

Vodafone Group Plc

Half-Year Results 2019 Analyst and Investor Conference Call

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FIRST HALF HIGHLIGHTS

Nick Read

Chief Executive Officer, Vodafone

Good morning. Thank you for joining us. This presentation will be a little bit longer than normal because we'll also, on top of the results, go through a strategic update. Hopefully you find it informative and worth the slight extra time.

So, if I turn to a quick summary of the results, firstly I'd say that, in most markets, we had a good performance. Clearly, we had a challenging situation in both Italy and Spain. We've taken decisive action and I'll be talking about that in a little bit more detail. We remain on track in terms of our financial plan, so we narrowed our guidance down to 3% growth year over year and slightly uplifted our free cash flow from the €5.2 billion to the €5.4 billion.

If I stand back and just say we've done a lot of work in terms of portfolio transformation, and I think it's this moment that we have to be different as a business – have a different lens, a different focus going forward. And there's three things that I really wanted to draw out for you. The first is, post the Liberty Global transaction, we are, effectively, strategically resolved on our footprint, and so now we really need to focus on operational-execution excellence and organic growth going forward, and that will support a more consistent commercial performance execution in our countries.

The second area is we're going to radically simplify Vodafone – our price plans, our products and services, our internal processes – going forward and, importantly, we're going to reduce down the number of initiatives that we're working on as a company and get really focused on the key value drivers for the business, which I'm going to expand upon.

And then, finally, we want to be open to more partnerships going forward. We want to look at our assets and see where we can do more sharing of those assets without losing our differentiation as a business. We believe the multi-value drivers that we will go through in the presentation will demonstrate that we can drive free-cash-flow growth that underpins our dividends, that de-levers the business and, ultimately, improves shareholder returns.

So, let me talk about that ambition for the business briefly. Three areas you see here that drive, ultimately, in our opinion, shareholder returns, and I'll just touch on them: firstly, deepening customer engagement. Here, we want to really start to focus more on our existing base in mature markets rather than chasing new customers and really develop those relationships with the customer, deepening, cross-selling, upselling products going forward to lower churn, improve revenue growth going forward and, ultimately, to really give them a better experience. Our ambition is to systemically grow our total-communication market share.

The second area is accelerating digital. Now, this is really a transformation of our business model. You know I've said that for a long time now but really, as we've started to execute and as it's accelerated in our business, I think there's a real opportunity to improve the customer experience, deliver a better commercial performance and lower absolute cost.

Third area is improving asset utilisation. I think we've done a good job in the past around cost and capex synergy realisation through M&A. Margherita will be talking about it in a little bit more detail in her presentation. I also think we've done a good job from a fixed perspective in a smart capex-strategy execution, developing our fixed footprint, but now we're going to also add mobile. We see opportunity, especially in a 5G world, to do more collaboration and, effectively, higher utilisation of our assets, but again without lowering the differentiation versus the value players in

the marketplace. You saw in the announcement that we want to form – and are going through the process of forming – an internal virtual tower company and also, over the next six months, doing due diligence on our business – legal, tax etc – in terms of looking at the strategic and financial options for us in terms of how we take those assets forward.

All of this gives us confidence – reiterating confidence in the three-year cumulative free cash flow that we set back in May of €17 billion. We remain on track on that plan and, therefore, underpinning our dividend and improving shareholder returns.

So, we're going to talk in the presentation about five value drivers, and the first three I will talk about later, where we are deepening the customer engagement. Specifically, in terms of European Consumer, I'll be talking about how we're going to drive on fixed and what 5G means for us as a business. In terms of Business, we want to give Business its own separate identity. So, we used to call it Enterprise; we're going to brand it Vodafone Business. We think that people don't understand the shift in capabilities that we're making here and we want to really bring that home, along with industrialising IoT. In emerging markets, we see a big opportunity in terms of data growth and also in terms of digital and financial services, with the M-Pesa platform. Now, I won't talk to digital transformation at a utilisation; Margherita will expand on those two in her presentation.

So, before we go through more the results and the strategy, I just wanted to give you my colour on the results of the first half and just overall performance. I'd categorise it, as I said before, I think we've got good, solid momentum on the Fixed side. Business grew 1%, still continuing to take market share in the market. Emerging-market data growth, steady performance in that area as well. In terms of digital transformation, I'll not go through this because Margherita will cover it in more detail, but I've seen a definite acceleration in this area.

And then, finally, I think, good progress on asset utilisation, specifically around the portfolio. If we take India, finally, we closed the JV. It took a bit of effort to get there and we're making good progress on the tower side. We're not going to talk about India in detail today because they come out with their maiden results tomorrow and there will be an investor event on 21 November to go through the strategy and the plan.

In terms of Liberty Global, we've made the submission to the EC after very constructive talks, and that process is going well. And finally, we announced the merger in Australia, just to show that we are continuing to actively manage our portfolio going forward. Importantly, we end up with 25% in a listed entity and we're able to reduce our parental guarantees.

So, on track on our financial goals; stable interim dividend per share.

If we stand back and just look at the countries, what we did here was just do a bit of clustering, so that they're all material rather than show a whole list of small countries. What I would say is, clearly, Italy and Spain, I'm going to talk to, but if you look at the rest of the portfolio, this was a pretty good set of results. I'd say good results on the service-revenue line but, actually, pretty impressive results on some of the EBITDA performances of these businesses. I have Nick in front of me, the CEO of the UK. I think the UK have done an excellent job. Let's not forget it wasn't long ago we were talking about turnarounds, underperformance, and now a 12% growth in terms of EBITDA.

Other Europe: sometimes I think people forget the materiality of Other Europe – 12% of the portfolio growing at 10%. And if you think about Other Europe, we've got double-digit EBITDA growth in Portugal, in Ireland, in CEE, and that's before we do the Liberty Global transaction. So, what I'd say is we're getting a good performance on the rest of the portfolio.

However, let us talk about the two challenges. So, let's start with Italy. I would say the team have done, under Aldo's leadership, a series of actions that I think have been effective in the marketplace. The first was the successful launch of the second brand 'ho.'. You see on here the traction that we're getting in terms of customer numbers – we don't report the customer numbers but we're getting good traction. While I would say is the important thing about the second brand was really the dilution on the main brand and it, over the quarter, was broadly in line with our natural market share but, as the management did a series of commercial actions to optimise, we saw our, if you like, cannibalisation declining over the quarter. Also the success of that second brand, performance-wise, has encouraged us to increase pricing and it was great to see that one of our competitors today also increased pricing in their second brand.

We're actively managing the active base. We put through a €2 increase on a significant proportion of our active base for unlimited voice, so a more-for-more action, effectively. Fixed line, good progress, I was really impressed with what the management team did on opex. Italy has consistently been working opex down but to produce an 8% down year over year, I think, is an impressive result, given everything else that they were dealing with. So, really good, balanced execution. What I'd say, when looking into H2, given the pricing actions we're talking about, we would expect to see H2 slightly improve over Q2.

Moving to Spain, we've done a full H1 commercial repositioning of the business. If I simplify it, look at top-tier. What we've done in top-tier is come out of football. It was unprofitable. We've explained it several times. The question is: what has been the loss in terms of customers? And through to October, I would say it's broadly in line with expectation of where we thought we would be. Second part in the upper tier was repositioning our pricing versus Orange. What we were doing previously was always above Orange and then higher allowances; now what we're doing is competing head to head with Orange. And then, at the lower end of the tier, we strengthened Lowi, so we had Lowi but we didn't give it its full complement in terms of subsidy levels, handset financing if you like – other commercial aspects that we needed to deliver.

