in customer experience. So the total is £7 billion.

The initiatives are quite big. What is listed in this chart is just an example, and is an example of incremental deliverables, so things that we will anticipate from the original plans and we will step up our investment. So you are talking about 20,000 new sites, 32,000 new 3G sites, 36,000-37,000 LTE, you're talking about Wi-Fi being stepped up significantly and small cells being stepped up significantly. Much more investment in enterprise premises equipment, because, again, getting into that service requires much more presence at the facilities of our customers.

There is a big component of fixed line, fibre to the curb in Italy; we are announcing today that we decided to go ahead with 150 cities, no matter what others do; if they want to join they are welcome, but we cannot wait. We are increasing our investment in Portugal, which, as I said, is already delivering customers, and we have already, I would say, a good start, because we already have a 20% penetration in our footprint, which is not bad. And we will clearly continue to invest in fibre also in the emerging markets, in the urban areas and in the places where we think that the density of the traffic will justify this investment.

To support enterprise; stronger Machine-to-Machine presence in more countries than where we have the footprint, clearly, and stronger IP-VPN extension to follow our customers. The final block would be the customer-experience block; this is basically three things. On one hand, it's retail and shops; stronger and more accelerated redesign based on the early results of the first 1,300 shops that we have already changed, but we will basically multiply by five the effort there; and strong system design to move into this data converged capability that has also to be simplified for the sake of the experience of the customer.

Now, what are the financials of this? The £7 billion capex will be spent by March 2016; we decided to anticipate to this year the beginning of the deployment; there was no point in waiting, so about £0.5 billion will be spent already this year. It is intended to be EBITDA neutral by 2016/17; there's going to be a higher opex impact, clearly, given the fact that we are stepping up the network in a major way. Steve Pusey here will have a very interesting chart that I will really like for you to focus on, because I talked about the incremental of Spring. If you look at the plan – the cumulative plan for the next two years – the number of sites, the size of the net total, the size of the fixed investment that we are going to make in the next two and half years, it's basically of the same magnitude of, let me say, not the whole of Europe, but probably a good chunk of western Europe, so we are recreating a second western Europe on top of what we have. So it's a huge effort, hence there will be some extra cost that we will have to carry. The targets are in excess of £1 billion [free cash flow] by the fifth year; if you ask me where is the £1 billion coming from, it's going to be ARPU mostly at the high-end, not necessarily across the piece. It's going to be enterprise revenues, and it's going to be broadband and fixed line market share. Cash payback is about seven years.

Now, put Spring on top of what we have been investing, as I said, fairly regularly for the last five years – the total, as you can see in this chart, is in excess of £19 billion, which means that in less than two and half years – two years and one quarter – we are going to deploy the biggest investment programme of Vodafone ever. As you see, two thirds of it would be on mobile networks, so £8 billion in Europe, £4.5 billion in emerging markets. The unified communication investment is in excess of £2 billion; clearly there was already a lot in the existing budgets, including, for example, Spain; now we are adding Italy, we are adding emerging markets, we are adding Portugal. And enterprise is on top of whatever is already in the network component; there is a focussed enterprise services and coverage for £1 billion, extra £1 billion. And then, customer experience: very big –£3.5 billion; there was already quite a lot in the existing plan, so we are basically turbo-charging that component. This is an incredibly relevant and big investment plan. Clearly we also have a solid balance sheet, so I will continue to look at inorganic opportunities; the inorganic opportunities must be consistent with our strategy, so in areas or in priorities that I have indicated and shared with shareholders, and again, namely, unified communications, enterprise, and the emerging markets in the areas where we are focussed, and we will continue of course to apply to both the organic and the inorganic component the usual financial discipline that we have displayed so far.

So, to summarise, before passing to my colleagues, Europe: as I said, a possibility that we are approaching a turning point; performance has to improve in a couple of markets. We have strong mitigating actions and recovery actions in those markets. But, very, very strong and very good outlook in emerging markets, with margins also improving and, as Nick will say, now emerging markets represent a pretty important part of Vodafone. Strong cash flow. Coverage of cash, of dividends, will be very solid after the Verizon Wireless distributions, so a strong intention to continue to reward shareholders in a constructive way. Good strategic progress in our shift from voice to data; pleased with the enterprise progress, and we have to continue and be determined in continuing on the unified communication side.

And finally Project Spring: I am personally very confident this is the most defining beginning of chapter 3 – I would say the first pages of chapter 3 are investment pages, which usually turn the rest of the chapter and the rest of the novel into a pretty good one. We are all very convinced and committed to this; personally I, whenever the time is appropriate after the Verizon transaction, will personally reinvest all of the Verizon net receipts into Vodafone; the same will be done by Nick Read, who is CFO designate, and the same will apply to the majority of the shares owned by my executive committee members, because we are all convinced that this is really the beginning of a very, very positive chapter for Vodafone. And with that, I will turn to Paolo, to start digging into the commercial aspects.

Vodafone Differentiation

Paolo Bertoluzzo

Chief Commercial and Operations Officer, Vodafone Group Plc

Thank you, Vittorio. Good afternoon and welcome again. Over the next 20 minutes, I will take you through what we mean for Vodafone differentiation and give you a high-level view of what we are doing and what we plan to do to strengthen our differentiation, especially in the context of the Vodafone Spring project. We really believe that building a stronger and stronger differentiation for Vodafone is important not just to be able to, over time, win more customers and actually retain those customers, but more and more it is important to have a completely different dialogue with the customer, which, today, is too much focused on price and, over time, we want to move in a different direction and focus the customers more and more on what we do.

Let me start by explaining to you what we want the Vodafone brand to stand for and, most importantly, where we want to be different and better from our competitors. You are normally used to see Vodafone ‘Power to You’ as the external presentation of our brand. However, the purpose of Vodafone – our core purpose – is in fact to empower everybody to be confidently connected: to be confidently connected to their friends, to be confidently connected to their families, to be confidently connected to their businesses, to the content, to the information which relevant for them, and we want to do this across different geographies, we want to do this across consumer and enterprise customers, we want to do it across the more sophisticated and the less sophisticated customers.

And as we do it, we want to do it in a different way, better way, compared to our competitors, basically in three areas that we consider our differentiation pillars. First of all, we want to be recognised by our customers for those offering them the best network, the best connection. Number two, we want to be the ones offering to our customers the best experience in interacting with us across the different channels and media. And number three, we want to be the ones offering to our customers the best integrated solutions for worry-free communication, both in the traditional communication space and more and more in the connection space across different services and technology.

I will try to give you a better sense of what we are doing and what we plan in these different three areas, starting from integrated worry-free solutions, then the customer experience, and then finally network, and I will try to do it as much as possible taking the perspective of our customers. Let me start with worry-free solutions. Here, our flagship product is Vodafone Red. You know what Vodafone Red is but, in a nutshell, it is a list of Vodafone-specific benefits integrated with unlimited voice and messages and large data bundles which are normally tiered to satisfy the different customer needs. As you may remember, we launched Vodafone Red back about a year ago. It's now available in 17 markets and we now have, or actually we had at the end of the last quarter, 7.5 million customers on Vodafone Red – more or less one third in the enterprise space and two thirds in the consumer space.

Today, we have more or less 18% of our consumer – if we take the four largest markets where we could run the analysis in the best way – we have more or less 18% of our consumer customers and 27% of the value of our consumer customers already on Red, while, when we look at the enterprise segment, we have more or less 12% of our customers and 17% of the value of our customers in the enterprise segment already on Red. Clearly, Red is attracting the highest-value customers, as it was perfectly expected.

Today, more or less one third of the customers that we are acquiring in the contract space are actually coming with us on Red – a bit more than a third in the consumer space, a bit less than a third in the enterprise space. As Vittorio said, we are ahead of our plan. You may remember that we gave a target which was about 10 million customers by the end of this financial year. We are ahead of this plan and we currently see us landing anywhere in between 11 and 12 million customers; probably closer to the latter number.

When we measure the impact of Red, we take two views: if you like, the more traditional financial, shorter-term view, and then the customer view, which, we believe, in the case of Red, is actually more strategic. If you consider the impact of Red from a financial standpoint, we look at the acquisition and, obviously, the migration side of it. In terms of acquisition, Vodafone Red is allowing us to acquire a better mix of customer, so, in general we acquire more or less the same customers that we acquiring before in the contract space, depending on the market, depending on the phase a bit more, but the key point for us is that the mix is better, which basically means for us that we are acquiring a higher share in the higher-value segment, both for consumer and enterprise.

Then, as far as migrations are concerned, what we see are actually improving trends. If you look at consumer, today we have an impact in terms of ARPU dilution of Red, which is back to where it was before and it was always in line with non-Red products, more or less. If you look at enterprise, we had an early period where, actually, we had a slightly higher impact and a slightly higher dilution of ARPU on migrations, which was justified by the fact that we had the biggest spenders, the highest spenders migrating faster. But actually now the trend is positive. The ARPU is back in line with where it was before and where it is for our non-Red customers. As you can imagine, in every single market, today we have our commercial teams which are heavily focused on making sure that this trend of improvement continues and the impact of this dilution actually can be turned around very, very rapidly.

If we then turn to the impact of Red on customers, actually the picture is all positive. First of all, the Red customers are using our products and services much more than before. The analysis that you see on this page – and also on the previous page – is as much as possible on a like-for-like basis. Customers, as they migrate to Red, they talk more with us, they message more with us. Actually, they use data twice more than what they used to do before. At the same time, these customers are happier customers. We are tracking NPS, as you can imagine, specifically for Red, and these customers are happier than the average customers, and we see this trend everywhere across our major markets.

It's too early, obviously, to talk about churn, because Red, in most of the cases, is a product that comes with a commitment, and so churn has yet to be fully understood. However, whatever we do in measuring it, we only see, again, also in the case of churn, positive signals, which, obviously, we will continue to track, and these signals are consistent with what our expectations were.

All in, as Vittorio said, we are satisfied: where Vodafone Red is right now is in line with our expectations, but most importantly we are even more convinced than before that Red is, for us, the best platform for the future. It's a very robust platform, as you can imagine. It's protected from IP cannibalisation. It's also more protected from potential Wi-Fi cannibalisation. And we really believe that this is the right platform for the future. In fact, more recently, over the last few months, we have started to work on this platform to try and increase the value of these customers that are now on this platform, that we see more and more actually as accounts with a value which we can develop over time.

Here you see four examples of things that we are doing: family, multi-device, insurance, and data add-ons. In most of our markets, we are already working at the point of sale but also with, later on, activities across the lifecycle of the customer in order to offer these products and services to them. Here you see, on the right, some of the results that we are obtaining. We have penetrations which range from 10% to 20%, and we see it coming more and more and more, and the mindset is really one of, over time, enlarging the value of the account for us.

The second area important for us in the space of the worry-free proposition is roaming. We know that roaming has always been a tricky topic for our industry. There is a lot of sensibility with the customers around roaming and, over time, as customers migrate to more data, to more smartphones, to more tablets, we see roaming becoming more and more important. This is exactly the reason why, over the last few months, we have decided to accelerate across our European markets, and we have decided to offer our customers what we consider to be the right worry-free proposition. Basically, our customers have the possibility, by paying a daily fee, to use, around Europe, in all countries of Europe, the same tariff and pay the same tariff that they pay at home.

We did launch this, as I said, before the summer. We have extended it across different European markets. Today, we already have more than eight million customers on this tariff option but, most importantly, we need to see how many of those which in fact then do roam are really using this option. The data that you see in the middle are actually the data from the month of August, which is a special month for roaming, in particular in the consumer space. You see that, for some markets, actually, already one third of the roaming customers in consumers are already on this tariff plan and enjoying the benefits of this offer, while you see it growing also in enterprise over time.

What are the results from the customer point of view? Again, we see roaming days going up, in the sense that people use more their smartphone when roaming than what they used to do before.

We see voice usage going up for these customers. Most importantly, we see data usage tripling because, here, this is not a marginal increase. It's actually customers that, instead of switching off their smartphone when abroad, are actually keeping it on and using it exactly the way they used to use it at home, or, in any case, even more, because, when they are on the move, that's clearly where the need is. We already started to track NPS and, actually, we see the satisfaction of these customers also increasing, especially compared to what our competitors can see on their own roaming customers.

The second pillar of differentiation is, as I said, customer experience. In customer experience, we are taking two parallel views but two integrated views. On the one side, we are investing short-term. We are investing to improve, now, the customer experience across channel, in retail, in online and mCare, and in customer care, and in doing it more and more consistently across markets, sharing as much as we can best practices, and making sure that we leverage as much as we can on the same solutions and on the same IT application and platforms.

However, in parallel, we are preparing for a more strategic transformation, which is actually based on the concept of one single product catalogue across the group and one single set of standard services, to be supported both by one single set of IT platforms. Here, clearly, the ambition is to be able to offer the opportunity to all our markets and all the customers of our markets to enjoy the broadest possible and richest possible product portfolio worldwide, on the best possible services worldwide, with the right level of customisation when necessary, and doing it in the most efficient way from the IT systems which are necessary to support it.

Now, I'll try to give you a little bit more focus on what we are doing now in terms of improvements in retail, online and customer care. Please take into account, going back to what Vittorio was saying before, that, on this journey of customer transformation, we are investing £1 billion of the £7 billion that we plan to put into Project Spring – extra investment that we plan to put into Project Spring over the next couple of years.

Let me start from retail. In the retail space, as you know, we already launched our transformation plan. We have a new store format, which basically allows the customer to interact in a more engaging way with our products and services and to have a richer sales and service experience as well. We now have the new store format being rolled out. We are almost at 1,000 stores in 15 countries; we will reach the 1,300 number that Vittorio was talking about by the end of this financial year. We are starting to track the results, and the results are, so far, positive. We see an increase in the satisfaction of the customers, and we see, most importantly, also an increase of productivity of our sales activities. Obviously, the productivity increase is not just due to our better format but it is also due to the work that we do with our people, with our teams which work in the stores, because, when the store closes for three to five days for the refurbishment, we take the people, we reassess them and we retrain them to be able to have a better sales and service relationship with the customer.

