

# Vodafone Group Plc

## Analyst and Investor Conference Call Trading Update for the quarter ended 31 December 2017

Thursday 1 February 2018

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## **Overview and Strategic Progress**

**Vittorio Colao**

**Group Chief Executive Officer, Vodafone**

Good morning, everybody. Welcome to our trading update for the third quarter of 2017/18. I will take you through the quarter's highlights and then Nick will focus on the trading performance in our major markets before we move together to the usual Q&A.

So, I will start on slide 4 with the highlights for the quarter, starting on the left. Our financial performance is similar to Q2, with 1.1% organic service revenue growth. Within this, we saw a modest slowdown in Europe to 0.3%, and an acceleration in AMAP to 6.8%. As in prior periods, these results include a material drag from EU regulation as well as the negative impact of handset financing in the UK. So, our underlying growth was above 2%, as Nick will explain later.

Foundation of our growth is the leading or co-leading network positions that we enjoy as a result of our substantial investments. In Mobile, we now reach 93% of the population with 4G and we have the best data networks in 14 out of 21 of our largest markets. In Fixed, we now reach 63% of 104 million European homes with fibre, of which 42 million are on our own networks or via commercially attractive strategic partnerships. This network leadership drives our three growth engines – the usual ones: first, Mobile Data: which is on the third column in the slide, which is growing still at 61% in Europe and AMAP, supported by ongoing 4G adoption and larger data bundles, following our successful more-for-more actions. Second, next column, Fixed: here we added 379,000 new broadband users in the quarter, including a record 529,000 on NGN. Third, Enterprise: 1.6% growth, excluding EU regulation. This reflects good trends in Fixed and in IoT in most markets.

Then, in the final column on the right, we highlight our customers' perception of our services. Based on net promoter scores, we are the leader or co-leader in 18 markets, with a substantial gap versus the third-placed player during the quarter.

So, I will move to slide 5. The sustained NPS performance is translating into good commercial momentum. On the left of the page, starting with Europe, mobile contract customer growth, shown in the, let's say, lighter red bars, looks down sequentially and year over year, but primarily this reflects a post-pay to prepaid migration in Italy as a result of a new committed offer – prepaid – which is based, however, on credit-card payment at the start of the month. So, this is not a significant commercial slowdown.

In fixed broadband, which is the thicker red bar, our growth was similar to last year, including a record quarter, both in Italy – 95,000 – and in the UK – 39,000. This quarter also benefited from the accelerating demand from NGN, which we are capturing with a record 496,000 additions. On the right, in blue, AMAP. Customer growth remains strong in both contract and in prepaid, due to our network quality, distribution reach and high standard of customer service. As usual, I would say that scope for further growth remains strong, given that data penetration remains just at 47%.

So, next slide, moving to slide 6, you can see here the contribution of our three growth drivers to our overall service revenue growth of 1.1% in the quarter, which is the red bar. The circle above the green bars, you can see the change in contribution compared to Q3 last year, highlighting whether a growth driver is accelerating or decelerating.

On an underlying basis, European consumer mobile – the first bloc – contributed 60 basis points to our growth, slightly more than the previous year, as we monetised higher data usage through our second year of more-for-more commercial action. The contribution from mobile growth in AMAP – second green bloc – was 1% but slowed by around 50 basis points, due, in particular, to South Africa, where we proactively lowered our out-of-bundle data pricing. Our fixed growth – third bloc – continues to accelerate, as you can see, just a bit, and we remain the fastest-growing broadband provider among our peers. And finally, Enterprise had a

slightly weaker contribution, primarily due to the UK, as I will describe later. So, all together, the underlying core business drivers – the green bars – contributed around 3% of growth.

Then, on the right of this chart, you can see the drags from regulation, handset financing, carrier services and also our strategic choices in containing wholesale revenues, which have increased compared to last year, reducing our growth by almost two percentage points to the 1.1% level which you see in the last bar and I commented earlier. Now, clearly, over time, some of the drags will remain but, in aggregate, they should reduce.