The important thing is, given these results, what you see over here is now Orange, we are net-port-neutral, and MASMOVIL has moved into what I call a targeted zone of acceptable losses. So, I'd say the commercial actions have delivered through. What we also did is introduce in the mid-tier Vodafone Bit. That's a full, end-to-end digital delivery. What that allows us to do is compete with the likes of O2 and Jazztel but with a structurally lower cost base – commissions, operating costs etc – and, therefore not at the sacrifice of margin.

And then finally, clearly, EBITDA decline year over year in the first half is unacceptable and we need to sit back and redesign the cost base of the business. There are actions that will be taking place over the course of H2 and we will update you on those actions in May.

And then, finally, when I talk about the rest of the big markets, I'd say, in brief, Germany, a stable market, performing well on Vodafone Mobile-branded and Fixed, doing a good job on costs and, therefore, a 7% year-over-year increase in EBITDA; UK, again, stable market context, excellent job in terms of cost, really good to see Enterprise Fixed back into growth. I didn't have the chance to see when that last was – 2012, I'm being told. Okay, so 2012, so it's been a long time but we are finally back there in terms of now growing again. And then Vodacom, you saw the results. South Africa, quarter over quarter, had a slowdown on underlying performance because of macro pressures. It is tougher in South Africa at the moment but International had a very good quarter and is accelerating. So, overall, I think the group did a good performance.

And, on that, I will give you to Margherita.

CFO Update

Margherita Della Valle
Group Chief Financial Officer, Vodafone

Thank you, Nick, and good morning everyone. I'm afraid I was told the CFO has to stick to the script, so you will see me here very precise, but before we dive into our numbers for half one, as incoming CFO I would like to highlight three things that are really important to me.

First, transforming the Group's operating model and fundamentally reshaping our cost base by accelerating the move to digital. In the digital world, speed and ambition are critical. If we wait for the perfect solution, I think we could be too late. I also see very significant opportunities to leverage Group scale.

Second, maintaining strong capital discipline and improving our return on capital. I will allocate capital to the highest-return opportunities in our business, which will effectively mean deprioritising other areas to improve the utilisation of our assets – especially our NGN networks – and to ensure that we execute on the sizable cost and capex synergies from the acquisitions that we have announced.

Third, I think that it's very important that we maintain robust, investment-grade balance sheet. This means preserving the headroom and flexibility that we are currently enjoying with our existing credit rating, and driving deleveraging over the medium term. I intend to report over these three priorities on a regular basis.

Now turning on to slide 12, the first thing to note is that all figures presented here are on an IAS 18 basis to aid comparability with prior periods. I will focus on the underlying trends, though, which exclude the distortions created by UK handset financing, the benefit from UK settlements in half one last year, and FX movement. IFRS 15 statutory numbers are provided in full detail in the press release but these are not comparable with prior-year IAS 18 numbers.

Service revenue on an underlying basis grew 0.8% in half one, as good performance across most markets, as indicated by Nick, offset pressures in Spain and Italy. Underlying EBITDA grew 2.9%, driven by higher revenues and the further net reductions in opex across Europe. As a result, our organic EBITDA expanded by 30 basis points of margin to 31%, and we remain on track for the fourth consecutive year of margin expansion. Underlying EBIT increased 8.6%, driven by EBITDA growth and stable D&A. Free cash flow pre spectrum and restructuring was €0.9 billion compared to €1.3 billion in the prior year, reflecting lower capital creditors on capex phasing. On a post-spectrum basis, free cash flow increased to €0.6 billion compared to €0.4 billion in half one '18.

As you are you aware, each year there are a number of non-cash items that distort our reported earnings. The bridge on slide 13 shows the walk from adjusted EBIT to reported earnings. I do not intend to go through the bridge in detail, as these movements are clearly explained in the press release. However, let me draw your attention to two material items.

First, the reported half-one '19 figures include non-cash impairment charges of €3.5 billion, primarily relating to the lower carrying value of our Spanish business, as well as €3.2 billion loss on disposal relating to Vodafone India following our merger with Idea in August. Second, the Group underlying effective tax rate for the first half was 25.9%. This is up from 22.2% last year, and the higher rate is primarily due to a tax change in the country mix of the Group's profit as well as foreign-exchange losses. Our medium-term tax-rate guidance of low-to-mid 20s remains unchanged.

Turning on to our service-revenue performance on slide 14, as the chart on the left shows, our underlying service-revenue performance adjusted for UK handset financing slowed down quarter on quarter from 1.1% in Q1 to 0.5% in Q2. This slowdown was primarily driven by Spain, given the full impact of the commercial actions that Nick just described. Looking ahead to the second quarter, we expect a similar Group service-revenue performance to that reported in Q2. We expect a modest improvement in Italy, balanced by slower growth in emerging markets.

The chart on the right shows our half-one growth by major market both on an IAS 18 basis and an IFRS 15 basis. As you can see, the growth rates are not materially different under IAS 18 excluding handset financing versus IFRS 15, with two exceptions – Germany and the UK. Just as a remainder, under IFRS 15, we net handset subsidies, commissions to indirect channels and also a portion of our set-top box fees from revenue. As a result, this changes the service-revenue mix with opposite effect in Germany and the UK. At Group level, these differences will fluctuate over time but are not expected to be material in aggregate.

On slide 15, you can see the contribution from our value drivers for organic service-revenue growth. For Europe Consumer, I have unpacked the contribution split in Mobile and Fixed, and for Mobile, separating also Spain and Italy to provide a better understanding of our performance. On this basis, three-quarters of European Consumer Mobile revenues grew overall in half one. European Consumer Fixed also continued to grow strongly as we maintained our commercial momentum in all markets except Spain. In Emerging Consumer, data revenues grew as we monetised strong traffic growth and we raised prices to pass through cost inflation. Vodafone Business – our former Enterprise division – continued to outperform the market, growing service revenue by 1%.

Now, putting together these drivers, they contributed to 2.4% for underlying service-revenue growth in half one; however, offsetting these, as we have discussed, we had increase Consumer Mobile pricing pressure in both Spain and Italy, as well as ongoing wholesale revenue drags from MVNOs.

Moving on to slide 16, as a result of our Fit for Growth programme, as well as our zero-based budget efforts and the early benefits from digital, we have reduced operating expenses for the third year in a row. Together with a positive contribution from revenue growth, this supported the organic EBITDA expansion. Breaking down our operating costs further, you can see that, in half one, we reduced opex in Europe, including central functions, by €200 million. These savings were partially offset by particularly strong inflationary pressures in AMAP, resulting in a €100 million overall saving.

On the right, you can see that the rate of cost savings in Europe is accelerating and we now expect to deliver a €400 million opex reduction in the current year. We will sustain the pace of structural cost reductions over the next two financial years, achieving a total saving in Europe operating expenses of at least €1.2 billion.

On the left-hand part of slide 17, you can see that our total Group opex last year was €11 billion, of which 49 billion was in Europe and central functions, and €2 billion was in AMAP. In AMAP, opex is expected to grow below local inflation levels, helping to expand margins, as, typically, we're able to raise prices in line with inflation.

On the right-hand side of the slide, I've broken out the main components of our European opex between commercial costs, including marketing, customer care and retail, as well as technology and support costs. I have set specific functional targets for every area of the company, some of which you can see in the box to the right of the chart.