On the basis of what we are seeing, we are accelerating in the context of Spring our plan, and therefore we will extend the new format to the full footprint of Vodafone-branded stores – exclusive branded stores – which is about 8,000 around the world, and we will do it over the next couple of years. While, in general, we are not increasing the number of stores around the world, we will take this opportunity also to deepen our direct presence very selectively in two or three countries, where we believe that having a stronger direct-controlled distribution and customer experience is actually needed in the environment that we operate.

Let me now move to mCare. mCare is all about giving the possibility, as you know, to our customers to interact with us in a very simple way for information and assistance on a simple smartphone application. We did test different solutions on mCare over the last couple of years and, by now, we are fully convinced that the future of customer interaction for care and assistance, and also for information and potentially cross-sell, is actually the smartphone application and will be this space, this channel of mCare. This is the reason why, today, we work with the ambition –

we will see if we are able to deliver it – to be the best in class in our industry on mCare and, actually, I think we also have the obligation to be the best in class, not just around our industry but across industry, given what we do for leading as Vodafone.

Here on the left, you see one of the most advanced solutions that we have, which is, in this case, the Italian one, which we are rolling out in the other markets at the moment. We are allowing our customers not only to interact for information and assistance, but actually they can enter into a live chat from the smartphone with a live assistant, with a person – with a specialised person – and, if necessary, they can click to be called back by the person throughout the chat to receive an assistance which becomes more and more sophisticated as you go throughout the process. Again here, we see the NPS of these customers and the touch point NPS of this service increasing over time, so already above the one of the traditional customer care for this specific segment of customers.

And at the same time, it's interesting because we see customers interacting more with Vodafone through the application, which is also very personalised, because it has all the information which is specific to that customer: their tariff plan and the products and service that the customer has. But at the same time, the number of live contacts, which also come with a cost, has actually halved, so we see a 50% reduction of frequency of contact with a more engaging relationship with the customer. As I said, we will continue to push this because we believe this is really the future core channel for customer interaction.

Finally, we will continue to invest in more traditional customer care. While we push more and more mCare and we invest in retail, we believe we remain a key channel for more specialised assistance, for all the different customer segments – probably more for certain segments than for others, but still will remain a very important channel. Here, we will continue to invest to improve the experience and maximise the revenue opportunity out of this channel.

In terms of maximising the experience, here we have a list of initiatives that we are more and more driving consistently across markets. We have our call centres available 24/7 in all European markets at the moment. We are offering more and more the possibility to the customer to be called back by us instead of waiting for us to respond to him. In some cases, they can also book a call back at a certain time. We give the possibility to the customer to follow up with us via SMS and to be called back in case he needs to be contacted again. We go more and more for a segmented approach and more and more for personalised relationships that we are testing in different markets, and we will continue in this direction.

So far, we are in the early phases of the journey. We see an improvement already in first call resolution, which is a key element for the customer, because this is the number which basically says 'I don't need to call you back to get my problem solved or to get the information complete', and we see this first call solution index, which is going, actually, up, because the recalls are going down, and we see customer touch point NPS in the case of customer care going up as well.

In parallel, as I said, we will continue to use more and more the channel of customer care to create more opportunity for revenue generation by increasing the number of calls that we use also for up-sell and, actually, making sure that we also increase the probability of success of these up-sells, that the more we develop products such as Red is clearly an opportunity which is out there for us.

Let me now move to network-based differentiation, which is actually the most important pillar of our strategy, as Vittorio said in the beginning. Steve Pusey will take us through the network plans and will give you a better view of what we plan to do in this space. Let me try to address the issue from the customer point of view, which is actually the point of view that we use to drive these investments and these choices globally and, most importantly, locally on the ground.

We believe that the customer has in mind, when he thinks about using our network and products and services, three types of perception around our quality: number one, voice – is voice working or not? Is voice available or not? Number two, coverage – do I get access to my applications, to my email, to my information, to the internet? And number three: is the performance good enough for doing something more – fast downloads, video and so on and so forth.

This is the reason why our differentiation strategy on network will be based on a perfect voice foundation. We believe that there is no differentiation strategy on network that can be successfully developed without starting to give to the customer the basics in the perfect way. Are we there? No, we are not there. It depends very much market by market. We have different situations, as you can imagine, but an important part of our Spring investments, despite we are in the smartphone area and the tablet area and everything else which we will connect in the future, will still be on voice to deliver a perfect voice foundation to our customers.

Then on top of it, we will extend our coverage, because we want to have data wherever we have voice, with a minimum speed to allow customers to have a dependable browsing and good speeds for downloads and streaming. And finally, on top of it, we want to be excellent in terms of performance, which basically means HD video, which means very fast download speeds, which basically means seamless browsing, and 4G will be a key visible component of this differentiation. Overall, we will, in this area, across the world, be investing more or less £4.5 billion over the next couple of years, on top of what our normal plans would have been.

Obviously, we all know that, at the end of the day, when you talk about differentiation, differentiation is relevant not for necessarily what we do but most importantly for what the customer perceives in terms of the experience that they have for us. This is the reason why, while we invest, while we make a lot of effort to deliver all of this for our customers from the technological point of view, we are also increasing our share of communication that we dedicate to network differentiation. Today, we are about 25% of the spend invested in this space, and this will continue to increase over time.

On the screens here, you see some of the print advertising that we have on air at the moment around the world, and here you see a mix across the different three layers of the ladder. You see some voice coverage communication, you see some data availability communication, you see some speed communication, you see some content, and video content, in particular, communication, and we will continue, obviously, in this direction. Let me also show you a video – share with you a video, which I believe talks about differentiation in a very, very simple way, and network differentiation in a very, very simple way.

[*Video shown*]

So, obviously, the baby is not yet our customer, because he could not be, but the father clearly is, and this is actually coming from South Africa. It's always nice to see how, after a lot of pages and words and numbers that you continue to see throughout the day, then a baby with a smile can deliver the message on why, actually, having a good connection is so important for people.

Most of what we have seen so far in terms of differentiation has been focused on mobile – our old and good mobile, if you wish. Obviously, Vodafone is moving more and more into unified communications and, therefore, we will need to extend more and more this concept of differentiation, and the focus of our efforts also in the fixed space. What does it mean in practice? It means, from the network point of view, being able to deliver at least a good, at-par service in terms of DSL, in terms of quality and reliability, but more and more being able to offer at par with best access to next generation networks, to enjoy the speed, and obviously the TV services which are associated to it.

In the space of customer experience, we will be able to serve our customers across the traditional channels, but also, in some cases, go and assist the customers at home or office, which is what we are already doing in several markets, where we are deeper in fixed already, and we will have to integrate service and billing to serve the customer across fixed and mobile. Finally, in the proposition space, in the integrated worry-free solution space, we will have more and more to be proposition, and we are doing it integrated for the household and the family, not just for the individuals, and more and more fixed-mobile integrated for the enterprise as well as we are doing with products such as Vodafone One Net. In the space of fixed in particular, in the space of fixed network deployment, we are investing £1 billion of the £7 billion of Project Spring, and Philipp later on will give you more detail on what we are doing in that space.

So, in summary, we have a clear brand purpose, which is empowering everybody to be confidently connected. We will continue to invest to build our differentiation more visibly across three pillars: the best network, the best connectivity, the best customer experience across channels, and worry-free communication and connectivity propositions for our customers. Vodafone Red, we are satisfied with the first year of Vodafone Red and, most importantly, we believe it is a very robust platform on which we can continue to build our future. Roaming, very encouraging results from this change of mind in the way we offer roaming to our customers, very happy customers which are really using our services worry-free, also when roaming and also good signals of revenue protection for us. And finally, we will continue to work to extend our differentiation at unified communications.

With this, let me hand over to Steve, which will give us much more information on our technology and network plans.

Network

Steve Pusey

Chief Technology Officer

Thank you, Paolo, and good afternoon. In this section, I'd like to share with you the progress that we've made in the last six months in developing our networks this year and, most importantly, I'll give you the details of how we plan to deploy the significant additional capital under Project Spring, which we believe will both transform our customer experience and deliver us and secure a competitive advantage and, from the video make babies smile, so let's see if we can achieve that.

Firstly, what I'd like to do is share with you some of the most recent customer trends that are driving the behaviours of our network investments. If you look at the top left, as you look it at, firstly, as Vittorio and Paolo highlighted, smartphone growth is very healthy across the footprint. That's married with traffic on individual smartphone growth, as we've seen in the last six months. We're up to nearly 400 MB per device. Red is higher than that. 4G is higher than that again. If we take some of our most aggressive users – a good example is here in the UK, as we've added content, with Spotify and Sky Sports – we're up over 1 GB, so traffic growing healthily with our customers. Those two elements conspire to drive the overall traffic growth, and you can see on the top right, the first six months of the year, traffic is still growing healthily. It's up 62% year on year, and something to highlight here is, in Europe, now 4G is 16% of the European traffic, and India, there's some quite spectacular growth. It's now the second largest operation that we have in terms of data traffic, and it equates to 40 PB of that 85 PB in the first half year, so it's doubled year on year.

When we look at what our customers do with their devices and this is a similar picture for fixed, a little more aggressive even with video, but clearly we're servicing video and web browsing and, within the web browsing, it's predominantly video. So we have to build infrastructure that caters for that as we look forward. The bottom right graph is important, I think, for your consideration as we look forward and we share with you what we build. Through the centre column are the video standards. The right hand side is a typical service need for that standard. What speed would you have to provide to deliver a video standard that you see in the middle. High definition starts at

720p – not to get too technical, but just to share with you standard definition versus high definition. Now, if you look to our networks – and this is taken straight off our footprint in the last month, so it's the very latest – you can see that we've moved through the 240p, hence in the past we've talked through 400kbps consistent connections, and you've heard many people around the world talking about that.

We've moved up through the 360p and now you can see that we're moving into the 480p, and we're starting to see, in the blue there, the first eventualities of the high-definition video content through our networks. This actually is a YouTube reference screen that you can see here. So, as we look forward, we've got to build for what we expect to be an increase in definition as we move more towards that blue segment and high definition on our devices on our footprint, and I think that's quite important to track as we look at future needs.

To respond these trends, what have we done in the footprint? We've increased the coverage, as Vittorio said. A reference point here: now we're at 32% coverage in Europe here on 4G as well. We've doubled the amount of 43 MB capability on the 3G, because it will still take some time for the devices to filter through towards 4G-only, that might take a few years, so we've got to have an excellent 3G footprint to complement our 4G build. A similar story on the right-hand side as we look at AMAP: very aggressive builds continuing on 3G, particularly as we move forward in India, and we've increased the 43 MB capability in anticipation of future needs there as well.

Just a reference, because we've covered it: we keep looking with an eye on the future. single RAN is very important, and I'll explain why on the next chart in a moment, but single RAN we aggressively push forward on the footprint build. European sites 53% covered now. The one that we keep focusing hard on, which is our high speed backhaul capability, we reference this as 1 GB capable. Already today, as we hit September, 19% of our European sites are directly connected with fibre, so that's increasing by the month. As we look to our fixed assets, we've increased slightly the self-built DSL. We're now between 60% and 70% household coverage with our fixed DSL build. We complement that with bit-stream in a number of countries; there's just a few examples here. But that's rapidly being overbuilt and complemented now with next generation build, as you heard Paolo talk about, and I'll leave some of this because Philipp has a lot of definition market by market. But as we move into the next generation builds, be it cable in Germany or fibre to the curb in a number of markets and, of course, fibre directly to the home in some of our markets like Spain and Portugal. Evidently, or as importantly, in the capabilities of those infrastructures, we're seeing, as a reference point, up to 50 GB a month on a fibre to the home installation where we've got IPTV and multimedia services, so plenty of opportunity for usage and traffic growth.

We're very proud of what we've built. As we measure it, we feel that we're in first or equal-first, co-best in 13 of the 19 networks that we've measured in capabilities, but we truly believe with Project Spring we can create a differentiation that you'll go and tell your friends about. We truly believe we can make that kind of difference. There's a lot of installations to go through in a moment, but perfect voice: we recognise the frustrations. We recognise the highways or the railways and the commuter routes. We're not forgetting voice. I'll give you a definition as we see it of perfect voice, but we're going to build that voice capability and we're going to build something that people will tell their friends about.

If we look at data, two different definitions here: we want the best 4G in Europe. We want a competitive 3G, meaning at least co-best. As we look at AMAP, we want the best urban data. Places like India have a huge footprint to cover. And we want the co-best nationwide, worst case. We want high-speed transport to bring the best out of that radio infrastructure everywhere. When we look at our unified communications, we will extend the fibre build quite extensively and we will also target extended DSL coverage complementing that next generation build, both in fibre to the home and fibre to the curb.

What difference does it make? We thought that this might help in the definition of what we're going to build and how we'll extend it. In the grey, you can see where we are today; in the pinky colour in the centre columns, what was in our existing plans; and, in the red, how we plan to extend those with the Spring accelerated investments. Perfect voice: significant build in 2G sites in Europe. This £3 billion will cover – and with the existing investments on top – another 24,000 2G sites, and we will put single RAN everywhere. Single RAN is important for performance as well. With something called active antennas – and again, not getting too deep into this – we can deliver up to a 3dB gain on every site. What that means for the customer is it can extend that cell coverage up to 15%, so it really helps to fill in those gaps, particularly with voice. We're going to complement that with a large volume of in-building coverage systems. We've start those here in London by way of example, where we're getting those multi-storey blocks where it's difficult to get in the nooks and crannies and deliver that extended experience. And we're going to put high-definition voice everywhere.

What effects will that have with the customer? We believe those irritational dropped calls, we will halve the dropped-call rate. The reference you see on the chart there on the top right is a worst-case scenario. We expect all of our footprint to be better than 0.5% dropped-call rate, and similar for call setup success improvements.

As we look at best 4G and competitive 3G, we are going to build over 70,000 4G sites. That is a spectacular build and it will make a difference. Along with that, we are going complete the build on 3G. We are going to extend high-capacity backhaul to every single site. We expect that circa 30% of the European sites by this point in time in two years will have directly connected fibre to them. We will put carrier aggregation – a new science that we'll launch with devices middle of next year – we will put carrier aggregation, which can double the speed that the customer can receive, in all the major cities in Europe. That will be supplemented by small-cell delivery.