Now, let me walk you through the progress on each of the growth drivers in detail in the next three pages. On page 7, you can see a summary of our initiatives to monetise mobile data. As you can see on the left, data traffic in Europe and AMAP continues to grow strongly, up 61% in the quarter. This was driven mainly by higher average smartphone usage, which is now 2.2GB per month in Europe, which is a rise of nearly 50% year on year. We are monetising this growth through more-for-more strategies, using a variety of different approaches, which we show on the right part of the page.

Spain, for example, is a good case of classic more-for-more approach. This week, we have announced a €4 price increase on our most popular convergent bundles, giving, in exchange, an additional basic mobile line and a Social Pass, integrating, therefore, the pass into our core offering. This underpins our confidence that our leading competitors will not remain excessively promotional, despite the more intense quarter we have just seen, which Nick will comment more about later.

We also continue to use the Pass on a standalone basis, especially in markets where data-bundle sizes are more modest. In Egypt, the recent introduction of hourly Passes attracted 570,000 users for an additional two Egyptian pounds per hour, boosting the number of active users by 7%.

Segmentation is another powerful way to boost data value. In Portugal, our youth proposition, leveraging on the successful Shake gamification engine – this is something that was developed in Italy and we covered already in the past – has had good results, driving a 9% increase in top-ups for these customers.

And last but certainly not least is the huge opportunity presented by advanced data analytics and big data to personalise offers to the customers. We have many examples: here, South Africa – we talked a lot already in the past – is arguably the most successful so far, with the Just4You campaign, with almost tripled data-bundle sales in Q3 helping to offset the drag from the lowering of the out-of-bundle data rates.

On slide 8, you can see the benefit from these various initiatives to consumer contract ARPU, which is supported on an underlying basis, thanks to more-for-more price moves and larger data allowances. In the chart on the left part, we show the ARPU on a reported basis, which, in general, is declining, and then the same adjusted for regulation, handset financing and the large negative mix effect from the shift from lower-price SIM-only bundles, which are now 30% of the base in Germany and the UK, and up around five percentage points on last year.

Once you do this adjustment, you can see that Germany is, in fact, growing, primarily thanks to the more-for-more initiatives in new customers in April '16 and in April '17, together with our focus on more profitable direct channels. However, DT did not change its prices following our most recent more-for-more initiative to increase the offers by €3 in October, so we had to introduce a three-month-free promo in the quarter. In Italy, our prepaid ARPU continued to develop positively, reflecting the success of our new above-the-line segmented offers in the quarter, as well as the success of our targeted efforts to lock in higher-spending customers with more generous data bundles. However, the BTL market remains intense and the new entrant is expected to launch in the coming months. UK: UK customer ARPU is growing as well on an underlying basis, thanks to more-for-more, a better inflow mix of higher-value customers and inflation-linked customer-price increases. And finally, in Spain, the benefits of our refresh moves of last April were offset in the quarter by intense promotional activity from leading competitors, resulting in a slight ARPU decline. So, Spain is the only one on the slide that you see on the right part is negative.

So, overall, I would say that Q3 has been a slightly more promotional quarter with a clear industry trend towards larger data allowances, but given our differentiated network quality and the opportunities from deploying advanced data analytics, we continue to see opportunities for monetisation, depending, of course, on the behaviour of the top-quality providers in the market.

Moving to slide 9, here we are pleased with our progress in Fixed, where our capital-smart infrastructure strategy, which you can see indicated on the right, continues to deliver strong results, as you have already heard. Fixed now represents 29% of our European revenues. The chart highlights our fixed scale in each country, and some key recent developments in our build activity as well as our strategic partnerships.

Starting with the UK, we are delighted that CityFibre has recently announced that Milton Keynes will be the first city where it builds out FTTH. The next 11 cities will be announced during the coming year as part of our commercial agreement to support the buildout to one million homes, and then we have the option to extend to five million homes in the future. In Germany, we are scaling up the initiatives behind the €2 billion Gigabit investment plan to reach business parks and rural homes and also upgrade cable. We have already successfully piloted the switch-off analogue services to support the upgrade of our cable infrastructure to DOCSIS 3.1, and we are in active negotiations with a number of municipalities and business parks.