So, let me take a minute now to walk you through the key cost-reduction levers that will deliver these targets. I have led our Fit for Growth programme for the last few years and I am really

passionate about the opportunity too structurally reshape our operating model for the future. Over the past year, we have talked a lot about digital Vodafone and the ability to significantly lower our addressable cost base of €8 billion over a multiyear period. Now let me say that, for me, again, this is all about now being digital first, because I believe that the size of the prize from digital is so material that spending excessive time planning and refining has a significant opportunity cost. My ambition is to move faster than the industry, maximising the benefits to Vodafone. And as you can see on the slide, we're making some good early progress, particularly in customer care, where we have already reduced opex by 10% in the first half of this year through the use of the My Vodafone app and TOBi, our AI-enabled chatbot. This has encouraged us to accelerate the timeline for the programme from five years to three years and increase our ambition on what is possible.

But digitalisation alone is probably not enough to really structurally reduce cost. We also need to make our business radically simpler. We have already halved, in the last few years, our tariff plans, reduced our products, but we still have hundreds and, in some cases, thousands of legacy plans around our estate. In order to really drive out cost and increase also commercial agility, we need to be much more radical. We intend to move to much simpler propositions in each market, including digital-only plans, like Vodafone Bit, which we expect will have a double-digit improvement in margins compared to our typical products, and we will aim to quickly phase out legacy. This will deliver material IT and customer-care savings.

Finally, the third opportunity lies in further leveraging Group scale. When you consider what we have achieved through scale and standardisation in some of our operations, the savings are significant. For example, the costs of our finance operations have reduced by three-quarters since centralisation, and we have seen a 40% reduction in our network-operating centres. We now have 20,000 employees in our shared-service centres in eastern Europe, Egypt and India and, thanks to automation, just in the first half, we have reduced over 900 roles this year. We now intend to go further and centralise our network design and engineering functions, our IT operations, and to create a virtual tower company, which I will come to later.

But before then, let me give you a practical example of the kind of opportunities that we see. I've picked broadband in Germany, and there we are fundamentally transforming the way we are serving our customers. Following a redesign of our customer journey on our website, now a third of all our customer connections in broadband in Germany are done online. We have also introduced apps for pretty much any customer interaction you can think of: onboarding, installations or getting help. This has lowered our cost to serve but also accelerated revenue as customers are connected faster and improve the overall customer satisfaction. Through the end-to-end digitalisation of this customer journey, we have reduced the cost of this process by around 25% so far.

Now, another example on how we intend to reduce costs and also improve our asset utilisation is our decision to create a virtual tower company in Europe. By creating a vertical internal organisation across all of our controlled tower assets with a dedicated management team, we are replicating an approach which has been successful in many other areas, including procurement. Across our controlled European operations, we own circa 58,000 towers, with an average tenancy ratio of 1.4. We see the potential of improving this ratio over time without compromising our strategic differentiation. We are also now conducting due diligence on these and other operational considerations, so that we can determine the optimal strategic and financial direction for all our tower assets, including those held in JVs, in the coming quarters.

Capturing the large synergies from acquisitions that we have announced in recent years is another significant opportunity, which we will continue to pursue relentlessly. As you can see on this slide, we have a strong track record in delivering synergies, and it has clearly contributed to the material absolute cost reduction that we have delivered in our cost base over recent years. The biggest opportunity ahead now is clearly the acquisition of Liberty Global assets in Germany

and central Europe, where we are targeting an annual run rate of over €500 million in cost and capex synergies, which will deliver an estimated €6 billion NPV.

Now, moving back to our performance in the half year, you can see, on slide 22, that our intense focus on costs has supported a further expansion in EBITDA margins. We have underlying margins now at 31%, up 30 basis points organically compare to the prior year. And as a result, as I was mentioning before, we remain on track for the fourth consecutive year of EBITDA-margin expansion. Over the past three years, if you look at averages, we have expanded margin by 80 basis points in each year and our clear ambition is to continue to expand margins going forward.

Moving from EBITDA to capex, the chart on the left shows that capital intensity has remained broadly stable despite a 2.5 times increase in absolute data traffic. This year, we expect capex to be again around 16% of sales, including the ramp-up of the success-based Gigabit plan in Germany. Note that we typically have a pronounced weighting of spend towards the second half, which we expect we will continue this year.

Now, if you look at the table on the right, it illustrates our capex mix is evolving. With European NGN networks largely complete now and the 4G networks almost fully rolled out, as well as major IT modernisation projects due to conclude, we have headroom to fund the rollout of 5G within our mid-teens capital-intensity envelope. Looking forward, we have significant opportunities to drive efficiencies both through activities such as smart capex planning using AI-powered analytics, as well as from the migration of our IT estate to the cloud, where we are making good progress.

Turning on spectrum costs, you can see that our business, as you know, has typically a very lumpy spectrum cycle. It's reflecting the fact that new generations of technologies are released about every eight to 10 years. During the first half of this year, we had 5G spectrum auctions in both Italy and Spain. While the combined NPV of spectrum acquired in those markets was 2.6 billion, which we will accrue in full in our balance sheet, the projected cash outlay for these auctions, as well as last year's UK auction, is expected to be around €1 billion in the current financial year. Over the coming 18 months, we expect further material 5G auctions in Germany, the UK, Spain and South Africa, and then Turkey and Egypt in the following year. A good indication of the recurring cost of spectrum across the cycle is to look, as usual, at our historic average and, as you can see over the last 10-year period, it remains around €1.2 billion per annum. If I look forward, I do not expect the upcoming 5G auctions to really materially change our long-run average cost of spectrum.

And now on to cash flow, first of all with the results for the first half, the two key items to call out here are net-interest costs and tax, both of which are in line with our full-year expectation and are broadly consistent with the prior year. Our net cost of debt remains 2.4% in half one, excluding the cash raised ahead of the Liberty Global transaction, and free cash flow pre spectrum declined due to lower capital creditors, as I mentioned at the beginning, which is related to the phasing of capital additions. Now, for the year as a whole, we expect to generate around €5.4 billion of free cash flow pre spectrum on a guidance basis. This mainly reflects our increased confidence in EBITDA growth. As usual, we expect our free-cash-flow generation, as you know, to be strongly weighted to the second half of the year.

Turning on to the balance sheet, we expect to end the year with around €31-32 billion of net debt. This is equivalent to around three times net debt to EBITDA on a pro forma basis for the deal with Liberty Global. It includes the issuance of around €3 billion of mandatory convertible bonds and is in line with our expectation when we announced the transaction. Note that, during half one, we reclassified the KDG put option of €1.8 billion. This is to align our position to typical industry practice and report it as a minority.

There has been a lot of debate around Group leverage in recent months, so let me take a moment to set out how I intend to manage the Group balance sheet. The fundamental principle is always

to retain robust, investment-grade credit rating, and currently we have clear headroom above our minimal BBB rating. The average life of debt is over 10 years, reducing refinancing risk, and this means that, even if rates should rise going forward, we have locked in attractive funding. We are also hedged against FX volatility in emerging markets both by issuing local-currency debt and, where this is not possible, through the use of derivative overlays. Overall, with this prudent approach, I'm confident that we will deleverage over time within our 2.5-3x range, supported mainly by the Group potential to grow EBITDA as well as the opportunity to dispose of non-core assets.

And last but not least, cash flow. Let me explain why our free-cash-flow ambition supports our dividend. We remain on track for our LTIP mid-point objective of €17 billion of cumulative free cash flow before spectrum by FY21 compared to the starting point of €5.4 billion this year. This clearly implies higher free-cash-flow generation for the coming years. Of course, since we presented the LTIP objective back in May, there have been some incremental headwinds versus our original plan both in Spain and, from emerging markets, FX pressure in Turkey, but there are also some tailwinds, notably the accelerated cost-transformation programme that I have already outlined, which, by itself, will add over €800 million in the next two years to our pre-tax cash flow. In addition, worth reminding that the LTIP free-cash-flow objectives do not include the acquisition of Liberty German and central European assets, which are expected to be materially accretive to free cash flow over time. In the context of this free-cash-flow ambition, I view our view dividend as affordable at current levels and, once we deleverage back towards the lower end of the range, the Board will consider returning to dividend-per-share growth.