What will that do for the customer? 4G coverage virtually everywhere, 3G experience and data experience better than 3 Mbps for that video capability, high definition, to over 90% of connections consistently. In AMAP, similar definitions. I'll focus on a few things here. We will improve the dropped call rate in AMAP with similar investments – another 23,000 2G sites – but really the AMAP story on mobility is down the bottom of the chart. We are going to deliver another 27,000 sites in India of 3G. We are going to start our journey on 4G where spectrum allows in all of the AMAP territories. Probably the most important factors are on the right hand side of the chart. We will take, in our covered areas, our outdoor 3G coverage to over 90% of the urban areas in India. If I just give a second reference on that, we will extend the number of towns that we are in in India by over 200, so we are both increasing the coverage and the depth of footprint in India on 3G, so a major investment in that footprint.

If you look at the fixed infrastructure builds, we are going to take to fibre to the curb in Italy, that Paolo referenced earlier, to 6.4 million households. We are going to accelerate fibre to the home in Portugal, taking us to 1.5 million. In Spain, we are going to increase our self-build DSL to 82% of the footprint, in addition to the fibre to the home build that we previously announced to six million households. In the AMAP region, significant investments in fibre. We are going to build 14,000 km in 40 cities in India, and we are going to take, in South Africa, 15,000 enterprises and directly connect them with fibre. So, this is dramatically expanding our opportunity in both of those markets.

So, to Vittorio's point, this is a significant build programme. We are very excited that we can make a huge difference with this. If you're an engineer in this company, this is a really, really exciting programme to be excited with. This will make a huge difference for our customers. If you look at the numbers down the left hand side, 47,000 2G, 73,000 3G, 77,000 4G. These are massive programmes. We are very confident that we can deliver it, not just with our own resources, but we've checked all of our suppliers. We've gone through the numbers. We've gone through their volume production capabilities. We've gone through their in-country resources. Whilst we're mindful of the challenges, we can do this. We've delivered at some of these volumes before. We can do this. Of course, we also have to bring to bear, with our supplier community, a large volume to get the best prices in the marketplace as we deliver this.

So, in short, an extra £5.5 billion of network investment in the next two years, bringing it to a total of £15 billion. That's a very major programme. We truly believe that Project Spring will deliver network differentiation. Thank you.

So, now we're going to move to Q&A. I'll hand back to Vittorio and we'll take any further questions on this and everything else that you've heard this morning.

Questions and Answers

Nick Lyall, UBS

Can I ask: why the investment in Germany in the second half now, please? Secondly, on unified communications, why have you decided to extend the DSL in Spain and not to extend the fibre rollout? Is it just economics that you've got to a point where fibre's not economic, or is there some other issue with either Orange or Telefónica pricing?

Paolo Bertoluzzo

On Spain, the point is very simple, in the sense that we are accelerating deployment of fibre starting from the main cities, where you have the biggest density. However, we already have a footprint of DSL in Spain, which I think is about 70% – I don't remember the exact number – which, as you can imagine, being 70% of the population, arrives into the smaller cities and almost in the villages. Our competitors have a coverage which is anywhere between 75% and 80%, so we want to extend to the level of our competitors on DSL, which will allow us to have better control of the quality of the service to the customer, and obviously much better economics because the variable cost of DSL, as you know, is much lower in a bundling scenario than what it is in a traditional bit-stream resale scenario. Obviously, we are talking about areas where fibre to the home will not arrive for a long time, and therefore we are also comfortable with the fact that the investment will pay back much faster.

Vittorio Colao

If you don't mind, country-specific questions, we'll keep them for the second session, when Philipp is here.

Maurice Patrick, Barclays

On Spring, I just wondered how quickly you think you'll start to see an impact on the KPIs or financials, so how quickly we'll see that starting to impact?

Vittorio Colao

Of what, sorry?

Maurice Patrick

Of the Project Spring investment, so the incremental investment.

Andy Halford

I think it's going to be incremental over time, isn't it? We will start the capital ordering at the back end of this financial year. Clearly, a year on from now, we'll start to see things coming through, but it is just going to be incremental over a period of time.

Stephen Howard, HSBC

Just another question on Project Spring: what are you anticipating by way of a competitor response? In other words, what gives you confidence that this isn't merely a negative-sum game? Clearly, the sums involved are very considerable, but I'm wondering why, in a sense, you haven't decided to do this before. Something must have changed, perhaps, in the regulation or perhaps elsewhere?

Vittorio Colao

It's a very good question, Stephen. I would give you an answer in three levels. The first level is we are fine if competitors follow, because the more in Europe – and I'm talking about the European piece; emerging markets are obvious, there is growth, we are following – the more the sector in Europe invests in quality and in delivery and in enrichment of the services, the better it is, because it will create more sensitivity to the quality and to the value of the service and potentially create an accretion opportunity from an ARPU point of view, given the fact that ARPUs are lower in Europe than elsewhere. First answer.

Second answer: I don't think everybody can follow. Some players will follow but some won't. I expect some of our competitors to be able to invest as much as we are; others, probably not, which, again, is good, because probably the others will take the low end of the market, will take more the MVNOs, will take more a certain type of segment, like it happens in many mature consumer goods industries.

And third, why now and not before? As I said, we have been thinking about a step-up of our investment since the beginning of this financial year. We are becoming marginally more optimistic now, because we see data uptake, because we see the Vodafone Red customers who are actually, as Paolo said, using two times the data. We are seeing the Vodafone Red 4G UK customers using even more and going up, so we are getting more and more confident that the combination of high speed 3G with 4G actually is giving an opportunity to really have a good return on the extra investment.

So a) I'm not very worried, b) I'm not sure I should be very worried; and c) actually I'm more positive on the opportunity and not really be worried.

Robin Bienenstock, Bernstein

Two questions, if I may. First, Andy, you mentioned that the tax assets that you've talked about could be harder to use for other people if Vodafone doesn't keep its current structure, so I'm just wondering if you can elaborate a little bit on how that might be harder and what would have to stay the same about the structure in order for the tax assets to have the same value.

Secondly, I guess I'm curious to know a little bit more about your fixed line experience. So you said unified services are important. You're going to spend a billion of the seven on unified services. Can you just tell me where in your organisation do you have the most fixed line experience? Who is that outside of KD8, and do you think that you have enough right now?

Andy Halford

So, on the first one, the structure of the Group as we have got it today, that is the shape of it and, for tax, that is the way it works. My point purely was that, if one was talking about structures with other people involved, it depends entirely about their structure and how it interrelates with ours, and that is very unique to that particular circumstance, so if our structure is maintained, it should be maintained. If it's dismantled or disturbed, then it becomes less clear as to quite what the consequence is.

Vittorio Colao

On the fixed line question, Robin, we have experience in Germany, Portugal, New Zealand, I would say stronger, Italy, Spain. We are gaining market share and we have a positive performance, especially in the last one or two quarters, in a number of these markets. We have perfectly working and, actually, pretty good IPTV solutions that I personally tried and I couldn't believe we really were that good. Somebody told me, at the end of the day, IPTV is IPTV, it doesn't require a lot of science, but at least we have that science.

To your question, do we need more skills there? Absolutely, yes, and we will acquire. Cable & Wireless, for us, has been a fantastic experience because not only we have acquired good value certain assets and we have integrated them very quickly, but we also have acquired a lot of people who have, in enterprise here, and not in consumer, quite a good experience in that area. But, yes, we will need more going forward, no doubt.

James Britton, Nomura

I've got a question for enterprise. How do BlackBerry's troubles impact your large corporate customers? Do you expect a surge in retenders for those contracts and increasing competition there, or do you also expect a massive increase in data consumption? How would you expect to monetise that?

Vittorio Colao

The easy answer is no. We don't see retendering because of BlackBerry. We see retendering because companies retender on a regular basis. Yes, there are moves away from BlackBerry into other platforms; of course, mostly IOS and, to a lower extent, Windows. Yes, there is an increase in data when people move to those platforms. But it's an opportunity in the general sense that data growth is an opportunity. Companies are getting more data as a normal trend, not specifically because of the BlackBerry thing.

James Britton

Do you see it as driving a step change in enterprise spending as people move away from BlackBerry?

Vittorio Colao

No.

Paolo Bertoluzzo

If I may say, obviously the more they do it, we are bundling our own products and services, such as, for example, security and device management, to create an experience which is richer, or as rich as possible, and actually more ownable by Vodafone.

Emet Kelly, Merrill Lynch

Just two questions, please. Firstly, just a question on consumer behaviour: you put up a few graphs showing how the economy has evolved in Europe over the last five years, and I guess one of the characteristics of what they call the great recession has been that consumers across Europe have been very focused on price, and price has been the main driver of consumer decisions. If you look across multiple industries, you've seen companies like Aldi, Lidl, Ryanair – companies like that – do very well. However, maybe we're reaching a little bit of a turning point at the moment and we've seen maybe a bit of a backlash against companies like Ryanair. I'm just wondering: are you seeing any change in consumer behaviour yet in the mobile industry and maybe a little bit more focus on quality rather than price? Is that actually coming through? Is that the feedback you're getting from consumers?

The second question, again, is on the taxes. Andy, if you'd just maybe give us a hint into the domicile of where some of these deferred-tax assets are based. I know you got approval from the German government on the Mannesmann write-down back in 2009, so I guess some of them are domiciled in Germany. Some of the NOLs are domiciled in India as well, but if you'd just give a little bit of a breakdown, that would be great.

Vittorio Colao

Emmet, let me give you the quick first answer. I cannot say that I see hard and strong evidence of what you describe, but we all sense that what you say is absolutely correct. The more the life of people depends on the devices that we all carry, the more you get used to maps, to writing, to reading, to doing all those things, the more you are sensitive to the fact that service quality should be high. 3G+ and 4G actually are magnifying that sense, so we are absolutely in agreement with your statement, even if it's early days, and that's also part of the choice that we made in three occasions recently to say no to MVNOs because we don't think that it is worth going after a part of the market which will be more confined in the future. When people start getting 7, 8, 900,000, 1 GB, 1.5 GB, when you start backing up all of our pictures, when you start having all of our streaming becoming a normal part of your daily life, it becomes more tolerable to pay £3, £4, £5 more and not go with a cheap person. That's exactly the trend that I hope I will comment with you and I will use your examples, if you allow me, in my next speeches.

Andy Halford

The countries are – these are as disclosed in our annual report. It's primarily Luxembourg and it's, to some extent, Germany.

Andrew Beale, Arete Research

You obviously talk about your chapter 3 in Vodafone, and I very much support the network differentiation initiatives and all of that, but is it not possible that there's going to be a chapter 4, where someone else, possibly with a blue rather than a red logo, comes along and says, 'I can do what you're going to do even better'? Are there not things that you should be doing nearer term to deliver value from some of your what I might call hidden assets and structure of the group to try and express more confidence in what you can deliver?

Vittorio Colao

I'm not sure what chapter 3/chapter 4 is. The important thing is never to end up in chapter 11, I think. In terms of hidden assets, I am not so sure what are the hidden assets that you are referring to. All of our assets now are controlled now, after the Verizon thing. We still have technically a small investment in a privately owned company in India, which is going to be, I think, pretty difficult and long to monetise. The rest is about strong performance and convergence. Now, could we consider some portfolio rationalisation? Yes, if the right opportunities arise, but I'm not sure I see huge hidden assets. The assets are there and they should sweat. That's the way I see it.

John Karidis, Oriel

Two quick questions, please. The first one is: you said that the EBITDA drag will be the biggest next year of Project Spring. What's the aggregate EBITDA drag of Project Spring?

Secondly, about a couple of months ago, Lowell McAdam was talking about owning not just fixed and mobile assets but also telematics assets, security software assets and cloud assets, and that, I think, also is not just about unified communications but also speaks to 4G services rather than just connectivity. So, to what extent are you well equipped on these three separate asset classes, and to what extent do you need some of these extra assets by way of acquisition in order to reach the £1 billion extra free cash flow that you have in year five?

Andy Halford

The very fact that we will be building out more network locations brings with it some operating costs, so, obviously, there is some EBITDA impact through that. We've said, for next financial year, there'll be about a £0.6 billion drag on the EBITDA as a consequence, but hopefully it should then lessen as the revenues start to come through and we'll start, essentially, to pay for it, so £0.6 for the next financial year.

Vittorio Colao

On the second question, let me tell you the £1 billion is linked to Project Spring and is not linked to inorganic activity. We discussed many times with Lowell the emerging things in enterprise, and I think my colleague Nick will describe. I'm not excluding that we might look at some telematics or some security/cloud solutions. Whether it's inorganic or whether it's cooperation will depend on the conditions. We already have, in the security space, a number of products and a number of agreements with different companies for consumer and for enterprise. If opportunities arise, these are, as I said in my earlier remarks, some of the things that we will look at as well, but it is not part of the £1 billion. The £1 billion will be generated by what we have organically.

Robert Grindle, Espirito Santo

The first question: how does your big mobile investment push affect the relationship with some of your network sharing partners across Europe?

Secondly, Andy mentioned the high cost of interest in India. Can that debt be refinanced, particularly if you take full control, or, because of hedging policies, would you keep the high interest loans in India?

Vittorio Colao

On network sharing, our agreements have very specific conditions which regulate the case of us investing more and the other partner not being willing to follow. In general, the rule is that you get what you pay for, so, if you don't pay for it, you don't get it. It's as simple as that.

Andy Halford

I think the key in India is going to be getting the operational free cash flow to increase and hence, over time, to start to bring that level of debt down, rather than re-funding from elsewhere within the group.

Akhil Datani, JPMorgan

Firstly, just on Project Spring, and the incremental £1 billion of cash flow that you're targeting for March 19, I just wondered if you can help us understand, within the way that you think about that progression, are you assuming that capex within the group reverts back to the current capex levels, or do you think that, if you start to bear fruits from Project Spring, there could be a sustainable structural difference in capex, obviously not at the Project Spring levels but at a maybe higher level?

Then secondly, when we look at the £1 billion extra that you're targeting from Project Spring, can you help us understand the building blocks of what you feel drive that? Is that a pure revenue growth story? Is that driven by pricing differentiation and market share, or is there a margin component to that?