In Italy, Open Fiber continues to progress. As of the end of December, Open Fiber had passed 2.4 million homes, of which 1.9 are now marketable. And while the number of homes passed grew by 400,000 in the quarter, the number of homes marketable increased by only 150,000. This is because Open Fiber has begun expanding into the 81 new cities in addition to the original 13, and inevitably there is a time lag between building coverage and the point at which, for us, it is commercially efficient to open a city and start marketing. And finally, in Portugal, we commenced the network-share build with NOS. So, our progress in fixed creates the platform for us to drive convergence across our combined customer base, with just under 200,000 converged customers added in the quarter.

And finally, last slide for me, slide 10: Enterprise. As I said, it's 29% of Group service revenue. In Q3, overall Enterprise service revenue increased by 40 basis points, which you can see in the third grey bar on the left part of the chart. Excluding the impact of the regulation, Enterprise grew 1.6% – this is the red bar. This performance was impacted by a slowdown in the UK, which was as the result, essentially, of customer losses during previous quarters and some quarterly project phasing. The green bars exclude the more volatile UK performance and highlight the positive ongoing momentum in Enterprise across the remainder of our footprint, with growth of over 3%. This reflects a combination of robust fixed and mobile growth and includes also IoT, which is up almost 19%.

On the right, you can see the story market by market. Germany is now back to growth, and Italy, Spain and South Africa are all performing well. In the UK, now our primary focus is improving the profitability of the former Cable & Wireless assets by eliminating legacy networks and transforming our cost structure.

So, now, Nick will comment on the different markets.

## **Trading Update**

**Nick Read**

**Group Chief Financial Officer, Vodafone**

Thank you, Vittorio, and good morning, everybody. Turning to page 12, as Vittorio has already highlighted, we maintained our momentum in the third quarter, with similar reported service-revenue growth to Q2. The chart on the left-hand side of the page shows that our underlying performance, excluding the drag from EU regulation and the impact of UK handset financing, was materially higher, at 2.3%, and again similar to prior quarters. In aggregate, these drags on our reported growth were broadly similar quarter over quarter, as the reduced drag from roaming post the peak summer quarter was offset by the growing impact of UK handset financing. Note that our low-margin carrier business continued to drag on our year-on-year growth by around 70 basis points, as was the case last quarter. This follows the implementation of a new traffic-optimisation engine, which has improved profitability.

The chart on the right shows our growth by region. As you can see, Europe slowed, on both a reported and underlying basis, by around 50 basis points. The decline in quarterly trends reflects the lapping of price rises in Italy and higher promotional intensity in Spain during Q3. Our underlying growth rate of around 2% reflects strong fixed growth of over 4% and mobile growth of around 1%. In AMAP, growth accelerated to 6.8% from 6.2%, reflecting a broad-based improvement in Vodacom.

Moving to slide 13, you can see a summary of the competitive environment and commercial performance of our major European markets in the quarter. In Germany, the competitive landscape remained broadly stable. Our co-leading network quality continued to support good customer base growth, with 144,000 mobile contract and 89,000 broadband net additions in the quarter. Reported service revenue growth improved to 2.5% from 1.6% in Q2, reflecting lower regulatory drags from roaming and the lapping of the MTR cut last December. Ex-regulation, our underlying performance was a robust 3.4% growth. Looking ahead to Q4, we face tougher prior-year comparisons in wholesale, and we also begin to lap the inflection in post-pay subscriber growth in Q4 last year. As a result, despite also lapping the remaining MTR drag, we expect Q4 reported growth to moderate slightly compared to Q3.

Turning to the UK, the competitive environment also remains stable. Our mobile recovery continued to gain momentum, as much improved customer service and a record network performance led to another gain in NPS and 1.6% underlying mobile growth, up from 1% in Q2. Our commercial momentum was solid, with 41,000 mobile contract net adds. While this was down year on year, importantly the quality of our customer mix continues to improve. We also enjoyed our best ever quarter in UK broadband.

This improvement in Consumer was offset by a decline in our fixed Enterprise business, which the result of both prior-year customer losses and project phasing, as Vittorio mentioned earlier. Together with an increasing headwind from handset financing, which dragged on growth by 3.6% compared to 1.5% in the prior quarter, this led to a reported service revenue decline of 4.8% in the quarter. In Q4, we expect to see further underlying improvements in mobile, together with some reversal of the project-phasing impact in fixed, which we experienced in Q3.