And with that, I will close and hand back to Nick.

Strategy

Nick Read

Wonderful. So, let me take the opportunity just to have a small section on strategy going forward. Margherita has talked about two of the key, important levers; I want to talk about the other three. Just before I do that, I think, in the spirit of simplification, this is our strategy on a page. Some people have said Vodafone has a complex strategy. We have distilled it down to what really matters. It starts with purpose. A lot of people think, 'Purpose, mission, it's a bit soft.' Let me say why purpose is important: it's for two reasons. I feel employees, especially today, want to feel part of an organisation that is positively contributing to society. So, if you're going to recruit, retain top talent and war-fought talent and win those people in the marketplace, I think they need to feel part of an organisation – and we want to be part of an organisation – that delivers for society. And then, secondly, when we're engaging with regulators, governments, politicians, society in general, I think we've got to be constantly demonstrating that we are contributing as a force for good, whether it's investments, whether it's jobs, whether it's policymaking, and you will see that from Vodafone going forward.

I'm going to talk about the customer engagement and the three segments in a bit more detail in this presentation, but I just wanted to emphasise the importance of scaled platforms. We have some really big platforms in our business that I think there's an opportunity to develop a more compelling roadmap going forward and, importantly, partner with others to develop that roadmap. And I think that can be a real differentiator for us going forward in a number of areas, and you see here IoT, our TV platform. When we do the Liberty Global transaction, that puts us on 22 million

customers. That's a base the size of Sky. I think a lot of people don't understand the potential that we have there. M-Pesa, I'm going to talk about, and, of course, we talked about the TowerCo already. On top of that, we want to have the very best Gigabit networks. We have Johan, our CTO, in the audience here, very much focused on maintaining our momentum here. And then Margherita has talked about the two pillars around digital first and radical, simpler as a business in the transformation of our business model.

So, let me take the first pillar, and that first pillar in terms of customers and top line – I'm mainly focused on the top-line performance – is in terms of our Fixed business. Post Liberty Global, we will be the largest NGN footprint in Europe. We have 54 million homes on our footprint, and what we can do is market, to 117 million, NGN products across Europe when you add, on top, wholesale and strategic partnerships. And by the way, strategic partnerships, we're expanding all the time. What does that really mean? It means better economics than wholesale and, therefore, more accretive for us going forward. In terms of our footprint, clearly, the Liberty Global transaction strategically enhances four markets for us but we've made good progress elsewhere. It was good to see that both our partners in Italy and in the UK received funding that will help us continue to expand and grow. And Gigabit upgrades, we're now 100% complete with DOCSIS 3.1 in Spain and we will 70% complete in Germany by the end of this fiscal year.

Now, the important part is we're also the fastest-growing fixed-broadband provider in Europe and, if you take NGN fixed-broadband growth, we're growing at around 1.5 million customers every single year. The really important thing is, after the transaction, we will have an average penetration of about 28%, and what you see on the chart is the fact that we are in the early stages of that penetration curve. But what we've got to do is really drive local go-to-market execution on top of our national execution, and so we've come up with a more detailed of what best-in-class looks like in terms of moving this penetration curve.

This is the really important bullet at the bottom: you add 1 million customers on-net onto our footprint and, because of the high margins, you're talking incremental free cash flow of €250 million, so it's a really key part of our execution. On top of that, what we're going to do is develop a more compelling convergence roadmap of products and services and, importantly, as I said, and the TV platform. So, we have multiple TV platforms because we made multiple acquisitions. We made a decision as an ExCo, in October, to move to one platform over time. Why are we doing that? Because we get synergies in terms of procurement. We get one roadmap it functional-capability build, so the development cost gets spread over the whole base as opposed to being fragmented. And importantly, what you're able to do is then go to strategic partners and say, 'You've got one platform to connect with to get across our whole footprint.' So, we really think that's a future opportunity for us going forward.

Now, we're going to do both Consumer and Enterprise. We want that to be on the best networks. We've got a leading 4G network. We want to build Europe's largest 5G network. One of the really important aspects in Project Spring was the densification and modernisation of the network, and you see the stats here in terms of the infrastructure that we've put in place. So, we always said that 5G would be a layer on top of 4G, which we've already invested in. We've been investing in spectrum. You see the number of markets that we've got for 5G already. Clearly, I look at the Italy auction and I was really disappointed with the auction in terms of, if you like, the artificial nature of that auction construct because it, effectively, drove artificial scarcity. However, what I would say is, coming out of that auction, we're well-positioned as a business to continue the differentiation that we've already established in that important market for us.

And then, finally, in terms of 5G, we want to co-lead. What do I mean by 'co-lead'? It means we don't want to go faster or slower than the fastest player in the marketplace. We see advantages – and I'm going to talk about that – but we want to pace at that sort of level going forward, and 66% of our sites in the key urban areas – 100,000 population – are 5G-ready. 5G-ready is single RAN

1Gbps speeds on the backhaul. So, our ambition is to be the leader in network perception and true differentiation versus the value players.

Now, in the immediate term, as we roll out 5G, the immediate benefit we see is around cost. So, as you see, we have been doing a good job in terms of network cost for our business. We've been experiencing 60-70% data growth over the last couple of years, and Johan and his team have done an excellent job of holding down the cost base. How have they done that? We are migrating, all the time, traffic volume onto 4G, away from 3G. So, today, if you took the European network, 77% of the data on the network is on the 4G network. Why is that important? Because there are significant efficiency gains for us on a unitary-cost basis as we migrate to 4G and, again, we see the same in 5G. So, this is why we have confidence that we can hold stable our network costs going forward, even though volumes will increase substantially in a 5G world.

Now, cost is exciting, and you could see from Margherita she loves reducing cost, so that's good, but top line is also important. We're getting more excited about 5G in the medium term, and these are the areas where I think there's opportunity in the Consumer space. The first is around quality of service. We're building intelligence into the network. That intelligence will allow us to differentiate the services that we provide, so speed-tiering will be a possibility going forward. What that allows us to do is to do different segments, different products and, ultimately, different pricing, depending on the criticality of the service. We did a good job on Consumer IoT in terms of the "V" launch, positioning Vodafone as a Consumer IoT player. However, the important development we're working on at the moment is our own platform to enable an end-to-end, seamless experience for customers on multi devices, which, at the moment, is not the case. So, we think we can enhance the delivery on this from the experience we've got on our Enterprise IoT area and take market share in this area.

Fixed-wireless access is something often talked about. We have spent a lot of time on this over the summer – all the different business cases, all the different permutations. Ultimately, we don't see the business case for fixed-wireless access when you have NGN fixed broadband in place with ARPU's at the levels they are in Europe. We look at the complexity of huge data growth. You're talking a fixed-data customer is 50 times a mobile customer, so putting that strain on the network, that cost of delivery with those sorts of ARPU's, doesn't make economic sense to us, especially when we want to be known for the best-quality network. So, what we want to do is more of an outside the NGN fixed footprint. We see an opportunity for more targeted propositions, which we will be rolling out over our markets.

And then, finally, e-gaming: we believe that, in our footprint, there will be up to 150 million gamers all looking and willing to pay a premium price to shoot a telecom analyst. So we see opportunities on the revenue side.