Very finally, just on restructuring charges, I just wondered if you could you give us a bit of colour on what your expectations are for this year and maybe also for next year as well.

Vittorio Colao

On the first question, the answer is clearly the usual one. We have a plan. We will incorporate that into our long range plan. If we have good surprises in the form or either money comes earlier or comes higher, we would consider whether we should maintain higher investment levels. The current plan says that, finish Spring, we revert back to normal investment levels. So, that's the current plan, but, of course, I'm always happy to consider good surprises.

Andy Halford

It's a mixture of both, I think, is the answer to it, and obviously it's not a precise science, but we're saying, with the better network coverage, we should be able to capture a greater share of customers, we should be able to drive more revenue up with that. With what we're doing in the customer space, we should be able to get some improvement in the churn and hence, again, the revenue benefits should flow. On enterprise, the reach there will move us into the new product areas which we'll be able to monetise. It's difficult to split it specifically into pricing at a micro level, but, I think, overall it's a larger customer base and a larger reach that should give us the greater revenue.

Your last question on restructuring: we've not forward guided on it. We've spent about £100 million in the first half; there will be some more to come in the second half but we haven't put numbers specifically on it at the moment. There's nothing significant planned.

David Wright, Deutsche Bank

A couple of questions, please. I think you showed in one of the slides the opportunity in Europe from mobile to fixed telephony, and then into TV. Could you just tell us how important TV is for each of those European markets? Do you feel you need a TV product in each of those markets? If I could flip that question as well by saying: if you do not have TV, are you at risk from triple, possibly even quad-play services?

My second question is just a little bit more high level. We read about Facebook, Google and these guys getting huge multiples at the moment, huge expectations on the mobile advertising opportunity. Now, mobile is your game. Can you tell us: what are you doing in that space to exploit what the market seems to be saying is this absolutely enormous opportunity, or does it feel like you are gifting these guys a fortune and just presenting the network and they're going to make all the money?

Vittorio Colao

I'll give you the answer, David. On the first one, it's going to be pretty quick. The second one could be a little bit more elaborate. On TV, the answer is it depends on the market, but if you ask me long-term, I think that the very concept of TV is probably passé. If you to the Americans, they talk about video, which I think is more appropriate, because what is TV? Is it over the top? Is Netflix TV? Do you call Netflix TV or not? Do you call the BBC iPlayer TV or not? So, if you then rephrase in will we have to deliver video over multiple screens, the answer, I think, is yes. Which shape and who owns what could be different, market by market, depending on how the channel distribution and the content rights distribution will go. It's a fascinating field. The last three days, we've been all thinking a lot of consequences of the BT move, but it will be different by market. You will have different situations of the traditional TV thing, but of course content will flow and it will be very important to have a multi-screen capability. That's the way I think about this.

Facebook, Google, these things: on the mobile advertising thing, I always have a little bit the impression that we confuse things. Facebook, Google, they own the content that goes on the screen, so, in that sense, they own real estate, which is useful for advertising purposes. Google, Facebook own also the profiling of the words that people type into their own things. So, if you write on your Facebook page that you have a headache and maybe you will be sick tomorrow, there are companies buying that space or, actually, that opportunity to communicate to you, because they know that they sell whatever – paracetamol or something like that.

Now, that is something that they have and we don't, because, if you start looking into the pipes, it's not what we do for a living. So, it's different type of business, so you have to be careful to say we are gifting them with anything, because the reality is that they have their own real estate and their own assets, which are very important for advertising purposes. Now, that does not mean that our customer profiling does not have a value and that does not mean that the more we get into the multi-screen, into the home thing, we can try to monetise that, but I have a sense that all telecommunication companies are in a bit of a different part of the business system, at least today. So, I'm jealous of their advertising revenues, but I don't think that they are taking them away from me, if I'm honest.

Tim Boddy, Goldman Sachs

I wanted to pick up this question about how quickly network differentiation can be established. I think the premise of people being willing to pay for better quality seems self-evident. Do you have any case studies you can refer to where you can show how long it's taken to really establish differentiation? I guess Australia is perhaps a good example the other way round, when you get it wrong.

Vittorio Colao

It's also an example of when you get it right, if you take Telstra.

Tim Boddy

True. How long is that process?

Vittorio Colao

Unfortunately, it is not us, but I have to be… Fair play means that you recognise.

Tim Boddy

So, it is quarters, is it years?

Vittorio Colao

Not quarters.

Steve Pusey

No, it's probably a couple of years. If we look at the references, Australia or perhaps the United States, it's taken a couple of years of sustained incremental investment to create that gap that's talked about, and talked about between customers, rather than the promotion of performance by the operator.

Tim Boddy

And just a quick follow-up, just about MVNOs: on your slide about the regulatory mood music becoming more neutral, I guess one of the points on that slide was about the mandated MVNOs. How do you think consolidation is going to affect MVNO regulation? Because, clearly, in Austria, that was one of the issues and may yet be in Germany. I guess the concern you'd have is that, if you build this great network, you could actually have to end up giving away the access or, if you don't, someone else will.

Vittorio Colao

If I interpret the thinking of the Competition Commissioner and if I interpret the thinking of the local regulators, it will depend a lot on who consolidates whom and what are the price levels in the specific market, and it will depend a lot on also what type of policies have been common practice in the market for a while. I hear that there is an understanding that investment-based operators in mobile, but also, to some extent, in fixed line, have to be safeguarded for their investments in some ways.

Now, this will not go in any domain, neither mobile nor fixed, to the point of completely making non-infrastructure-based competition impossible, because, for a regulator, that's the way to keep everybody honest, but it will not be the hyper-inflated move that leads to 25 MVNOs, mandated marginal cost, completely long-term-orientated costing. In a number of cases recently, we have not said no to people who were asking us to get access to LTE, but we just said, 'You can come. You're going to have to pay for the spectrum. You don't pay for the cost of the spectrum in 10 years' time. You pay for the cost of the spectrum today.' Fine, if somebody else is willing to do that, good, they will have then to support this with capex and, at some point, the two things will have to make sense. It's not a 100% they will not exist and it's not it will be as incredibly easy as it was in the past. That's a bit what I see as the future.

Simon Weeden, Citigroup

A couple of questions: first, on network. I wondered how many of your new cells you'd characterise as small cells, if any, and if putting small cells into public areas – i.e. not in buildings – is more challenging here than it is elsewhere in Europe.

The second question was regarding Italy and the build-out of the fibre to the cabinet infrastructure. I just wondered if that, to some extent, overlaps with what FASTWEB is doing, whether FASTWEB might be of interest to Vodafone, particularly in the context of Swisscom, who said last week along the lines of they like it very much and it would be very painful to part with it. I don't know if that was intended for you or for us, really.

Vittorio Colao

I don't know who do they want to inflict pain upon.

Steve Pusey

To your first point, we are planning through next year to build 70,000+ small cells across the footprint. It varies by country on the degree of difficulty of getting the real estate. So, one tries to get bulk deals either on lampposts or on other facilities to try to make that easier. Planning rules are not just national; they're usually local. So, we try and we aim when we started this programme to get volume deals that allow us the certainty of deployment at fixed operational costs. Is it more difficult in this country than others? Not particularly, but prices vary.

Vittorio Colao

Taking advantage of the presence of Paolo, you can answer on the thing. On the broader thing, before we get into the specific of the FTTC, to be honest we are, as I said, we see organic investment, we see inorganic, we value the cases and we choose. It's simple but it's not complicated either.

Paolo Bertoluzzo

I think you said very well in your presentation we cannot continue to wait for options to happen and so on and so forth. Obviously, very happy to readjust our plans as we go ahead. We build fibre to the cabinet and we put our technologies into the cabinet, also leveraging the regulation which, in a very advanced way, is opening up and putting an obligation to the incumbent to create space in the cabinet to competitors. You should not forget that Italy has no cable infrastructure and, therefore, copper is a total monopoly. Telecom Italia is not building fibre to the home either. There have been long discussions around potential network separation and so on and so forth, it's not happening and, therefore, we go our way. Again, happy to revisit our plans and to make sure that we invest in the most efficient possible direction.

Vittorio Colao

So, we are open to co-investment but we are not waiting if the others don't make up their mind.

Justin Funnell, Credit Suisse

Just back to the Project Spring question first and the inflection in the EBITDA, given that you are expecting the EBITDA to inflect still in the second phase of the build, you'd still be lighting up cell sites during that time, incurring extra opex in that final year. One's either assuming there's actually quite an ambitious revenue inflection coming through, or are there perhaps some opex savings that start to come through? If you invest in more virtual customer service, can you actually accelerate cutting some of the legacy costs? Is that part of the inflection that comes through in that latter phase?

Secondly, looking at the numbers you've reported today, you can see a gradual improvement in operational gearing of your business. Your revenues are down 4%, your EBITDA is as well. In the old days, the EBITDA would have been probably down twice as much as the revenue. Is that something that's generally going on in your business now? Are you seeing revenue weakness in lower margin areas of the business or is there something else that's changing the shape of the businesses that are shifting to SIM-only? Are we missing something here? Should we be becoming a bit more optimistic about your underlying margin projections over the next two or three years?

Thirdly, a nice simple one: in Spain, is the DSL expansion in areas largely outside ONO's footprint, the cable operator?

Paolo Bertoluzzo

The short answer would be yes, if I think through the way it is organised but, in any case, the investment to expand DSL is not, per se, a big investment. If we look at what we are doing in Spain, the vast majority of the investment is exactly building out FTTH, just to make sure we focus on what is really impactful.

Vittorio Colao

Before Andy gives you the more sophisticated answers, let me give you the broader one. The broader one is we are continuously changing our model. We need to do it. We have to restructure our cost position. We are leveraging more and more on lower-cost locations and, quite frankly, also simplified business models in IT, in network. In commercial, not yet; I think we'll get there with some of the investments we are making in simplifying the IT systems, but it's obvious that we need to reduce the cost base of the company. Now, hopefully, there will be also a little bit of an uptick in revenues, and this would then be perfect, but we have to continue to do it. We don't talk too much about it because it's always the same five boring things, but, at the end of the day, it's what we have to do.

Andy Halford

I think that was the sophisticated answer.

Justin Funnell

And the operational gearing question?

Andy Halford

Just to take your points, the EBITDA impact in Spring, we have said £0.6 billion for the 14/15 year, and we said neutral in the 16/17 year. So, obviously, by definition, it is slowly pulling through. And clearly, two years out, when we have built the whole of the network that we are doing, we would expect that there is quite a significant pull-through on the revenue front, and hence how we get to the £1 billion of the free cash flow by FY 18/19. The margins and so on, I think, is very much just about working the cost base a lot harder these days, and just every part of it is under scrutiny. I think now, compared with three or four years ago, we are just in a different culture, different frame of mind, and it's just part of running the business.

Christopher Nicholson, ORACA

Two questions, if I may. The first one is: in terms of the rollout of the new cell sites, which is obviously quite considerable, have the contracts with your suppliers, are those actually signed or is that still a process under which you're negotiating? Have you invited in new suppliers that we may not necessarily expect you to talk to at this point?

The second question is that there is some expectation in some parts of the market that the likes of Google will actually get into your game, as you efficiently described it. If that happened, what is the competitive impact that you perceive from that, and would you respond? So, for example, would you actually get involved in creating your own content real estate in some way?

Steve Pusey

On the first one, we have existing frame agreements with all our major suppliers, so, obviously, we can call down immediately off of those. This gives us an opportunity with the increased scale to fine-tune those and improve on them, so we're going through that process right now, so we have something we can build from immediately but we would like to see some opportunity to improve the terms. Most important is really making sure that they've got the resource base available to them in country, because they have to hire extra subcontractors, so most of our energy has actually gone into that and securing that, and they're ramping up towards it. So, yes is the answer.

Christopher Nicholson

Yes, they're signed up?

Steve Pusey

They're already signed up, because we have frame agreements called down on day one. So, what we have done is highlight the increased volumes to them to allow them to forward component build and secure manufacturing facilities if they offshore or outsource their manufacturing, etc, and we are seizing a further opportunity now to look at the increased volumes we have to get slightly better financial terms within that, but we can build against existing immediately, if we wish.

Vittorio Colao

Your question is a very smart long-term focus question. Let me rephrase a little bit what you said, because I don't think it is exactly correct. Will Google step into our own game or will the over the top players step into our own game? I don't think they will, if you define our own game as the access business and the transfer business. I don't think they would do that because it's not their business and it does not make sense for them. I don't think they will step into our business, if you talk about a customer management business. It's not in the setup of the company. They are in the data processing business.

Now, are they stepping into our own business in terms of managing services that traditionally were integrated within the telecommunication layers and, therefore, through Google Plus, through Skype, through these things, through Facebook by the way, you can start having communication sessions which are managed by them and not by us. The answer is it's not a question. It's a certainty that they are doing it. It's been happening for the last five or six years.

The reason why we are so convinced that the Vodafone Red type of approach is the right one, and the Spring approach is underpinning it, is because once customers establish a permanent relation – Paolo said 27% of the revenues in consumer contract are already locked into long-term access type of relationship – then our revenues are secure. So, I wish I had 50 million Vodafone Red customers as soon as possible, not 20 or 12 or 15. Once it's there, then we can build on the quality on the points that were described before, and we will have our own communication services which will come on top of them. Probably, it will be for free – we will launch something in the coming months – but, at the end of the day, if a customer who gives me €39 SIM-only on Vodafone Red uses Facebook messaging, Skype voice, Vibe, WhatsApp and so on, at the end of the day, it's fine, because, if they were using my own, it would be exactly the same thing, but we need to accelerate the move there, because, yes, absolutely, at that layer, they are already there. It's not an eventuality; it's a certainty that they are coming.

On the content side, honestly I'm not sure it is really so differentiating and such a different thing, but of course the distribution of content will become more important. Hence my earlier answer: we need to be on multi-screen and we need to think very carefully about the consequences of different commercial content strategies. So, we will be focusing there, but not because of a reaction to Google or Facebook; just because customers want those things.

Christopher Nicholson

So, the creation of Vodafone content per se is not something that would come into your strategic response.