In Italy, competition remains intense, with below-the-line promotional offers continuing. However, mobile net port volumes were stable year over year, following a significant step-up in prior quarters. In mobile, our new segment propositions and personalised offers have helped to improve our sales mix and customer retention, resulting in lower prepaid losses, while, in fixed, we had another record quarter. The slowdown in service revenue growth compared to Q2 was expected, given the full lapping of mobile tariff changes from the prior year.

And finally, Spain: the high end of the market was extremely promotional in Q3, with significant discounting by all the major operators. This led to higher churn in both mobile and fixed during the quarter. Despite this, our commercial performance remained robust, with 30,000 mobile contract and 68,000 fixed broadband customers added in Q3. Growth slowed to 2% as a result of promotions, as well as around a 100 basis point drag from lower visitor revenues quarter over quarter. Promotional activity in the higher-value segments on the market ended in early January, and price rises have been announced by all the operators.

Moving on to AMAP on slide 14, in general we saw a stable competitive environment. In South Africa, we are enjoying strong customer base growth. However, we have been working proactively to lower out-of-bundle data pricing – a key focus area for consumers and regulators – with rates reducing by up to 50% from the beginning of October. We aim to mitigate this impact through growing in-bundle usage, which we succeeded in doing throughout the quarter, with data revenue growth in December back up 13%. Service revenue in Q3 improved by 100 basis points to 4.9%, largely reflecting the lapping of MTR cuts in the prior year.

In Vodacom's international operations, we saw a healthy acceleration in service revenue growth to 10.4%, supported by growing data demand and M-Pesa. In Turkey and Egypt, our commercial momentum remained strong. Service revenue in Turkey grew by 13.8%, reflecting continued strong consumer contract base growth and data usage, while, in Egypt, service revenue grew 18.8% following successful segmented campaigns and price increases.

Turning to India on slide 15, the competitive and regulatory environment remains extremely intense, with the market-leader increasing the competitiveness of its tariffs, despite price rises by the new entrant. This was further exacerbated by a 57% MTR cut in October. Consequently, as you can see in the top left-hand chart,

service revenues declined 23.1% in Q3. Excluding the nine-percentage-point impact from the MTR cut, service revenue declined 14.2%, or 1.5% Q over Q.

Commercially, as smaller players have exited the market, we have seized the opportunity to win share, adding 5.1 million customers in the quarter. And as the chart at the bottom illustrates, we have been able to largely mitigate the impact of low revenues on EBITDA margin through effective cost control. We expect competitive pressures to increase in Q4, given the recent price cuts from Jio in response to Airtel, and there is also a further two-percentage-point regulatory headwind from a cut to international termination rates.

With this challenging context, the positive news is that we are making good progress on gaining the necessary regulatory approvals for our merger with Idea, with the DoT now the last major step before we can complete the merger in the first half of the year. We have also taken steps to strengthen the proposed JV's balance sheet, having agreed the sale of the standalone towers and announced the combined cash injection into the merged company of up to €1.8 billion. And we continue to explore options very actively to monetise both the JV's 11% stake and the Group's 42% stake in Indus Towers.

So, turning to slide 16, in summary, we have maintained this year's good commercial momentum through the third quarter and delivered similar revenue growth, with improvements at Vodacom mitigating some of the increased promotional activity experienced in Europe. We also achieved further progress across our three strategic growth engines: in mobile, our more-for-more proposition continue to meet our customers' growing appetite for high-quality data and contributing to underlying ARPU growth; in fixed, we continued our strong momentum and enjoyed our best-ever quarter of NGN net additions in Europe; and in Enterprise, our performance was robust, as we continued to grow, despite regulatory drags, aided by our leading IoT platform and global footprint.

In India, the competitive and regulatory environment remains very intense and we are making progress in securing the approvals that are needed to create a pan-India, scaled player in a consolidated market.

In terms of our financial outlook, we expect to maintain our momentum in the fourth quarter, which, along with good progress of our Fit for Growth programme, means that we are confident we will achieve our guidance for the year.