In terms of Business, as I say, we're rebranding Vodafone Business. We want to demonstrate that we have wider capabilities than maybe people appreciate today and I just want to bring some of those to bear. So, in terms of our unique footprint, we're in 25 markets where we are executing our own operations. We have 45 let's say 'deep' partners, where we partner-market with them to deliver for enterprises, connected with 250,000 km of fibre. So, we have more control over the end-to-end experience that we deliver for large corporates, which is really important for them, and, importantly, the security that goes with it.

And the other really important thing is we have deeper economics in more countries than an incumbent. They might have deep economics in one, two, three countries but not the footprint that we have. So, we think we have a unique set of assets. The other thing is the product mix – don't confuse our product mix with some of the other incumbents' product mix – ours is connectivity. It's good-margin business. We have very little legacy business and we have very little low-margin IT services.

Also, this operates in a marketplace where we have structural advantage, and what I've tried to highlight here is, for the four big markets, versus Consumer, the structural difference. Ourselves and the incumbent together in Mobile only have 78% market share. In Consumer, you're talking 60%. So, in Consumer, you've got 10-plus brands in most markets competing for your attention; in Enterprise, essentially you've got two big players that offer the full range of products and services, and then a long tail, and we think this is an opportunity, especially when we've got low fixed market share today, for us to expand going forward.

So, to conclude on Business, 50% of business is SOHO/SME. We think there's opportunity to go into Fixed and take share; we also believe also for large corporates. Two things I'd draw out: corporates today are going through the moment when you say, 'I need to switch out of legacy fixed infrastructure and move into SDWAN infrastructure', and it's a moment when they are opening up and considering lots of different vendors. So, we have the opportunity to really change the perception of Vodafone being more mobile-orientated into a total-comms player, and so we will be very much focusing in this area.

And the other thing is industrialisation of IoT. If you look at this chart, you see that connectivity is a relatively small part of the overall pie. We are a leader in connectivity – we have the largest share, people know that we've got the global platform and we can offer global connectivity. We'll continue to want to take share. But here is where the opportunity is also in terms of services, and what we have to do is build a services stack. And we've done that for automotive, so we are a global leader in automotive and what we now want to do is build more vertical stacks of services – things like insurance, healthcare etc – and really build specialist ecosystems to serve that area.

In terms of emerging markets, two points I really wanted to make. Emerging markets is, on this definition, 17%, growing at around 7% year over year in terms of service revenue. However, importantly, data revenues is 50% of the revenue here, and that's growing at 18%. And we are at very early states of penetration with 4G at 22%, and you see that, as you move up from 2G to 3G to 4G, we can stretch the ARPUs, so still plenty of growth left in the market.

And this is the other important platform point I wanted to make: we talk about M-Pesa. M-Pesa is a €1 billion business for us, growing at around, let's say, 19% – something around that. But a lot of people think this is just money transfer, and we made a strategic choice quite a while back to say, 'No, no, no, what we need to do is take it on a journey of enterprise payments, financial services and, ultimately, m-commerce', and so what we're doing is we're broadening the offer that we give customers. And this is what I wanted to highlight: as you broaden, the percentage that M-Pesa represents goes up to broadly 30% and you get a very engaged customer base. So, it becomes a lot more strategically important for the overall development and winning your mobile share as well as developing the businesses in this space.

So, to conclude, sorry it was a little bit longer but I think there were some important messages we wanted to land with you today. We have a clear focus on operational execution, organic growth moving forward, ambition to transform our business model. We've identified five value leaders that, basically, are around us deepening the customer engagement, transforming and accelerating on digital, and better and increasing utilisation of our assets. And we want to do that with consistent investment to build our Gigabit new driving free-cash-flow growth going forward, which we feel underpins both our dividend and improves shareholder returns going forward. And on that, we will do Q&A.

Questions & Answers

Akhil Dattani, JP Morgan

Two questions, please. Nick, at the beginning, you talked about, as one of the key pillars, the focus on more consistent commercial execution. I guess just keen to understand the thought process behind that. I guess the inference being probably you haven't felt that there has been that consistency. So, maybe you can talk about why you think that is, what markets you feel you haven't maybe had the performance you would have liked, and what do you think that's a function of? Is it the debate around the Group being a very big group and maybe it would be benefiting from reducing some of the non-core markets? Is it about changing strategy, compensation structure? Just any colour around that would be really interesting.

And then the second is really about the outlook from here. You've talked about the divergence between the non-Spain and Italy markets, which are doing very impressive EBITDA growth at 11%, and then Spain and Italy that are in a transition phase. Italy is due to Iliad and it sounds like, from what you said, things have already bottomed. How do you feel about Spain? And I guess, what do you think you need to do in terms of the next steps, where are we, and when do you think, roughly, we get to the bottom?

Nick Read

Okay. So, a multipart question. What I'd say is Margherita will maybe cover Spain outlook. Just in terms of improved commercial performance, I put it down to a couple of factors. I think Vodafone maybe had been trying to lead the industry into a nice, rational space, improving returns. Maybe we were doing more of the heavy lifting than others in the marketplace and we were getting undermined. Let's say tactically – not strategically but tactically undermined on that. I think we have to compete. That doesn't mean that we're driving down prices but I don't think we always should be doing the heavy lifting, if you like, to improve market conditions.

I would say, secondly, look at it that we view the markets like a high-tier, mid, low. I was going through it as an example in Spain. I think we need to compete in all three. There was a moment when we came out of wholesale and we didn't replace Vodafone in that segment. So, if you like, Vodafone was never in the lower end but, when we came out of wholesale, we weren't really getting economics from that part. So the question is: do you do it by a second brand? Do you do it by a product extension? There's lots of different ways to do it. You don't have to go back into wholesale but I think you have to have the mindset of you're going to win in all of the three areas.

I'd say we need to have fewer initiatives and, therefore, the ones that really count, we replicate quicker, with speed, and I think Margherita made the point about, in a digital world, that ability to replicate fast in our network, but we need to do it on our full footprint.

And then, finally, what I'd say is, yes, we are changing the remuneration scheme. So, from 1 April next year, we're making an adjustment. We did 60% financial/40% customer, and then we had a very large basket of customer metrics. What I've decided is to take it back to 75% financial, so evenly split service revenue, EBIT, free cash flow, and then the rest is customer but harder cut metrics, which are churn, total comms market share, and then NPS.

Margherita Della Valle

Taking the point on the Spanish outlook, essentially we have seen the first half of the year has been characterised by the cost of our commercial repositioning going through. It will take longer than just half one as the new pricing levels will flow through the whole customer base, so I think you can expect the second half of the year to look very much like the first half in revenue terms or, actually, more precisely, like the second quarter, as we will see the effects coming through. And we still have, in this fiscal year, the bulk of the football costs in our P&L.

Now, looking forward to next year, clearly, it's early days and there are a number of uncertainties. We should clearly benefit from the fact that, at that point, we will lap the commercial repositioning from a revenue perspective and also, next year, we will see the benefit of the reduction in football costs in our P&L.

I just wanted to add one more point in terms of commercial execution, and execution more broadly, which is around the point I was making on digital earlier in terms of speed. I think that the traditional approach of telcos to transformation is lots of business cases and trying to hit, if you want, the perfect plans. What I'm seeing with digital is that the type of returns we have on the business cases is such that we should really step away from this idea of perfection and just get on and do things, because they end up self-funding and then you can perfect as you go along. And I think this is a big part of really focusing the business on results.