Vittorio Colao

Not to the over the top disintermediation risk. The best defence against over the top disintermediation is to do what Verizon has done, what we are doing, what others are doing, which is bundle up your services, create a sharing mechanism, multi-device, multi-screens; eventually, if you want, we can put even Fusión and the Spanish – I have a lot of fair play vis-à-vis my competitors – into that type of family. This is the way that telecommunication companies will bundle up things.

Now, even if you are a Vodafone Red or a Fusión or a Share Everything customer, you still use WhatsApp if you want, you still get content from Google. Actually, you get content from Google on your TV, but it's fine. Eventually, you can buy from us, you can buy from them, you can buy from Netflix, by the way, because some things will come also from other players, but that is a different layer. Our strong objective is to solidify and make very robust the access revenue component.

I hoped I answered your question and I thank you all for the patience.

COFFEE BREAK

Europe Review

Philipp Humm

CEO Europe, Vodafone Group Plc

Good afternoon. Let me give you an overview of our performance in Europe for the first half-year of fiscal 13/14, and of our strategy going forward. When I talked of Europe, this means sum of southern Europe and north and central Europe, includes Turkey, which in future will obviously be reported in AMAP, as we are losing now one of our growth markets to Nick Read.

Europe is the largest contributor to the group, representing about two thirds of revenues, EBITDA and operating free cash flow. We are very well positioned with leading market shares as we are typically number one or number two, and have the best network quality and the highest NPS score in most of our markets.

We have defended our strong market position in the higher value contract and enterprise segments by leveraging our brand, our network and our distribution assets. However, we lost in Q2 an average of 0.6 percentage points service revenue market share year over year, mainly to price aggressors and MVNOs in the lower value segments.

We have a growing base of Vodafone Red customers, which provides greater revenue stability with in-bundle now 57% of total European mobile service revenues. We operate overall in very difficult markets in Europe, with significant regulatory, competitive and economic pressures across the region. As a result, our H1 service revenues are minus 8% reported, and 5% minus underlying.

Over the coming years we expect revenue pressures to ease, as first mobile termination rates, which reduced service revenues by three percentage points in Q2 will be less than one percentage point going forward. Second, GDP growth, which is already improving, is expected to strengthen significantly next year. And third, as Vittorio said earlier, we expect regulation to be more favourable to cross-border and in-market consolidation, and in particular in-market consolidation is the more important one for us.

Let me just highlight the regulatory impact on our industry overall. If you look at 2010-2013, you see that the European market and Vodafone's footprint has shrunk by £14 billion annualised, and about 75% comes from MTR and roaming. 25% is competition and other factors. However, if you look at the year 2012/13, the impact of price competition was bigger in Europe than in the preceding years; price war in Italy, conversions war in Spain and Portugal, and in Northern Europe, stiff price pressures from No Frills.

What are our strategic priorities in Europe in that overall context? As we expect European markets to recover over the coming years, we want to strategically focus on three areas with the objective to work ourselves into the pole position of our industry: 1) differentiation; 2) unified communications; and 3) cost reductions, the whole to come back to growth.

Let me start with the first one, differentiation. Vodafone is a premium quality brand and aspires to further differentiate itself from its competition. We want to leave clear water behind us and competition. Being a differentiated quality brand justifies a price premium, which in turn secures sustainable superior returns.

We are differentiating ourselves on three dimensions in Europe. First, always best connected. Steve has pointed some of these details. I will provide more a general context. We will deliver the perfect voice experience and the best 4G data experience for customers to watch HD videos wherever they are. More specifically, in mobile we will achieve more than 90% 4G population coverage as well as HD Voice with call drop rates of 0.5 or less.

We will invest about £3 billion in Europe into our mobile networks, deliver these and other targets. We will also upgrade our fixed network from DSL to NGN, giving customers a competitive high speed broadband experience. In fix, we will invest about £0.6 billion to extend our fibre and VDSL footprint. We will come to details in a moment.

Second, we're aiming to deliver an unmatched customer experience. In the retail space we will invest £0.3 billion to remodel and additional 4,600 stores with the new design concept, and add a few stores, in particular in the UK, where we lack some branded exclusive distribution. We aim then to have an unmatched customer experience across all touch points, being mCare, online and customer contact centres. We have redesigned processes and developed new billing and CRM systems with Oracle in the UK, and we intend to roll it out now to our footprint over the coming years.

Third, we will differentiate by providing integrated worry-free solutions for consumer and enterprise customers. Paolo has already covered Red, family, roaming and converged offers in the consumer section, and Nick Jeffery will cover the enterprise strategy later with One Net, IP-VPN and VOIP.

Second strategic thrust: unified communications. In our view, customers clearly want unified communications, whether at home, at the office or on the go. As the top left chart shows, Vodafone has already a significant unified communications business of around £6 billion today. Over £3 billion comes from our new businesses, Cable & Wireless, and KDG, included here on a pro-forma basis. The rest is mainly Vodafone Germany, £1.7 billion; Vodafone Italy, £0.6 billion on a 77% basis.

We want to grow this unified communication business further. As Vittorio has indicated, unified communications doubles our addressable market, and it provides significant synergies from Cable & Wireless and KDG transaction we identified costs and revenue synergies with an NPV of £1.3 billion and £4.5 billion respectively.

These synergies come from a different number of areas. First, network integration; second, reducing third party costs such as leased lines or ULL fees; and third, revenue synergies from cross-selling fixed and mobile service into each other's bases. Lastly, it also helps to defend the core mobile business, and the chart on the right shows that conversion is three times lower than for mobile-only customers, and this is recent data now from Spain.

To provide customers with converged offers, we need to increase access to next generation networks, also called NGN. We continue to have a flexible market-by-market approach. First, there's wholesale, NGN wholesale. This is a low capital, faster market route, but depends on regulatory clarity. In Italy we have 15% FTTH coverage in Milan, and we resell VDSL and DSL from Telecom Italia in a further 33 cities. We will continue to match the incumbent where we do not self-build.

In Germany, our VDSL Layer 3 product service was launched in August. Next year we will add vectoring, which doubles speeds to 100MB per second, and by 2016, VDSL coverage will be in line with the incumbent at an expected 60%, and we will offer a Layer 2 product in 2016, including IPTV, and allowing us for a clear service differentiation in multicasting.

The second approach, unified communication, is all fibre deployment, which enables more differentiation and higher returns. In Italy, we have begun building fibre to the incumbent street cabinets, with the objective to pass 6.4 million homes in 2016. In Portugal we currently have 600,000 homes passed with FTTH, and plan 1.5 million by 2015. And in Spain, the FTTH co-build was Orange; it's on track to get us 800,000 homes by March of next year, and 6 million homes by 2017. The third approach then in unified communications M&A, here we have so far acquired Cable & Wireless and KDG, and are in the midst of the integration processes.

The third key strategic pillar in Europe is cost reduction. We initiated significant opex reductions to partly offset the revenue decline arising from the difficult market conditions in Europe. During H1, we delivered £175 million net savings year-by-year in opex, excluding restructuring costs, which is basically a 5% year-over-year net reduction. In southern Europe we reduced underlying opex by 9% year-by-year to compensate for the double-digit revenue decline. And in northern Europe, excluding Turkey, we reduced opex year-over-year by nearly 2%, and plan to see more as the cost reduction plans are ramping up in the second half of the fiscal.

Savings across Europe were achieved across many areas of the cost base, including headcount reductions of 8,000 FTEs, or 8%, an accelerated use of shared service centres from 7,000 to 8,700 staff; simplification and standardisation of product and processes, which reduced the number of calls or centres by 9% or 10 million less calls; and other savings, including network share and other savings we have been working on for quite some time.

As Andy said earlier, we remain on track to deliver our £0.3 billion net cost saving in Europe. And given the ongoing pressures on revenue, further significant year-over-year savings are to be expected for the next fiscal year.

Let me now turn to a market-by-market view, and focus on our big markets, starting with Germany. The revenues in Germany declined by 6.1%, underlying 3.7%, so the delta is MTRs, and this in part reflected the impact of higher subsidies from the incumbent, and more pricing and APRU pressure from other providers, like Aldi Talk at €8 for 300/300/300 in the offering. Enterprise revenue also was under pressure due to more competition on renewal terms.

As we focus on protecting profitability, the last fiscal in what we considered a softening market, we only matched the incumbent in Q2 of this year. And since June we changed our commercial strategy, and as a result contract net adds are now up by 70k. Operational performance is good. Red is now 13% of our contract users, and LTE, 66% of population, and we are focusing more and more on the urban areas.

EBITDA margin reduced to 34.1%, driven by lower service revenue, and was despite some year-by-year opex savings of 1.3%, excluding restructuring, where the programmes are also kicking in later in the year to their full strength.

Turning to strategic priorities, priority number one is regaining market share. Two, core leadership, which is the position we had and want to have long-term in Germany. The more aggressive ‘go to market’ approach – we will work intensively on improving further our voice quality as we went into the lead on LTE, we had to do a further improvements in our voice quality as a result. Second, we want to differentiate in Germany in particular with Spring, meaning perfect voice with call drop rates of 0.5; 4G to over 90%; new retail design to 1,300 point of sales; and ramping up our VDSL sale as now the new agreements with DT are implemented and we are moving from VDSL to vectoring to Layer 2 products. Third, we will continue cost efficiency programmes in Germany, and last but not least, we are working intensively and preparing the Kabel Deutschland integration.

Let me give you an example for unified communications in Germany. We are set to create the leading integrated player in Germany using a combination of technologies to provide one unified product under one Vodafone brand. As you know, KDG is the largest cable operator in Germany, present in 13 out of 16 states, covers 28% of the country, or over 11 million homes today. The acquisition was completed in October, and KDG presented their results yesterday, which show continued good progress, revenue up 4% year over year for the quarter, 84,000 net adds quarter on quarter in internet and phone business, and the strongest quarter for many, many years. The next stage is now to conclude the domination agreement process which has been initiated, and we would expect to close post-AGM in H1 2014.

Now, outside of the KDG footprint, we will use our VDSL agreement with Deutsche Telekom, which currently covers 26% of the country but ramping up all the time, and in the areas not covered by cable or by VDSL, we will continue to use ADSL where we currently have 3 million customers, which we are migrating now to cable and VDSL, and LTE, where we today have

700,000 users. Our vision is to offer all our customers high-speed broadband and TV at home, at the office or on the go, using mobile, fixed, WiFi and matched networks.

Let's come now to the second largest country, UK. Revenue trends stabilised in Q2 in the UK at -4.3% reported, underlying -2.5%, driven by positive development in consumer postpaid revenues overall. We have delivered quite a strong operation performance, with contract net adds improving to 132,000 in Q2, contract churn improving 0.5% quarter on quarter, and Red being now 20% of the contract base. However, enterprise revenue continues to be under price attack, and the consumer prepaid market is also still very weak in the UK. The 4G launch, which came late after we had spectrum released in August, was very, very successful. 200,000 customers in early November, representing a run rate of 100,000 additions per month. Data usage of 1.3 gigabytes, which is basically twice our normal 3G Red smartphone customer, so very, very strong customer uptake as we offer, this time, content included in our 4G package.

We also took the decision to significantly accelerate the integration of Cable & Wireless to this summer, which progressed very, very well, and now we need to ramp up sales after we have integrated, really, these sales teams going forward. If you look at the financials, H1, EBITDA margin went up 0.5 percentage points. Reported margin was negatively impacted by Cable & Wireless due to revenue decline in Cable & Wireless still of -3% in the second quarter, but trending already positive relative to the first quarter.

So what are our strategic priorities? Now that we have pulled forward the Cable & Wireless integration, the key is to ramp up the integrated sales of fixed and mobile product in enterprise. That's priority number one. Priority number two is differentiation with Spring. As you know, we are implementing a network JV with Telefonica, and now one on top of that to achieve clear leadership in London, meaning 99% 4G coverage, strengthening our branded distribution and modernising the shop fleet and adding additional stores, and, last but not least, benefiting from the new Oracle stack to finally drive up customer experience across all touchpoints, as this is the first time where we've a fully integrated stack available. Going forward, we will also here continue to work on cost reduction programmes, as we still expect to have some revenue pressures which we need to compensate with lower cost.

Let me give you an update here on Cable & Wireless. With the Cable & Wireless acquisition, we have created the only integrated operator in the UK, and as a result, fixed service revenues now represent about 26% of UK service revenue, or 43% of our UK customer enterprise revenue – 43%. We accelerated the integration, and have seen significant progress, and as the arrows on the left show, our operation performance has improved: less service issues, less network incidents, and faster mean time to restore incidents. So we are delivering on the promise and expected benefits today. We gained new capabilities following the launch of Carrier & Hosting services, which was a question raised earlier. The synergies are on track, so reducing third-party costs and opex saving in integration. We have integrated sales channels and achieved some great customer wins, including Royal Bank of Scotland and Tata – therefore, Jaguar and Land Rover. And, finally, around 50% of international IP traffic is on net, up from 30% in March, which reduces, again, third-party lease costs. Going forward, we obviously expect to see much more benefits as we integrate overseas businesses, rationalise systems, and carry 100% of the traffic on net.

Let's come to the third largest country, Italy. Revenue has declined by -15.7% in the second quarter, underlying -12.3%. The main driver of the decline is a price war on prepaid, leading to ARPU deterioration, and we were hit more than some other players as we have a very high average ARPU base in prepaid. Now, early signs – which is good – suggest the end of the price war, as major players raise prices in September after we went in the lead overall. As in other markets, we drove very strong operational performance. Our contract base is up 3%; consumer postpaid up 11% in the second quarter; consumer postpaid churn is 22%, which improved 3% quarter on quarter. Our fixed broadband business is growing with 5%, and is now quite profitable, which is also very important for future growth, and the base is 1.7 million broadband customers.

EBITDA margin declined 5.7 percentage points, driven by the lower service revenue. And partially offset by savings on commercial and operating costs, our opex, excluding restructuring costs, improved year over year by 4%.

The outlook, however, still remains difficult, due to on one hand the weak economy and the likely impact of the price war as the price war still washes through the base. Now, what are our strategic priorities? Number one, stabilise prepaid revenues through new plans and CBM activities, and we have already launched the first plans in the market. Second, continue momentum on contract, consumer and enterprise; in particular, here, also in our fixed line office. Third, differentiate with Spring, achieving also here over 90% POP coverage with 4G; FTTC to 150 cities, or 6.4 million households; and redesigning the remaining 900 stores. Last but not least, cost reductions will also continue.