With that, I will hand back to the operator for Q&A. Given the relatively short period of time available, can I ask you to limit yourself to one question – I know that's really hard to do – to ensure everyone gets an opportunity to speak.

## **Questions and Answers**

### **Akhil Dattani, JP Morgan**

Hi. Good morning. Thanks for taking the question. I just had a question on the service-revenue growth outlook, please, and there's two little bits to it. The first is just on Data monetisation. Vittorio, you mentioned that, with the passes, you're now evolving your thinking a bit in certain markets, now incorporating that in the tariff, so just keen to understand what you see on the ground that's making you do that. Is it competitive-led or is it a function of just changing your view?

And the second: Nick mentioned the SIM-only effect, the handset-financing drags, so, clearly quite a few factors impacting your service-revenue outlook at the moment – or service-revenue trend, sorry. I guess what I'm trying to understand is, as we move to IFRS 15, how will that impact these distortions and how will that impact the growth rates you report? Thanks.

### **Vittorio Colao**

Thanks, Akhil. Definitely, the second question, I'll leave it to Nick. On the first one, I think you said it. The passes have to be seen as part of our more-for-more strategy and, of course, they are impacted both by competitive dynamics but also by the type of offers that we have in different markets. So, it is clear that, in

certain markets, they are more standalone offers. In other markets, we have to include them – or we want to include them into our converged offers or we want to include it into our SIM-only offers.

So, at the end of the day, a pass is another way to give worry-free usage in exchange for something, and the something is the underlying ARPU. I am, I would say, comforted from – there is one slide in my pack, the slide that says taking out the distortions, we see a pretty good net ARPU trend, with the exception of Spain, which was a bit promotional last quarter. So, they are part of an overall strategy to monetise data and increase usage, and they can be used flexibly in each market – to some extent, in some markets, even to the hour they can be used. So, I hope I answered your question.

Nick – IFRS 15?

**Nick Read**

Yes. Akhil, a slightly complex topic. What I would say broadly on 'S 15' [IFRS 15] is, because, when you bring in S 15, you're effectively restating your previous year, you won't see a dramatic impact. You might see a slight improvement on service-revenue growth, mainly because you don't get the SIM-only drag effect moving forward because of that restatement. So, I think it's important: S 15 is like a restated methodology and, therefore, when you're looking at growth rates etc, not a big impact. I would say, at the moment, probably the most material impact we're getting in our results on SIM-only is in Germany, and that's just under about three percentage points of drag, given that drive.

**Akhil Dattani**

Thanks. Nick, can I just ask: going forward, do you think you'll stick to service revenues under IFRS 15 or do you think that would support a change to focus more on total?

**Nick Read**

No, I think we'll still continue to have service revenue.

**Vittorio Colao**

I personally think it's healthy, Akhil, because, again, we need to look at stuff on which we make money. It's a little bit like Enterprise: the more complex project we have, like in the UK, the more we have hardware and equipment, the more hardware distorts the real number, like, for example, this quarter. So, for me, at the end of the day, I look at what generates cash flow, not at reported numbers. So, in that sense, it's a positive. And SIM-only can be good: it's not necessarily the fact that it looks like a lower number that we don't like it.

**Nick Read**

Yes. And importantly, to Vittorio's point, you get a higher correlation with your EBITDA.

**Vittorio Colao**

Yes, and cash and everything, so it's good. It makes your life harder, but it's good.

**Maurice Patrick, Barclays Capital**

Morning, guys. It's a question from me on spectrum, please. So, you have a number of spectrum auctions coming up. Some, I think, are a combination of new licences and some are renewals; some 700 MHz, probably expensive; other high-frequency, 3.4 GHz. So, I suspect, in aggregate, the cost of spectrum probably goes up by your historical €1.2 billion a year, but thoughts on that. But also, can you share with us how you expect to see competitive bidding intensity across spectrum auctions in your key markets? You

could argue that demand is probably higher, given your strong data growth, but then there's lots of spectrum coming up, so maybe less. So, thoughts on competitive bidding. Thank you.

**Vittorio Colao**

I'll leave to Nick the answer about the spreading and how much the 1.2 billion is an average and how much, instead, we might have concentration in certain years.