Polo Tang, UBS

Just two questions. The first one is really just about the acquisition of Sky by Comcast: how you see this changing the dynamics in the communications in Europe, if at all. But also related to that question, you also highlighted the scale of your TV platform, with 22 million subscribers post the acquisition of Kabel Deutschland. So, can we expect you to be doing things differently in terms of TV; so, specifically, content acquisition or exclusive rights on a pan-European basis?

The second question is really just in terms of more colour in terms of Italy, because you highlighted in the presentation that the second half potentially could be better. Could you maybe just expand more in terms of what you're seeing with Iliad in the market? Can you just remind us what's happening in terms of your pricing in Italy and just any other dynamics that you see relevant in terms of what gives you optimism in the second half?

Nick Read

I should have said it's one question each, so I apologise for everyone. Okay, from now on, it's one question each, just so everyone gets a chance. I'll let Margherita maybe give a bit more colour on Italy.

Just in terms of Comcast, we have not engaged with Comcast yet, so we haven't had the opportunity to sit down. We'd like to sit down with them and discuss how they view Europe and opportunities moving forward. Certainly, the impression we're getting is that they bought Sky for the content-aggregation and, if you like, content-production capability more than distribution, and certainly the Sky CEO was recently saying they didn't see themselves going into fibre builds, but then you never know – that might change over time. Clearly we remain as a potential partner for fibre-build opportunities going forward, and so let's see where that develops.

I'd say, in terms of the TV platform and its read-across for content strategy, no change. We are a distributor of content. We will remain a distributor of content. I've yet to see in Europe a successful example of someone going into doing content themselves as a telco. We don't want to compete with other telcos on content. We just want to distribute. But I do think having a good

platform, a good central team, someone that engages with content providers in a strategic way will help us secure the rights we need.

Margherita Della Valle

On Italy, clearly, it's a prepaid market and, therefore, can be very volatile. If I have to point out where we see it now, since the launch in May, we have seen Iliad gradually raising the bar on its pricing, up to €7.99 at the moment. And if you look at our own offers, we have, essentially, also created space for that, our second brand offer, for example, today is €9.99 versus €7.99 with Iliad. We would expect this to happen also on the back of, effectively, the margins in the market. The reason why we are saying that we are seeing Italy at the moment improving revenue trends in the second half is twofold: first of all, the level of fights below the line, which are one of the characteristics in the market, has significantly slowed down. After the summer, the level of below-the-line is now a third of what it was prior, so that's a good development. And the second element is, as part of our base management, we have also applied to a part of our base repricing over the summer that we are now seeing flowing through our revenue projection.

Karen Egan, Enders Analysis

You talk about having a deeper relationship with your customers, with a view in particular to reducing churn. Can you talk a little bit about the churn benefits that you see from that and what countries you're looking to for reassurance that that's likely to come through, and any other benefits that you see from these deeper relationships beyond churn?

Nick Read

If I stand back and just look at the industry, we suffer an unacceptably high level of churn. Good companies, good industries would not have churn rates where they are in ours, so I just think we have to get more focused on churn. That's why I want it as the number one metric for customers within the business on our bonus scheme, because I think that there's huge economic interest for us if we are not churning customers, because the costs of acquiring them again in the marketplace is so high. Plus, you get inconsistencies, chasing in the marketplace with promotions versus how you're making your customers feel on the deals that they have today. So, I think this is a natural thing to be doing at this stage of development, but also it's our view of a converged world. In a converged world, you'll not have just one mobile number with us; you might have four, five for the family, the fixed product, TV. Then you've got Consumer IoT – you might have 30 devices connected, which we will bundle for you and we'll make that a seamless experience through the Vodafone app. But it's just more the fact that you start to get more appreciative as a customer about what Vodafone is doing for you with a fantastic Gigabit network.

Margherita Della Valle

Maybe just to add one data point in terms of example, most of our markets in what we call Other Europe are fixed markets in Europe, around single-digit churn in contract mobile. The average for Other Europe is just 10%.

Andrew Lee, Goldman Sachs

A question on cost-cutting: so, your multiyear cost-cutting clearly reflects your confidence in the ability to sustain that cost-cutting over many years, and it's clearly driving investor confidence in that. The other investor pushback on digital cost-cutting is the ability to retain it to see it drop down to free cash flow, whether you have to give it away in lower prices because everyone else

does it. How confident are you in the drop-through of your digital cost-cutting efforts actually impacting your free cash flow?

Margherita Della Valle

I would say, in a nutshell, the importance is speed. If we manage to be faster and more flexible than some of our competitors, then we will have the ability to retain the savings at our end, so that's another reason why focusing on speed is quite critical.

Nick Read

I would also just build on the fact that this is the first time we're doing a multiyear ambition and sharing it. We've always had ambitions previously but you would have a number of drivers and then you would say, 'What's the next phase?' if you like. I think you really have to look at this as transforming the business model, and because the aspects of the execution have been accelerating for us, and we've had a very good performance this year, it really gives us confidence that we can – the theory is getting applied in practice and we've got real momentum and, therefore, we can see structural costs coming out – calls etc. So, I think that we feel it's a better form.

Stephen Howard, HSBC

I wanted to ask a question about differentiation because you're saying, on the one hand, that you're looking to do more partnerships with other players. You're talking about the virtual tower company and looking to lift the tenancy ratio. How can you be sure that that doesn't sacrifice your ability to differentiate versus less-invested rivals? Allied with that, I'm also a little nervous about some of the regulatory trends. There does seem to be an interest on the part of some regulators on limiting your ability, for instance, to hold off selling 5G, for instance, to MVNOs. I'm thinking here potentially about the German market. Is there a risk that regulators compel you to wholesale 5G in a quicker timescale than you'd ideally be comfortable with?

Nick Read

Do you know what? We debate differentiation a lot. Because what does it constitute in terms of differentiation. I translated it slightly differently when we went through the strategy reviews: how do we compete in the marketplace? And what I'd say is there's going to be three pillars to how we compete. One is best network. It might be co-best with the incumbent but we will have best network versus at least the value players in the marketplace.

And then you say, in terms of service, where you're hearing us talk about, 'Well, we're really going to focus on the digital end-to-end service that we're delivering for customers', and we do think we can move faster than others in the marketplace, to Margherita's point. And therefore, it can be differentiated, seamless experience; i.e. you put us up there and say, 'Actually, this really works' and it's a lower cost for us.

And then the third thing that I would just say is going back to my point about competing at the tiers: we will always be good-value at each tier for what we're offering to customers.

And I think, as a combination, that is a compelling – whatever you want to call it – differentiation or if you want to call it an effective way of consistently commercial performance in the marketplace.

I would say, in terms of regulatory, I've not heard specifically a major push. I was talking to Hannes only yesterday about the regulatory environment. I would say, generally, regulation, they

want to encourage investment, which is good conversation, and so they want to encourage models around investment, so this would go against that, I would argue. I'd say the other thing, though, is there are a lot of conversations around coverage obligations. So, I'd say the battle we're facing at the moment, generally, is these coverage obligations and just making sure they're in a reasonable place over a reasonable time period. And it's because a lot of people are concerned about white spots etc, because they can see the potential of 5G and, therefore, they want to make sure that there's coverage. My answer to that is that's why we're talking about asset utilisation and, in a mobile world with 5G, we might be open to more sharing in areas that need to be covered.