Let me give you an example on unified communications here in Italy, and showcase Vodafone One Net. Vodafone One Net is our innovative unified communications solution for small and medium-sized companies, offering an integrated fixed mobile product with cloud-based PBX. One Net provides a single communication solution for users with voice and data needs. In Italy, as the chart on the right shows, we achieved a 25% penetration of customer base with One Net. Average revenue per account is higher, churn is lower, and the SIMs per user are greater, and we intend to further increase our One Net penetration with small and medium enterprises as we link the One Net products with other smart solutions like Office365, and by doing that, basically drive up penetration.

Let's now move to the fourth country, which is Spain, in size. We saw early signs for economic recovery in Spain overall, as GDP turned for the first time positive, technically out of the recession, but revenues are still lagging and declined for us by 16% in the second quarter, underlying -12%. One percentage point was due to us terminating an MVNO agreement, if you do the year over year comparison. So we still experience price pressure, particularly here from converged offers – very, very different from Italy or Germany or the UK. On the operational side, we achieved sustained improvements, contract churn +2.8% quarter over quarter. Very positive on trend on fixed line was our product, Integral,, which is basically integrated product between Red and our DSL offering where we did 43,000 net adds in Q2. We are the 4G leader in Spain, and by early November 4G was rolled out to 15 cities.

The fibre roll-out, as I said earlier, is also on track. EBITDA margin declined to 23%, a decline of 4.2 percentage points, which excludes the 109 million expense related to the TV tax, which is obviously a one timer. Given the top line pressure, we have decided to take 10% out of our opex, from 22% headcount reduction, 6% reduction in network opex and improved IT and processes, leading to a 30% reduction in costs.

What are our priorities going forward? Continue to push converge offer Integral. Second, differentiate with Spring, meaning ubiquitous 4G roll out and remodelling the remaining 100 point of sales – exclusive point of sales we have. FTTH for 6 million households and also here, despite already the big achievement on costs, further cost reductions to adopt to the revenue base we are facing.

So let me give you then here an example of unified communications of Spain, which is really here, converged in unified communications. The chart on the left shows that nearly 50% of the mobile gross adds in consumer contract are part of a converged product, compared to around 25% a year ago. We are reacting to this trend in two days. First: by banding Vodafone Red with DSL to form a product called Integral, which as a result led to gross adds increase of 8%. It was a product which has a very, very high NPS; it's an NPS which is nine points higher than our normal DSL product.

The second one is – and you see this on the right side, is that we increased basically the infrastructure to move from a pure DSL or VDSL product, now into a FTTH product. We believe that our fibre product, which we just successfully soft-launched with 10 real customers last week and successfully worked, will enable us to compete effectively in this interesting converging market as we are ramping up roll-out.

Let me close by looking at overall the market. I am very, very confident that our European business can return to growth over the coming two years. There are really two big drivers here. 1) The mobile market is expected to return to growth in Europe over two years, as forecasted here by IDC, but it could take many others, which focused on very similar things. Drivers behind that, again, is positive GDP growth, less impact of MTR on roaming regulation in the future, and MNOs with price-upward pressure and not price-downward pressure.

Second, and this is another important driver for us, we also expect to grow revenue and fixed line by winning market share in fixed line. Our fixed market share today is only 6% as compared to our 29% in mobile, and every percentage point adds 2.5 percentage points overall growth. Those are our two big drivers going forward.

So let me summarise overall the position in Europe: first, we expect the mobile market to recover; second, we are focusing on improving operation and performance; third, we are investing with Spring into differentiation to gain competitive advantage in networks and customer experience; fourth, we want to win market share and unified communications and therefore focus on investing in VDSL and FTTC/FTTH, and last but not least M&A; fifth, we will continue to significantly reduce our costs in Europe to compensate for revenue pressures. And all of these activities work ourselves into the pole position for the anticipated future growth in our industry. Thank you. I will now hand over to Nick.

AMAP Review

Nick Read

CEO AMAP, Vodafone Group Plc

So I would like to personally congratulate you all for reaching slide number 90, and we will try and move through quickly. I have been in this regional role for five years, and so it is a pleasure to have the opportunity to summarise the strategy and the overall performance before I hand over the reigns and take over from Andy the CFO role, clearly a very challenging handover given the fantastic job that Andy has done. As he leant over to me he said, ‘White shirt, tie, glasses, bald: you look like a CFO.’

So I want to just summarise as I come out of this role the key messages for the presentation for what we have been doing in AMAP. It’s really important to understand that we have now reached scale in our emerging markets footprints and are a material part of the group going forward. Secondly, we are truly differentiated in each of our markets. And thirdly, Project Spring offers us the ability to accelerate the three engines of growth in emerging markets being data, unified communications for enterprise, and financial services.

So, let me move on to the first chart, and if you look at the top, Andy has gone through the increasing nature of the AMAP regions for the overall group. Though I like the chart, I won’t go on it too much. But I want to focus more on the growth rates underneath. We’re now at 269 million customers, 66% of the group, and that’s moved up 22 percentage points over the five years. On service revenue, we have had a compound average growth rate of 9% over the five years, but I think the most impressive is the operating free cash flow. That’s grown at 33% compound average growth rate over that same period.

If we now drop to the bottom chart, you see that we did a 5.7% growth. It sort of falls into a number of categories, the first category being, obviously, Africa. India being strong double digit growth. The one exception of that was South Africa, but the good news was, in difficult conditions, they moved back into a positive situation. Egypt was hit by the civil unrest, the curfews that we experienced, but already, in October, we are back into growth. And then Pacific: 5.9% down year over year. Now in fact, that's an improvement of 2.1% points quarter over quarter. With the improvements we've made in both Australia and New Zealand – and if I just take both of those, Australia, we've now largely completed our restructuring; we've migrated the 3 base across to Vodafone; we've rationalised our stores, CJs and also the enterprise division; and network quality is at the targeted KPIs that we set for the business on the recovery plan. We've launched 4G, and I'd like to say that we are on par on speed with Telstra, and we've managed to really improve the bottom line through that restructuring. So, if we remove a rather large provision release that was of benefit in the quarter, underlying, we still had a margin of 24% for the business. In terms of New Zealand, TelstraClear integration is going well, six months ahead of schedule. We've already executed 70% of the opex and capex synergies, and so going into the second half of this year, I would expect the New Zealand business to move into growth, and also to be achieving margins in the 30s.

So, if we, first of all, look at the table on the left, I think our disciplined approach to a consistent operating model is paying off. We do very targeted investment in network. We're very precious about controlled distribution, and obsessed about opex management. And so, you are seeing this result on the top line feed through to impressive bottom line in performance. EBITDA up 20%; margin up 3.2; AOP up 35%; operating free cash flow up 20%. I think even Vittorio would say this is a sort of, ok-plus performance.

On the right hand side, I wanted to emphasise that the results achieved over the last five years, in these results, is not at the sacrifice of investment in our network. We have consistently invested an average of around £2 billion across the region, over the five-year period. And of course, Project Spring offers us further acceleration to widen the gap versus our competition. Now Vittorio talked about some of the regulatory environmental industry factors for emerging markets, and I just wanted to focus, just in terms of as a list, a couple of these in a bit more detail. So, first of all: mobile. Mobile is typically, in emerging markets, 80% to 85% of the market total communication spend. Fixed penetration: relatively low, and mainly in enterprise. So, it really does give us, our brand, credibility to expand into unified communications. Clearly, Philipp would be very happy if they had a few more countries with GDP growth, low mobile penetration; obviously there are engines of growth going forward. I think, importantly, we tend to have about three to four players in each of the markets, and actually only the top three players are earning substantial profits, and have the ability to invest. Normally, the fourth or further really struggle to pace the leaders in the marketplace. Now, India, obviously, has more players, but that dynamic is still true.

Spectrum tends to be spread quite evenly with the players. No particular advantage given to anyone. And also the pricing tends to be focused a lot more on coverage, and on quality of network, rather than a tax-raising example. No MVNOs, no strong distribution players, no subsidy. Pricing has now hit, more or less, a floor, and you're seeing a number of markets put pricing up, as operators are under inflationary pressure. So, the dynamic is pretty good in these markets. Of course, the one massive variable is regulation. Obviously, we get a tremendous amount of noise around regulation, and a few scares. And this is where I think the group expertise – I know Matthew Kirk is somewhere in the room – working very closely with the markets to strategise how we navigate some of those scares into a more pro-investment case going forward.

So, market reasonable. Then you look at our performance on the right-hand side, and what you see is that we have moved from five years ago, a mix of third, fourth place, second place, etc, to a solid leader, or number two in each of the markets. Our brand is the leader. The net promoter score of how customers in these markets perceive us is one of a leader. On network, on service, as an innovator in the marketplace, and importantly, though we charge between somewhere in the region of 5% to 30% premium over a number of the players in the marketplace, because we have differentiators that underpin the premium, people perceive us as the best value in the marketplace. And I think it's these reasons why we're able to consistently take revenue market share in these markets.

So, what's the formula for differentiation? Well, it's in the middle of the column. There are five factors that we continuously invest to build deeper and deeper in terms of capability and differentiation. First, obviously, mobile data network, unified communications, controlled branded distribution, understanding of the customer and bank of the unbanked. And all of this is brought together with the very best marketing communications, and I think that Paolo gave a great example in Vodacom.

So, I just want to go through three major markets – India, South Africa, Egypt – and just draw out how Project Spring can amplify our differentiation and widen the gap. So, let's start with India. Top left on the chart, what you see is the top three players starting to increase the amount of market share they have in the market. As the smaller players, the more vulnerable players, leave the circles, or the market completely, we are able to grab more of the minutes and more of the customers in a dual SIM environment. I think the chart on the right is particularly interesting, so I picked 13 top circles for us to represent about 90% of our revenue. And what you see here is a very consistent pattern, which is the top four players are taking 80% of the market in each of those circles. Now, I could show you all 23 circles and you will see the same dynamic. And in each of these circles – these ones represented – all bar one, we're number one, or number two in each of those markets. And we made sure we secured 3G spectrum to gain a further strategic advantage. Now, we are in the top four in all 23 circles through India. You're hearing at the moment about M&A rules being considered, and I think that if those were to go through, this would be yet another healthy step to market repair in India. As a result of that, what you're seeing bottom left is pricing starting to move up in the marketplace, as there are fewer and fewer promotional free minutes being put into the marketplace, and as those are withdrawn, the effective rate is rising.

So, now India is the fourth largest EBITDA contributor to the group, and as you see on the chart in the top left, it's grown 4% in terms of the service revenue contribution, and operating free cash flow has gone from negative to now 17% of the group. The service revenue, which is bottom left, similar performance to Q1. A little bit of regulatory drag made the difference. In fact, the biggest regulatory impact we had this year was about this time last year with customer verification. In fact, that had a drop, or a drag effect on our sort of Q3, and then Q4, service revenue, and we dropped down to about 7.8%. However, it's had structural benefit overall to the high-quality players, because what it's allowed us to do is do higher quality gross adds, and it's improved our churn performance and lowered our acquisition and retention, which ultimately has impacted our margin.

Now, Vittorio said when I came into the role five years ago, 'You don't lead this job until you get this 30% margin in India'. That was on a voluntary basis, of course. So, I'm really pleased – I'm really pleased that Martin and the India team did a fantastic job, and at 3.5 percentage points year over year increase, I'd like to say it will be a good performance in the second half as well. It wasn't just a blip, just for the sake of it.

So, let's take India as the case study. We want to, in emerging markets, be the best urban data network and co-best outside, as Steve covered. You take our India base at the moment: the average ARPU of our India customers is about \$3.10, \$3.20 – in this range. We have 155 million customers, so that's a big averaging going on. So, you have to look through the averaging, and what you see top left is that urban ARPU is at \$5 – nearly twice that of rural. Now, if you take 3G customers, they are over twice the urban ARPU. 3G is really accelerating. 3G browsing revenues, for this quarter, are up 190%. I was looking at smartphone penetration, and our smartphone penetration of our base has moved up 40% since the start of the fiscal year, so huge potential. So, we see a massive opportunity now in terms of ARPU uplift, and in terms of further growth coming from India for the operators that are willing to put significant investment in data networks, especially in the urban areas.

So, that's what Project Spring's around. Steve's already covered it. 95% on a larger footprint of cities, with a high quality speed, we plan to execute. On top of that, we are doing strategic infill, and some areas where we under-index on market share in terms of 2G, we are doing a roll-out of small cells, given difficulty on some of the sites, and also extensive WiFi. Nick is going to talk about enterprise, but we see the opportunity in enterprise as well. We are rolling out fibre. We're starting with the top 40 cities first, and then we'll extend to the 100 cities beyond that.

South Africa: the key strategic challenge is managing the ARPU evolution. Clearly South Africa, under some economic stress. Consumers are looking for greater value, and so we decided to revise all of our price plans. We rationalised and simplified our prepay plans down to three core plans, and that, in a segmented way, allowed us to really target elasticity. And as you see bottom left, I think South Africa has a big opportunity in terms of elasticity when benchmarked against Europe. Top right, postpay, we penetrated and we were the first to launch integrated tariffs into the marketplace, and as you see, it's already over 40% of the base. You couple those things together, with bolt-on of internet on your mobile packages, and what you have is an evolution on ARPU, where we've now moved it into positive territory of 3% for the quarter.

South Africa is our second largest EBITDA contributor to the group – has made, as you see top left, steady progress in terms of its share. The results went out so I won't go through it. Strong performance, I feel, overall. South Africa back in the positive, driven by data revenues, up 20%; and international, up 18%. And again, the actions we've taken on distribution, the actions we've taken on cost allowed us to move up the margins 1.1 percentage points.

In terms of South Africa, as we said, we had the very best network in South Africa. It is the fastest; it has the widest coverage. If you look at these coverage numbers, they are significant in scale. We see Project Spring being the opportunity to accelerate further that gap, taking LTE up to 45%, having 3G coverage virtually where we have voice, and increasing fibre to the base stations. We're going to extend into enterprises as well, on top of our proposed acquisition of Neotel, which brings fibre, spectrum and unified communications capability to accelerate our progress in the market.