The second part of your question is intriguing because, traditionally, I would have said, 'How can I answer that?' Auctions are auctions, and it's always difficult to predict how they will go. The reality is in your question: there is already an element of truth. We have more and more technology options. It's more and more possible to aggregate bands, to exploit traffic in different ways. We can shut down certain elements. So, my sense is that we will become more and more sophisticated over time, as long as we have, of course, the courage to make some decisions in terms of allocation of bands and use of bands. The actual result of each specific auction, in the end, will depend on how many people want to have the same band, but we will have more flexibility in the future.

Nick, on the financial impact of this?

**Nick Read**

Yes. Maurice, just to be comprehensive, in terms of our expectation over 2018-2019 in terms of what are the auctions coming up, we do have a large volume. So, 2018, we're expecting UK 2.3 and 3.5; Germany, 2.1 renewal and 3.5; Italy and Spain, 700 and 3.5. South Africa, at some point – I know I've been saying that for five years – will come, hopefully, in 2018. And then, 2019, UK 700; and the Netherlands 700 and 2.1. So, you're right to call out the fact that it is a heavier 18 months/two years ahead of us. What I would say, however, though, is I stressed at the September point the strength of our balance sheet, leveraged down at 2.2 times, so we've got a strong balance sheet and we're prepared for the spectrum auctions, and had planned for those auctions. And then, finally, I'd say that, just in terms of the 1.2 billion long-term average, I still feel that's a good number and it's certainly the number that the board focuses on when thinking about dividend cover.

**Polo Tang, UBS**

Hi. I just have one question in terms of the UK broadband market. You have a partnership with CityFibre in the UK for FTTH but does this preclude from wholesaling from Openreach? And what do you think about the announcement today from Openreach that they'll roll out FTTH to three million homes by 2020? Thanks.

**Vittorio Colao**

Polo, it doesn't. Our commitment to CityFibre is for the first million homes, and then we'll see where it goes. If, in the meantime, Openreach, like they announced this morning, wants to extend their reach, that's fine. As I said, we just had 38,000 net adds in the quarter, which, if you consider that we start from small and Consumer broadband is not a traditional area for Vodafone UK, it's a pretty good result. So, we are encouraged by the take-up, especially from our own customers. There will always be a debate with Openreach about price and conditions and everything else, so, per se, the decision to expand is good. We will always want to be competitive in the market and also to be able to make some money or at least not lose money on those connections, but there's plenty of flexibility and I always said that our Fixed broadband strategy is a smart strategy – a capital-smart strategy, so we will not preclude any option, if it's economic.

**John Karidis, Numis Securities**

Good morning. My question is about India. Now that the merger with Idea Cellular is near completion, what gives you confidence that execution there will be smoother than that in Australia with Hutchison? Is Bharti right to think that this merger is a good opportunity for them to poach a good chunk of your customers?

**Vittorio Colao**

Yes, you would have to believe that, if you were Bharti, right? So, listen, I don't want to answer in an arrogant way. We have been planning for this for a long time. Don't forget that we need to lose some market share anyhow because we are, in certain circles, above the – how do you call it – the cap – the competition cap. We have been planning for a long time. The two companies, in a way, here are more complementary. Don't forget that, in Australia, there was kind of a prepaid versus contract thing. There was a very different positioning and, to some extent, head-on positioning of the two brands. And then every market is a different story, so I will not be arrogant. We have planned as well as we can. We know that we need to lose some. We are more complementary here than in Australia, and we are confident that we'll do a good job. Then the results will be seen in the market.

**Dhananjay Mirchandani, Bernstein**

Thanks for taking my question. [Loss of audio] revenue trends, so active prepay ARPU is up; volumes, while negative, have improved sequentially, and yet MSR is down 3%.

**Vittorio Colao**

Dhananjay, we missed the first 10 seconds – start again, please.

**Dhananjay Mirchandani**

All right. Well, firstly, good morning and thank you for taking my question.

**Vittorio Colao**

Good morning.

**Dhananjay Mirchandani**

I'm really struggling to get my head around Italian Mobile service-revenue trends. Active-user ARPU is up, volumes, while negative, have improved sequentially, and yet service revenues are down roughly 3%, and there's no real material drag from regulation. So, I guess two parts to the question: can you please be a bit more specific about what's causing this? And secondly – and, I think, more crucially – what do these dynamics imply going forward as Iliad readies to enter the market?