David Wright, Bank of America

Over the last 10 years or so, if I look at the numbers, you're running at around about €4-5 billion of write-down per annum, and we've just got another big one today, with 3.5 billion in Spain. That's practically half the value of ONO that you bought. What I'm trying to understand is: what is driving the write-downs? Because the rhetoric on opex seems very positive. The rhetoric on capex seems broadly in line. So, for instance, Spain today, could you talk us through how you got to that 3.5 billion? What's driving the write-down? The round-about way I'm coming to this is – and it might be just myself but it feels like there's a lot in here about opex and free cash flow but there's not so much towards revenue. Is it revenue growth in the industry that's the declining factor here or disappointing factor? I'm interested in how you think about that.

Nick Read

Let me cover the last point because, clearly, you didn't like the last part of my presentation. That was completely focused on revenue growth, so I did not land with impact.

David Wright

I turned off at 'shooting the analyst', so I don't know.

Nick Read

So, we do see three areas where we do see opportunity going forward. What level of growth rate we can achieve, we'll see. Really, I'm trying to say: take Spain and Italy to one side. The rest of the portfolio is growing around 2%. This time last year, we were growing around 2%. So, is 2%, as an overall growth ambition, right? Can it be higher? I don't know but what I'm saying is we can deliver those type of growth rates, and that's before we get into 5G etc and whether there's opportunities. So, the ambition there is for top-line growth. I think what we're saying is that the cost agenda just underpins our business and gives us strength going forward, but in a view of improving the customer experience.

Margherita Della Valle

On impairments, I need to say to the first part of your question that I think we need to go back to 2013 to find any material impairment in Europe. That was when Nick stepped as CFO. Since then, we didn't have any major movements in the European environment.

As far as Spain is concerned now, we are taking, essentially, what you see in the results into the valuation of the company. Clearly, from an accounting perspective, we need to take a prudent view and we have reflected the EBITDA trend that we have seen in the second half, I would say, quite mathematically in the valuation.

Andrew Beale, Arete Research

Just a quick question on towers, I guess: what are the operational savings that you're envisaging you can make just by moving to a separate management of the towers? Which are the markets where you think that it makes sense to go after external tenancies without undermining your strategic position? What is the embedded, positive tower financing that you see relative to your cost of debt? And what would be the priority for any funds raised, if you go down that route?

Nick Read

Okay – eight-part question. We are not going to say specifically how much the savings are. In terms of the vertical, internal tower company, that's one of the levers that delivers the €1.2 billion. It's really in two areas that we will see. So, one is just efficiencies. It's like anything. When we set up Indus Towers, it was a really good example. I was on the board of Indus Towers. You carve them out and then, having that single focus, suddenly everyone's focusing on efficiency: 'Why does that tower only produce x? Do we need in that location? Should it move to this location? It would be more productive.' So, you really look at the returns by tower, and so you have that single focus. I would say I'm not saying that that doesn't happen today but it wouldn't happen with the same discipline and ruthlessness of single-minded focus on towers. So, drive out efficiencies, drive up tenancies.

I think there's a tenancy potential across the footprint – it's not in one or two markets – and I think we do need to then sit back and say, 'Is that a strategic tower or not a strategic tower?' What we're finding is – and this is where the due diligence needs to follow through – is just we see a lot of different opportunities where we could probably drive more tenancies. Maybe one person's view of what's strategic versus another's view of what's strategic will be different going forward.

So, I'd say these are the two things that we will drive off the back of it. Clearly, our cost of funding is structurally lower than most tower companies' cost of funding. So, when you start thinking about disposing of, let's say, a minority stake in towers, you have to start thinking about: well, if you've got 5-6% cost of funding and we've got 2.5%, you're internalising that cost into our model. So, the attractive multiple needs to be high for us to do that.

So, let us go through the due diligence and let us do the analysis. By the way, there's a really important consideration. When you're going to sell a proportion of towers, clearly, we have to carve the towers out, set them up in a separate legal entity. Therefore, leases need to move, contracts need to be changed, capital-gains tax comes into consideration. I can give you an epic list of all the hard work we've got to do to create that, if we want to, but we've got to go through the due diligence, check that the size of the prize is big enough, the values are big enough, and the tower company brings enough value to the table over and above our internal, single focus would.

Guy Peddy, Macquarie

I sense from your presentation there's a lot more focus on the IT side of things with your digitisation side and you're talking partnerships a lot more, perhaps, certainly with some of your physical assets. Does this mean that there's a recognition that owning physical assets is less important going forward than it was in the past, because those are being largely commoditised and it's difficult to differentiate, so you've got to find that differentiation elsewhere?

Nick Read

Let me give an example – and probably Brian, our Vodafone Business Group Director would probably not like me for giving the example but it's probably the easiest one. If you look at cloud,

you could decide, 'I want to go into the cloud business. I want to own data centres. I want to put infrastructure in' etc or you go a variabilised model with a partner. And I think it's those type of considerations, where you're saying to yourself, 'We've got some heavy lifting to do on our own part of the business model but we do need capabilities and, therefore, rather than us taking the burden for trying to extend ourselves and then you've got to get skillsets, competences, you've got to put more capital into that area, is it faster, because speed matters, that we partner to get an effective solution together with partners that say, "Don't try to undermine us", partners that generally see the value we offer and want to work with us.'

And that's the great thing about Vodafone: everyone would like to work with Vodafone but we just make it a little bit too difficult for people to work with us. So, what we need to do is make an easier experience, a more collaborative experience, and then we need to move fast. But we only want to work with it when it's in a space that's material – an opportunity rather than fragmented initiatives just for relationships.

John Karidis, Numis Securities

I'd like to understand why you do not want to lead in 5G, and I ask you this in the context of the Trumpian announcements we're getting in the States about the benefits of 5G, specifically also for the economy. You talked about fixed-wireless access, so I'm not expecting you to repeat that, please, but there are other companies there that make some pretty big pronouncements about the benefits of 5G to the industry and to them specifically by being first. So, if you could enlarge upon that, that would be great.

Nick Read

We discussed this a lot as an exec team over the summer when we were talking strategy, because we're stress-testing all the components of the strategy. What I would say is Verizon. I was over meeting with Hans recently. There's very specific circumstances to why he thinks fixed-wireless access is a material opportunity for him that just don't exist for us. His depth of spectrum. Where ARPU's are for fixed as the alternative. So, he just believes it's a bigger opportunity. Frankly, it does not port over to us. I see a more targeted proposition opportunity.

To your point about 5G and why don't you lead, it's a really quite simple answer, which is: if you're an incumbent, are you really going to allow us to lead on 5G? It will turn into an arms race. It will turn into every single incumbent will push capex. I think the industry spends enough on capex at the moment. So, what we need to be doing is thinking more intelligently, and what we're saying is we'll go as fast. If it's the incumbent that goes at a certain speed, we'll match them on that speed, but we're not going to push them into an arms race. I don't think it's healthy for the industry, especially where the share price is at the moment for the whole industry and the sector as a whole.

Maurice Patrick, Barclays Capital

So, you made a big point about partnerships earlier. If I saw your slides correctly, your definition of partnerships seemed to be using other people's networks as opposed to others using yours, which brings the debate back to MVNOs. It feels like, in Germany, it's the lack of partnerships that might drive a fourth new network entrant, given what's happening round there. So, your thoughts in terms of MVNO partnerships. If, in Spain, it looks like you're launching new brands, that's not using wholesale partners. Is your view towards MVNOs changing in wholesale?

Nick Read

First of all, I will answer that but you made a jump. It isn't a case of us using others. I think there are a lot of partners that want access to our huge customer base. They want access commercially, and I think there's big opportunities in the partnering space for the top-line development, with partnering, but we've got to be easy to do business.