We don't often have a chance to talk about Egypt. Egypt is the eighth largest EBITDA contributor to the group. If you went back five years, Etisalat was really coming into the market. They were allowed asymmetry, up to about 25%, which they achieved, broadly, 18 months, two years ago. But importantly, we repositioned our brand. We invested in our operation, and as you can see, we've widened our leadership in the market. Yes, we had some unrest, which was temporary. Underneath, our customer growth is 8%, and our data volumes have doubled, so we really think we've got some good, strong, underlying momentum within the business.

The third area on top of network, on top of fibre, that we're investing in is stores. A little bit like in Europe, but slightly different. We really want to focus our stores on high-value customers in urban areas. I want use Egypt as a case study, because Egypt – 95% of customers in postpay, come through our branded controlled stores, and the ARPU of those customers is twice that of a cross dealer. So, importantly, what we want to do is get within two miles of high-value areas, to ensure that we get maximum share gain of high-value customers, and we want to do that in all our emerging markets. Again, we're going to invest in the network.

Finally, M-Pesa is a key differentiator for us. Many of the operators in our market have not reached at any sort of scale, with mobile money products. M-Pesa is the one that has reached scale. I don't want to talk about Safaricom because everyone talks about Safaricom. I actually want to talk about Tanzania, because we all launched, about five years ago, and basically we are the only ones that have ultimately made that a wide scale success in the country. We've got 50% of our base on the product, with 18% of the service revenue. We see the halo benefit of churn, market share, profit gain. We are going to invest, as part of Project Spring, in rolling out M-Pesa more aggressively through the emerging market footprint. We think we can take what today is, if you added Safaricom and Tanzania's M-Pesa revenues together, would be 2% of our total emerging market footprint service revenue. We think we can drive that to 10% over the next five years.

So, in summary, we're a brand leader. We are truly differentiated. I think we build a lot of innovation and science into our operating model, and a lot of that comes from the fact that we're part of a group, learning through Europe, and applying it at the right time in the emerging markets. We've got great acceleration potential through Project Spring, through targeted investments, and I think that we can play a serious role in Chapter 3 going forward. So, on that basis, on slide number, I don't know, 100-and-whatever, over to Nick.

Enterprise

Nick Jeffery

Group Enterprise Director

Hopefully, not 101. Thank you. Nick. So, this is the first time, I think, this community's been given an overview of our enterprise business, so what I'm going to cover is a profile of the scale, and size of our enterprise business, give you some insight into the products and services we sell to our enterprise customers, identify where we see areas for growth, and then talk about how Project Spring is going to accelerate that growth. I'm going to try and illustrate it with some real customer examples as well, bring the customer back to this presentation, although I've been given a time warning already, so I'll keep the customer examples short. Vittorio knows I can speak all day and probably most of the evening on this subject.

So, we actually have a large enterprise business in Vodafone. Over the years, we've built up an £11 billion enterprise business. That's some 28% of the group's service revenue, as you've heard earlier on. The business is of course predominantly in Europe, but increasingly, we're seeing the AMAP countries, particularly India and South Africa, taking a growing share of our enterprise revenue. And that's not just because strong GDP growth in those markets leads to a strong growth of national enterprise business. But it's also because our multinational corporate clients, where we have a strong base in Europe, are of course, following that same GDP growth into Asia, into Africa, and we provide a very powerful bridge for them to migrate their businesses from Europe into AMAP. The reverse is also true. There are a large number of emerging multinationals coming out of AMAP, and we're able to support them back into Europe.

The business is of course dominated by mobile. Here again, the profile is also changing. Over 20% of our product mix is now coming from fixed services, and we see the continual growth of unified comms, Machine-to-Machine, and Cloud & Hosting as those markets begin to grow. And we're a very well balanced enterprise business across market segments, roughly half our business coming from large corporates, so national corporates, public sector, multinational corporates, and roughly half coming from small and medium-size enterprise businesses in our operating companies.

In terms of the products and services we sell, of course, our heritage is in mobile, and we have a very strong portfolio of mobile services. 32 million mobile enterprise customers, and if you think about that number and compare it to the percentage of service revenue represented by enterprise, you can quickly calculate that these are extremely valuable customers. We sell them much more than just mobile connectivity. We support mobile with a rich suite of managed mobile services. So, security in the device, in the network, device logistics, expense management, managed services, and all the things a corporate needs to understand how it's going to use this technology in the most effective way.

We've got a growing portfolio of fixed services, now £2.4 billion of revenue – admittedly about half of that coming from Cable & Wireless, and of course, from other fixed assets we have around the group – and growing at plus 6% year over year. So, clearly taking market share in the market for fixed services. And one of the reasons we're doing that of course, is the continued growth in demand for unified communications. Our One Net product, which brings together fixed and mobile with a PBX in the Cloud is growing strongly, up 37% year over year. And now, we have 3.2 million One Net customers with the service available in 10 markets.

Hosting & Cloud, as mentioned in the questions earlier on, is a newer part of our portfolio. Again, this came from the acquisition of Cable & Wireless, acted as a springboard for us developing our Hosting & Cloud operations. Although TelstraClear, it brings assets as well, and over the last 12 months, we've also built Hosting & Cloud assets in Turkey, in South Africa and a number of other markets organically. Just to be clear, our focus in Hosting & Cloud is on managed hosting and infrastructure as a service. So, we are not focusing on colocation, nor are we competing in public Cloud and the software as a service at the moment.

Our Machine-to-Machine business goes from strength to strength. Revenue is up 22% in a market that is growing by 17%, so we continue to take market share. We've been recognised as the clear European market leader in Machine-to-Machine services, and connection's growing by over 40% in the year to nearly 14 million M2M connections.

Finally, our carrier services business: this has just been established. It operates across the Vodafone group and its purpose is of course to use our scale to drive profitable revenues from our carrier customers, and to use that same scale to lower our unit costs back into our retail business, both at enterprise and consumer.

So, we've got a large enterprise business. Enterprise customers are valuable. We've got a good balance of enterprise business across segments, and we've got a rich portfolio of enterprise products and services, and that lets us fully address the market for total communications, which I'll go on to talk about now. This consensus view of the size of the total communications market for enterprise in our footprint says that the market is worth something like £77/78 billion in our footprint. Given our revenue of £11 billion, that gives us a market share of the total communications market of about 14%, and I hope you can see, given the portfolio of services I described earlier on, we've got a strong platform for growth, both of course in core mobile voice, where we want to maintain, or gain share – we'll benefit from the ongoing growth in mobile data. Clearly we are already taking share in fixed voice and fixed data, and then the portfolio I described a minute ago gives us the strong platforms for growth, particularly as we continue to invest through Project Spring in the higher growth markets, Machine-to-Machine, Unified Comms, Cloud, Hosting and Security.

And from that, of course, is driven our strategy for growth. There are two main axes to think about there, very simply. First of all is to develop a richer portfolio of products and services to sell to our enterprise customers in our existing markets. And secondly, to take our already strong multinational corporate business, and support them with a broader product and service portfolio where they operate, and where we have international network assets, again, predominantly acquired through Cable & Wireless. And when we combine our product portfolio, and these two main axes for growth, we get the six areas for strategic focus on the right hand side. Three of which are product orientated areas – Unified Comms, Cloud & Hosting, Machine-to-Machine – and three of which are market areas – SMEs, Multinational Corporates and Carriers. What I'm going to do now is talk through each one of those areas, and illustrate where we're going to be accelerating investment through Project Spring.

So, firstly, Fixed and Unified Communications. Really, two separate things. Of course, they merge as customers buy Unified Comms. Here we see a £32 billion market for Fixed and Unified Comms in just our top seven market at Enterprise. Of course, we've got good market share in mobile, but our market share in fixed is low, just 7%, and yet, through the acquired assets of Cable

& Wireless, TelstraClear, and most recently, Kabel Deutschland, we have strong next generation network capabilities. And when those are combined with our underlying fixed infrastructure that of course supports our existing mobile business, we have really very strong product reach, and capillarity depth in the countries where we operate, and that gives us a strong proposition for core fixed services.

The strategy is very simple. We'll take the fixed assets that we've acquired to support our consumer business, and where those overlap with our enterprise business, we purpose them for enterprise, where it makes sense, we'll invest to extend those networks out to areas of business concentration – so, business parks, central business districts and so on. And for our core Unified Communications offer, we'll extend that across our OpCo footprint and beyond where we need to for our multinational corporate customers. So, we're currently in 10 markets with One Net, and we'll extend that across all segments, and out to a further 25 markets, both on and off our footprint over the next 12 to 24 months.

Now here, I've got lots of customer stories that I can tell you. The problem is that most of those customers won't let me use their logos, so I'm going to have to disguise them to keep them innocent. There is a very large American bank who has recently bought a fixed network service from us across Asia, across Europe and the US. And there, we are managing not just the network, but also the security of the individual network elements on their network. So, it's a full managed network service that we are providing to them. One of the companies represented here – and you'll have to guess which – has just bought our low latency network across Asia and Europe to support their algorithmic trading business. This is of course, you know better than I do, when people trade within the latency that our high speed network can give them over the traditional networks. A very large Japanese equipment manufacturer – electronics manufacturer – has bought our converged offer, One Net, across 26 countries, and we're currently deploying that for them. And Danone, who did kindly let us use their logo have just bought our converged services in the Netherlands, so One Net in the Netherlands, and they're looking to use that as a platform, again, for international growth across our footprint. So, a strong portfolio of fixed and unified communications services. Very clear strategy to expand it through customer stories.

Hosting & Cloud – a newer business for us. We've been a Hosting & Cloud business for about a year, again using Cable & Wireless as a platform for growth. You'll know it's a complex market, you'll know it's a fragmented market, and to be clear, we are only interested in the managed hosting and infrastructure as a service, because that's the segment where we want to play. And you'll also note that customers view organisations like Vodafone as a very credible supplier. Why? Because we've got their data in our data centre, and our network connecting that data centre to the end users. We can provide strong service levels between the data and the people who actually need to use the data. And that's why Vodafone is a credible supplier here.

What we'll do is use the CW infrastructure as a springboard to replicate our managed hosting and infrastructure as a service business across our markets, predominantly following our multi-national and large national corporates. Some examples here might be Ladbrokes – you know the betting company. They were one of the last betting companies in this market to move to offering online services, so they were kind of behind their competition. They came to us, and we were able to help them by providing an entirely managed online betting service for them that we host. That then got on to in fact host all of their back-end offers in IT and email and so on. And that's given them great operational flexibility, not only in terms of speed to market, but also in terms of scaling the demand of their computing power they need to run their business when they have a high-volume event – for instance the Grand National.

NHSmail is another really at scale, credible, hosting solution. It's actually the largest hosted Microsoft exchange server in Europe, arguably the world, with over 1 million email subscribers sitting on it. And of course, that's ultra-secure, and has been running now very quietly and very successfully on the Vodafone network for a number of years.

Machine-to-Machine – fascinating market. Hopefully, you've all seen the demo upstairs with the digger. If you haven't, please go and see it afterwards. There's a very good demo of our Machine-to-Machine capabilities upstairs. The Machine-to-Machine market, really, can be characterised in three layers: there's the hardware layer, which we don't play in and have no aspirations to; there's the connectivity layer, which is where we have played, and continue to play; and the applications services layer, and that's where you take raw Machine-to-Machine data, and process it and turn it into useful management data, and that's what we're demonstrating upstairs. Here, our strategy is to maintain the growth trajectory we're on in core connectivity, and we'll do that by expanding the geographic coverage of our Global Data Services Platform, which is the engine which enables our global SIM. And that's currently in 25 markets, and we'll expand that through Project Spring to a further 50 markets. And then we will expand some capability we acquired a number of years ago –a company called Zelitron in Greece – to provide data processing capability, to turn this information into useful management data for our customers – and so enter the application services market.

Three quick examples of where we've had success with M2M services, first of which is BMW. If any of you have got a connected drive car, from BMW – I don't know if you have – if you have, it will have a Vodafone Machine-to-Machine SIM inside it that enables all the usual things about online mapping, and so on. But BMW are developing this service into online app stores, media streaming to the car, the ability to download performance packs, so M-Packs to the car, which might last a month between when you have to re-purchase them. And beyond that, Machine-to-Machine has become a core component of their iVehicle programme. So, with the i3 and i8 cars, our Machine-to-Machine connectivity is a core part of their value proposition. So, for instance, their i-programme lets you use multi-modal transport, an electric car to public transport, then public transport into a city centre, and back out again. For that to work, you have to have knowledge of your car's range, and the public transport systems of a city. So, we're very deeply integrated into BMW's product centre.

Globe Tracker is a company that tracks containers through ports, does all the obvious stuff of knowing where containers are, helping customers improve their logistics. The example I was going to actually use here is pineapples and bananas, because I was with Globe Tracker last week, and one of the things they're using our M2M services for is to transform the way fresh goods like pineapples are transported around the world. Traditionally, they're transported raw, and then ripen in a warehouse in the country. What Globe Tracker developed with us is a system to manage the temperature, humidity and gas level within a container as it travels, so they can match speed of transport whether it's rail, road or sea, to the ripening process, so that as a container arrives, the fruit is ripe, and can be delivered straight into a supply chain, without having to ripen in warehouses. So, fundamentally changing the way in which industries work.

And finally, Amazon, where we have exclusive partnership to provide the connectivity for the Kindle Fire, and here we let customers firstly transform their connectivity from a global SIM to local SIM wherever they happen to be, and then we let the end customer sign up to Vodafone services in a very easy, quick way, so that the customer can get on and use their Amazon Kindle.

Small and Medium Enterprises is of course an area where we have a strong proposition already – Vodafone One Net. Here, the strategy is very simply to accelerate the delivery of One Net across all of the Vodafone footprint as part of Spring. We also recognise that as we integrate software as a service into our Cloud-based offer, for instance Microsoft Lync, or Office 365, which you can see being demoed upstairs, which is an exclusive arrangement we have with Microsoft. So, our products are increasingly going to be bought by SMEs in the channels administered by IT services. So, over the course of the next 12 to 18 months, we will enter those IT channels as well as our traditional retail and direct distribution.