**Nick Read**

Maybe if I take the first part and then Vittorio takes the second part. But just from understanding the trends, they're fairly straightforward and we have been signposting these. So, the Mobile business down 2.9[%]: why is it down or why has it been on a decline trend is because we did a series of price actions last year that were introduced over about a six-month period. We were introducing 28-day billing. We started off with prepaid, we evolved into contract, we evolved into Fixed, and so it's phased over the year. So, what you're seeing is us slowly lapping all of those effects and some other more-for-more price actions we were taking. So, we're now fully lapping, in this quarter, those price rises and, of course, given the competitive intensity in the market, we're not able to do any further actions at this point in time.

What I would say is fantastic performance. I'd also say, on the Mobile side, a very resilient performance, given the pricing environment, and I think it shows the strength of our mobile network, differentiated in the marketplace, and the breadth of our distribution, and the overall performance and science being done in our SCM area. What I would say is also Fixed is a strong performance, at 12% growth, and has maintained very, very strong performance.

Vittorio?

**Vittorio Colao**

Yes. Looking ahead, Dhananjay, there's three things happening. One is the tariff adjustment that I think all players are making neutral – the 28 days to solo [one] month law requirement. So, everybody is making that neutral for the customers and neutral to us. The second thing we are again pleased and we'll continue to leverage on our strength on Fixed line, which, in Italy, was particularly strong. This quarter, we had 95,000 additions. We passed, just after the end of the quarter, the one million fibre-broadband homes, so it's clearly becoming Italy, again with a different strategic path but solid as Spain or Germany in terms of convergence. We launched, and we are competitive at the €30 price point, the Vodafone One converged offer.

What I see is, in the market, we still have these below-the line, let me say €9/€10 20 GB, €9/€10 30 GB offers, which, of course, are a little bit pre-emptive of the Iliad arrival, and so we have to be careful in not being dragged into these kind of portability games that other operators are deep into. We are ready to see the arrival of Iliad and I guess, in May, you, I and all the other people in this call will have something interesting to talk about. But we are just where we were last time. Consolidating our base, being competitive and pushing convergence is the strategy so far.

**Robert Grindle, Deutsche Bank**

Good morning. Hopefully, you can hear me okay. My question is about churn and the impact on customer costs. It seems like contract churn has moved up in a few of the European markets. You flagged commercial activity in Spain etc, and I think Nick said something about SIM-only in Germany, but should we be concerned about rising customer costs because of this or is it more about SIM-only and we should be less worried about customer costs, which were very benign in the first half of your year?

**Nick Read**

Robert, I wouldn't be worried about customer costs. I would say that we apply a lot of science to our investment, ensuring the right channel mix is driven, as we've discussed before, and CRM is targeted on a personalised, one-to-one-offer basis. So, we're managing, if you like, the economic value of the customer. Of course, we stay focused on churn. We don't like churn and we are constantly trying to work it down. I would say we had a few promotional hits in the quarter and, therefore, churn ticked up slightly. I don't see that as structural.

**Vittorio Colao**

Yes, and we are pretty confident that, from a cost perspective, the guidance is robust. We are also, don't forget, very focused on the transition to digital, which is also another way to make sure that customer costs go directionally in the opposite direction. So, here there are different forces at work. As I said, no concern for the rest of the year but also, longer-term, the transformation into digital will make less, I would say, strict the link between promotional activities and customer costs. You can still have a bit of churn but the cost can be managed better in a digital environment rather than in the street, as you all know.

**Jonathan Dann, Royal Bank of Canada**

Hi, there. It's a question on the convergence trends. It looks each quarter as though net adds of convergence are tracking just below net adds of the broadband base, and I was wondering: would you ever expect to see a rapid expansion of convergence through the backlog of existing customers?

**Nick Read**

I'd say our primary focus at the moment is driving Fixed net-add performance. In the end, customers are switching over to NGN networks and there's a window of opportunity that we're really trying to exploit. At the same time, we then try and, once we have the base, convert them across to convergence. So, I would say that's why you're seeing the trends you are.