Specific to MVNOs, what I would say is, when we sit back and think about wholesale, and you'd say, 'Well, was it a good decision to do the wholesale decision we've made', we did 4G. We did a big investment and what we were really saying was it wasn't that we were against wholesale. We just said it needed to earn an acceptable return – and that included everything we were doing on the assets, including spectrum – rather than through incremental economics. So, we just wanted to make sure value players did not get a structural advantage and lower, if you like, the quality of networks.

I think, when I look around, I'd look at Germany and I'd say that has played out really well strategically. I'd say Spain less well, because Orange decided to wholesale a high-quality network. Okay, that's life. So, I would say the strategy itself, I could go round all the markets and say whether I thought, in hindsight, positive, neutral. I'd say Spain is the one that's ended up being a negative, a little bit outside of our control.

If I look forward, all I'm saying is, in a 5G world, I think we need to be open to partnering but not give – so, no change to giving value players a leg up. That doesn't mean that we're against wholesaling. If they want to pay the full cost of that network, that's one answer. Clearly, the decision around 4G might change because, ultimately, we need to migrate 3G onto 4G, and shut down and re-farm 3G, and we want to do that between 2020 and '22, because that's a real opportunity to use that spectrum in a more efficient way. And that's probably the cheapest way we can increase capacity. So, these are the type of considerations.

James Ratzer, New Street Research

I just wondered if I could ask a bit about some of the assumptions you've used in your impairment tests, please. Because you're giving the –

Nick Read

This is definitely yours.

Margherita Della Valle

Or Tim's.

James Ratzer, New Street Research

So, you're giving the impression that both Italy and Spain are recovering from here, but yet the long-term growth rates you're using in the impairment test is that Italy continues to decline going forward. Spain does grow but a five-point growth gap between the two markets over five years compounds to quite a material difference. So, what is it in Italy in particular that you're more concerned about versus the Spanish outlook, please?

Margherita Della Valle

I would just step back from the various component parts of these details because, essentially, if I may say so, the impairment is expected to be what I would define as a prudent accounting exercise. We touched on it earlier. We do not want to continue to revise the assumptions in our models and, therefore, we set them at a level where we are comfortable. Don't read an automatic read-across to what can be, I don't know, next year's EBITDA guidance from impairment numbers. But of course, maybe we can pick this up later directly or with Tim in more detail.

James Ratzer

I suppose assuming a similar degree of prudence in both markets. You're still assuming a five-point growth gap between those two markets going forward. Is that fair?

Margherita Della Valle

Shall we just really discuss it later?

Nick Read

I wouldn't read that much into it.

Margherita Della Valle

It's definitely not our long-range plan in terms of giving you guidance. It's a different type of assumptions.

Dhananjay Mirchandani, Bernstein

I'm surprised no one's asked a question on Vodafone Liberty yet. Two parts, please: firstly, the Federal Cartel Office has requested for a referral back of the German component of the transaction. The phase I deadline has been moved, I think, to 18 December. What are your thoughts, number one, on the timing for any decision on jurisdiction from the Commission, and what are your expectations of the outcome, number one?

And number two, based on your conversations that you described as constructive with the Commission, what are the key areas of concern around competition that the Commission has voiced as it pertains to the transaction?

Nick Read

It was no surprise that the Cartel Office in Germany asked to have it. We expected that, so there was no surprise in that. The deadline moved out from phase I by two weeks, so it's not a particularly big extension. It makes no difference to the extension in terms of the final phase II. What I would say is, in terms of timing, then, on jurisdiction, we'll know for the December timing. We're literally engaged no, so I really don't want to expand on the conversation we're having. All I'd say is these are two very large businesses, multi-country, non-competing, overlapping footprint, and the precedents are all there over the last five years of EC taking these cases. This is what the EC was there to do, so we're very confident.

Ottavio Adoriso, Société Générale Securities

It's a question for Margherita. On page 26, on the gearing, we can see that there is a lot of moving parts, of which free cash flow is only one of them. So, you mentioned that you see some headroom on at least keeping the minimum credit rating. So, if you can share with us what we're talking here in terms of the headroom, if you quantify in terms of how much the debt would go up or EBITDA has to go down, so basically that headroom disappears. Because they relate to this one, I can see that the put option has been reclassified. Are the agencies going to do the same, given your talks with them? You also put €800 million injection, at least negative cash flow from India. In H1, you disclosed €1.3 billion equity injection in India, so how do we go from €1.3 negative in H1 to €800 million negative in the full year?

Margherita Della Valle

Ottavio, a very – how can I say – precise question, as we would expect. I think you asked three different things, and I'll try to take them in turn. Easiest one: KDG reclassification. It's something that the rating agencies pointed to us. They noted that we were the only company that they were aware of doing the old version of the classification and, therefore, certainly are following this.

On your bigger-picture question, I would say probably a three-part answer. The first one is we are really committed to operate within the 2.5-3x range that we have set. And when we talk about margin and headroom, it's because the range itself has been set in such a way that the top end, which is 3x, has some clear water between that threshold and our ultimate balance-sheet policy of having a robust, investment-grade credit rating. At the moment, as you know, two rating agencies out of three are giving BBB+ on that position, so that's where we have headroom.

In terms of how we intend to move within the range, clearly there may be short-term oscillations, but, ultimately, what we are looking at is a trend which deleverages through EBITDA. That's the fundamental moving part in your equation. When we say we reconfirm 17 billion of cash flow generation over the three years, clearly implicit in that there is constant EBITDA growth, and this is the primary driver of deleveraging. On top of that, once you overlay Liberty, because we always see here the pro forma impact of Liberty as the net-debt impact, but once you overlay Liberty in terms of its own EBITDA and cash flow, clearly, as you know, this is going to be additionally accretive, so building on our own EBITDA growth.

Final part of the question – the €800 million on the net cash flow [inaudible] closing, I think, for that, I will really need to go back to Tim later and explain to you the moving parts.

Robert Grindle, Deutsche Bank

I'm going to ask about the UK. Please could you comment on how the wholesale market for fibre is shaping up? CityFibre announced an extension to its 1 million. You guys didn't say anything at the time. I wonder whether you will continue with that. And there are a surfeit of other builders in the UK as well. Would you engage with those other builders? And as broadband is picking up in the UK, could TV come back on the agenda, now you've sorted out your mobile customer-service issues?

Nick Read

So, what I would say is, just from a wholesale perspective, CityFibre is gearing up – 10 cities, good progress – so, we're happy with the engagement we have with them. We have signed with BT the – what would you call it – contingent model or whatever, which doesn't compromise the execution that we've got with CityFibre or our commitment with CityFibre, so we felt we could do

the same. In the end, if we wanted to pull away from the BT deal, we'd just lose the discount, so it's not strategically impairing us, if you like. And we're always open to other players that want to consider other models. So, for instance, if Comcast/Sky suddenly said, 'Okay, we want to consider.' The one that's been pretty quiet at the moment, I would say, is openreach. We're not engaging with them at the moment in terms of any further opportunities.

And in terms of TV, really pleased. Nick's in front of you. So, Nick's doing a great job of driving fixed broadband. He made a really important decision. We were at a moment where we were deciding were we going to roll out Vodafone TV and fixed broadband, and he made the right decision. And the right decision was, 'I really want to be successful in driving the penetration of fixed broadband and, when we're successful and we know the product and we've got great service, then I want to overlay TV in the future.' It's always going to be there. We'll develop the, if you like, OTT-type models at the Group level and he can always pick those up. So, I think it was a brave decision at the time, because it would have been easy to say yes, and I think that's a good example of Vodafone moving forward: don't try and do too many things badly. Do a few things really well. Get commercial traction, build confidence in the eyes of the customer and then take it to the next level.

Wonderful. A real pleasure to see you all.