On MNCs, we have a well-established multinational corporate business programme, Global Enterprise – been up and running for seven years now. It's grown every year of its existence, and taken market share every single year of its existence, and its core proposition, of course, is simplifying the multi-country offer to MNC customers.

Couple of examples here. ThyssenKrupp we provide 60,000 connections – 50,000 Machine-to-Machine connections as well, across 30 countries, all through a single price plan, and a single contract. Likewise with Luxottica, used to have over 30 suppliers, in 20 countries; they now have just one, and that's us. Here, the strategy was to follow our customers very closely to where our network assets reached, which is of course through Cable & Wireless across Asia, the US, and elsewhere. Layer on top of that network a richer portfolio of product and services, so IP-VPNs, we'll be driving deeper capability in 11 markets, and extending the geographic reach to 65 countries, 121 cities as part of Project Spring.

And finally, our newly formed carrier services business. And to the question earlier on about hidden assets, I think this is maybe one of them. Carrier services is of course all about scale and reach, and we have scale and reach, yet we haven't used it to date to exploit the opportunity that exists for us in the carrier services market. Of course, this is all about using our very dense national networks combined with our global networks to provide an unmatched economic offer for carrier services customers, and to reduce our cost base of our retail business in the process. We're already the world's second biggest carrier of international voice on day 1. We're already a Tier 1 internet carrier on day 1. We already have a superb portfolio of international assets on day 1, and our carrier business is being set up to exploit those, and stage 1 is to automate the way in which we route traffic and data around our network in a much more intelligent way, so that we can begin to exploit that scale.

So, in summary, Vodafone Group Enterprise has been established this year. We have a broad and rich portfolio of services focusing on converged offers to enterprise customers of all sizes. You see many growth opportunities. We've got our new carrier services, Cloud & Hosting businesses established, and our strategy is all about differentiation through convergence, driving efficiency across our business and particularly through carrier services, and exploiting the opportunity for market growth. So, thank you. I'd like to invite Vittorio, Nick and Philipp back on stage.

Questions and Answers

Vittorio Colao

In theory, we have six minutes to go. We can probably extend it to 15, maybe, if you wish so, but please be quick with questions. Let's start from that side now. Yeah? Robert.

Robert Grindle, Espirito Santo

The UK market was conspicuous in its absence of mentioning FTTC, FTTH, DSL, and I know BT doesn't do mobile, but they're thinking of it. And you guys have got unbundled local loop infrastructure through CWW, and you supported a frontier economics report a week or so ago highlighting that BT is making super returns on its regulated business. Are you trying to tell us anything in that report, or are you just sort of waiting to see how it goes, and is UK, just Europe, not really doing that? Thanks.

Philipp Humm

Yeah, so we said earlier on that unified communications and market-by-market approach, every market is very different. I think from our perspective right now, the key priority is on Cable & Wireless, and thus, in Enterprise, unified communications will have a very strong position which we want now to continue to exploit. We don't see the market in the UK at this point in time that can change over time to be a very convergent market like we see it in other places, because of the player structure we have in the market today. And if our opinion changed over time, we would need to react to it, but right now, we don't see it as a priority at this point.

Jerry Dellis, Jefferies

Two questions, please. First on EBITDA margins: aside the Project Spring effect, it looks as though A&R is increasingly weighing. Obviously, there was the return to subsidisation in Spain, and now what you're guiding to in Germany in the second half. As we look into next year, would we expect the weight of A&R to continue to drag on the underlying margin trend ex Project Spring? And then secondly, just in terms of revenue trends, you've highlighted the comfort you take from potential macro on a two-year view. At what stage in the budget do you start to win mobile service revenue market share? Thank you.

Vittorio Colao

Andy, you want to take the EBTIDA margin question? Then I'll maybe comment a bit more

Andy Halford

Yeah, I think, we'll talk about next year in May, but we will invest in A&R when we need to. We will not lose pace in markets and in Germany, as Philipp showed. We need to put some more money in there to get back on track. At the end of the day as our competitor there is showing, if you can do that, and if you can build up the scale, you can get the EBITDA back again. So, I don't think we will be inhibited in doing it, but we will do it selectively.

Vittorio Colao

Yeah, in, I would say, broader terms, two comments. One, we are not in love with any a priori position. So, you can have subsidies or you can have lower revenues and just call it in a different way. What we really are is after absolute amounts. So, I think what I really am keen to get back is absolute EBITDA, absolute cash flow performance, more than, you know, percentages or things like that, because it's easy to take out the subsidies and your EBITDA margin goes up if you lower your net revenues' it's not a much better picture than before.

John Karidis, Oriel

Just two quick ones. Firstly, can you help us scope the risk, or maybe no risk of Deutsche Telekom increasingly building fibre in Kabel Deutschland's footprint? And then secondly, you mentioned a couple of times the revenue opportunity in fixed. Is it possible to help us compare the profitability of fixed revenue versus mobile revenue either at the EBITDA level, or the cash flow level?

Philipp Humm

Yeah, so starting with the first one, I mean, overall, in Germany, building our fibre is quite expensive, which is why it has never been really pushed through in the country. So, the main thing which is happening in Germany is, at this point in time, VDSL and then the next generation vectoring. Cable overall, from a technology point of view, is a superior asset to whatever copper evolution you put on copper. And if you look at the performance of cable in general in Germany, but of KDG more specifically, continuing to win strong net adds on internet, and on the fixed voice services. So, expect that to continue, right? So, it is an alternative product, but an inferior product to the cable product.

On fixed versus mobile EBITDA, it really depends a bit on what form of go-to-market we choose. If we have a wholesale, we obviously are, typically in a single – not in the single; in the low-double-digit EBITDA margin, right? And some countries were even closer to zero, in particular where we have to see subsidise it in converged places, and in other places we are more in the high 10 to 20 percentage points EBITDA margin. That's where we are more on the wholesale area. As more as we invest into the network, we can achieve higher EBITDA margins.

Paul Marsh, Berenberg

Just in Germany, don't you think that T-Mobile in Germany actually does have a differentiated network advantage on its mobile network? Or is it all really just about the commercial investment that they've been making, different to the level of commercial investment you've been making?

And then on M-Pesa, going from 2% to 10% of emerging market service revenues, what would you expect that to be as a percentage of EBITDA if it's at 10% of service revenues?

Philipp Humm

So, let me take the German one first. So, I mean, there are two drivers, but one driver is, I would say, without quoting me exactly on it, but it's really the dominant driver, 90% or whatever, which is investing significantly in the millions more in A&R that obviously at one point in time needs to pay out with additional revenues, right? So, that's driver number one. That being said, as we took the lead in LTE, we de-focused a bit on voice, which is something we are fixing, and our ambitions as we have always been, is to be the leader in network perception. All dimension, not only in LTE, but also in the voice dimension. And that is an area where we were not really satisfied, but which we're fixing.

Paul Marsh

Would you give your three-and-a-half G coverage in Germany, and your fibre-back haul in Germany?

Philipp Humm

I think separately, to make it precise, otherwise, it will give you a circa number.

Nick Read

Just in terms of M-Pesa, I would say, first 18 months, two years, you've really got to do some heavy education of the country, in terms of the products, advertising, customer education, channel education and set-up. So, it's negative from an EBITDA perspective over that first two, which is why Project Spring is a component. Once you get to critical mass, and depending on the composition of the products there, you could be anything between 30 and 50, depending on what the composition is. So, there are low margin aspects to it, and then there are higher margin, depending on the blend. You've got to go through money transfer, you've got to go top-up, you've got to go infrastructure, you've got to go pay in banks, etc. So, I'd say, it just depends on the composition.

Mandeep Singh, Redburn Partners.

Couple of questions relating to some of the earlier slides, because I didn't get a chance earlier on. The first one is really to pin-point you on the free cash flow guidance. Just so we're completely clear, one being implemented means your 4.5 goes to 5.5, all other things being equal, if you could just confirm that, or not.

And the second question is around, there's a slide where you refer to additional shareholder remuneration possibilities. If we look at the cost of your dividends coming down significantly because of the reduction in the share count, a large part of Spring is going to be paid for by the fact that we pay a lower absolute amount of dividends. So, even post Spring, you're going to be adjusting from the Verizon loan note. You're going to be quite significantly under-levered. You've not been that open about what you intend to acquire, so should we look forward to some buy-backs?

Vittorio Colao

I think we have been very clear in saying that the philosophy that we have been operating on, and we continue to operate on is to balance investment into the business, versus shareholder returns, and we've been very clear in saying, if, in the three areas that we described there as priority – enterprise, convergence and healthy emerging markets – we do not find opportunities to strengthen the business, we will, like we have done in the last five years, switch to shareholders' returns. It's a very balancing – I think we have a track record of doing it in a very disciplined way.

Andy Halford

First question, the answer is 'or not'. So, it is an incremental billion to what we would otherwise have in that year, if we were not doing Project Spring. That is obviously looking out to 18/19. So, by that time, you've got the underlying business. We've got KDG, etc, which will be coming in. So, it's an extra billion over and above what would have been there if we had not done Spring.

Mandeep Singh

Which I'm sure you're not expecting to decline, right.

Andy Halford

I think you're right

Stephen Howard, HSBC

You've highlighted the scope for leveraging your mobile position into the fixed line converged communications market, but what can you say to convince us that the opportunity there is actually greater than the threat in the opposite direction? So, if you take an example, like the UK market, as I think Robert mentioned a moment ago, you've got BT with ambitions, essentially to get a small cell into the household. How do you defend against that, and convince us therefore that the opportunity outweighs the threat here? Thanks.

Vittorio Colao

It's very different market by market, and that's why, I think, Philipp has started his answer by saying it depends on the market you are in. It's clear that in some markets, it's going to be more of a value-creating thing. In other markets, it could be more defending your own value. At the end of the day, the whole sector has to take this contamination into account, and therefore everybody has to think, hopefully, their own rules on the assumption that it's dynamic and things will change. So, I cannot tell you in a blanket way, 'Absolutely yes, there's going to be a fantastic story everywhere'. Which is why our approach is different market to market. So, I cannot convince you a priori because we ourselves are applying a very disciplined and prudent logic to every single market.

James Ratzer, New Street Research

Two questions, please. First one might be one for Steve, actually. I was just trying to understand a bit more about Project Spring and your network differentiation. I mean, in Europe, you've quantified it to us quite a lot in terms of just increasing your network coverage by population coverage. I would have thought if you're targeting some of the higher-value customers, a key thing is getting density of coverage in urban areas. So, I was wondering what you can tell us about differentiating on that front to give us confidence about the network differentiation going forward.

And the second question I had, please, was regarding Red. You'd put up a slide earlier showing that although the ARPU dilution was now improving, there was still ARPU dilution from a migration to Red. And at the same time, you're forecasting an acceleration of Red uptake in the second half of the year. Does that mean over the next six to nine months we've got a little bit more ARPU dilution to run through before we start to see an underlining improvement? Thank you.

Vittorio Colao

Let me quickly take the second part, and launch Steve on the first. The answer is, no, because we believe that the earlier customers are the ones who have got the higher advantage in that. And I'm not sure it's a real acceleration, because as we said, if we go from 7.5 to 11 or 12, it's in absolute terms, more or less, the run rate, which is already higher. On network, you are absolutely right. It's not just about cover. It's also about the densification, which is why we talked about small cells, which is why we talked about WiFi, which is why we talked also – with both actually – not just the high quality sub-1GB spectrum, but also the higher frequency spectrum, which is useful to fill into the dense urban areas.

Stephen Pusey

I think Vittorio answered that very well. I'll just add a couple of points: so that extra spectrum allows us to do the carrier aggregation, which will be launched in all major cities, to utilise that spectrum for a better experience. Perfect voice, as we said, is of course targeted at the cities as well, in-building solutions in enterprises, complementing the external small cells, and a consistent 3MB worst-case experience on data everywhere is what we're aiming for in the city. So, absolutely, it's a huge programme on urban areas.

Philipp Humm

We will all see the benefits in London of this improvement.

James Britton, Nomura

Thanks very much. Just on LTE substitution of fixed. it's happening pretty encouragingly in the Nordic markets. Are there any particular markets in Europe where you think it's right for LTE substitution?

And secondly, in Germany, is the integration of the KDG asset actually on hold until you close out the minorities? And what's the time deal on the closing out?

Vittorio Colao

The answer to the second question is yes. And the first one Philipp?

Philipp Humm

Maybe just on the second question, just to add one point, we are on the process of doing a domination agreement now. Once that is done, then we can proceed on the integration. And on the first one, LTE substitution, we have LTE substitution right now more in rural areas, which is something that we are continuing to do, in Germany in particular. We have about, a little bit more than 300,000 customers on LTE substitute product. It will always, in the overall scheme, be an important element, but only a small element in the overall scheme of doing unified communications.

Guy Peddy, Macquarie

Just a quick follow up from what we were listening to earlier with the debate about what's gone on in Germany, where DT have obviously spent a lot on SACs to drive their growths. Do you think you've got enough SAC investment in Project Spring to so call it, to make the benefit of all the capex and network spend you're doing for the next two years? I'm just sitting here thinking that once you've built all this, you've got to tell the customers you've got it out there. Should we see a re-inflation of competitor activity with higher SACs within two to three years' time in order to try and get back to winning market share?

Vittorio Colao

The answer is yes, and is not necessarily in Spring, but is in the company plus Spring. And you're absolutely correct. It's about communication. It's not necessarily about subsidies only. It's also about advertising, and it's about direct communication through the type of tools that Paolo has demonstrated that we have already today in our own devices. So, I would not see the SAC Spring topic as tightly interconnected. We have to be more aggressive. I went myself to Germany a few months ago, and I went myself to check into the shops, and it was true. The iPhones cost €50 less, with €50 on the upfront, with Deutsche, then with us. And then the price plans were very similar, and of course, there was this difference upfront, which now we are correcting. And we will get back to a more competitive thing. But you're right. Spring will have to be communicated in commercial terms, a little bit in other ways. So, with a little of the commercial that Paolo showed.

I'd like to thank you all. Again, there is time now for drinks and for more questions to my colleagues. Thank you very much for your patience, and thank you for your questions, most importantly.