**Vittorio Colao**

Yes, I would say we have an opportunity. We are delivering well on Fixed because we have an opportunity. We are a newcomer to the game and, as I said, I think our strategy, market-by-market, is smart. And that is the strategy. Then how much you push for convergence depends also a lot on the specific conditions in the market. In the Netherlands, where KPN is highly converged, it's clear that our objective – and we are already, with Ziggo, big in cable – it's obvious that our push is for convergence. In Italy, as I said, for example, we played a little bit of a mixed game. The first objective is to get Fixed broadband customers; now, we launched also the Vodafone One and we also have a little bit of acceleration in the converged piece. But it depends on the state of maturity of the market, of Vodafone and the opportunity that we have – sorry, of the market of Vodafone and the opportunity that we have in front of us.

**Mandeep Singh, Redburn Partners**

Hi. So, the question I really had was coming back to what Akhil was saying at the beginning. If you focus on net ARPU, which is – or gross margin, even – a metric that you can track better than we can, because we don't have the disclosure, ex regulatory impacts, ex handset financing, would the growth rates that we're experiencing in Europe be substantially better than what we see presented in service-revenue trends? I know you can't necessarily give us a number but just, directionally, in orders of magnitude, please.

**Vittorio Colao**

I leave the quantitative part of the answer to Nick, who is scratching his head now. But directionally, you're right. That's what I really look at and that's what tells us if the market is healthy. And I have to say, in that sense, the more-for-more strategy is exactly what this is trying to achieve: to achieve that the net income for us – I would even go including commercial costs, because, at the end of the day, the more we go digital, the more we can manage that part in a proactive way and not just being victims of what happens in the industry, the more the net margin to us is an important thing.

And in the future, we will become more similar to an Amazon or to one of these players who really look at the net margins that they can derive from any commercial operation, after digital acquisition and customer-management costs. I understand your life will be more difficult. We'll do our best to be transparent. Unfortunately, there's also accounting changes in the way but, directionally, that's what I think our dialogue should be on, because it gives the real measure of the health of the customer.

Nick, did I give you enough time to...?

**Nick Read**

You gave me enough time to think it through. How I'd look at it, Mandeep, is, if you take the Mobile contract European ARPU, we're down about 2.6% year-over-year. Of that 2.6 – and I'm talking broadly – I'd say about two percentage points of that is either regulation or UK handset financing. So, we're just slightly down. Why are we slightly down? We're a little bit SIM-only-drag and then probably a little bit of, I would say, Enterprise price pressure in the marketplace on renegotiation. So, you're talking broadly stable as a dynamic.

I have to be honest: increasingly, there are so many distortions going on in Mobile ARPU. So, I'll give an example: I was in the Netherlands doing an operational review there for a couple of days and, as we drive, as Vittorio said, drive convergence into the base, we're applying a €5 discount to the converged package, all to Mobile. Now, it's an allocation methodology that's simple but, at the same time, just looks like Mobile is in decline, when, in fact, what we're really doing is improving the economies of the customer and the lifetime value on a converged package. So, Mobile ARPU in the round, and Mobile service revenue, lots of allocations there over time. So, I can see us, over time, moving more to, 'What's the total revenue of the company, the customer?' etc.

**David Wright, Bank of America Merrill Lynch**

Thank you very much and good morning, chaps. Just a question on India: we've had the deal announced, I guess, give or take, a year ago. It initially looked a little stretched from a gearing perspective. You've since had some changes to the MTR cuts. The competitive intensity remains volatile. You've just announced the recapitalisation. Is that it now? Are we done, into deal closure, or can you foresee the need for any more capital into that business, for instance using Indus etc, or do we think we're done? Thank you.

**Nick Read**

We've taken, David, a number of actions, as you've seen: the 1.8 billion in incremental equity. We've done the billion proceeds of the standalone towers. We're actively working on Indus Towers, so we've got the 11% ultimately – let's call that another billion going in. You add on top of that we've been working in discussions with the government about extending the spectrum life. We think that'll go through this month, so going from 10 years to 16 improves, if you like, the liquidity position. And of course, there are significant synergies to come.

So, yes, it does rely on the direction of the market. We think the current position is an unsustainable one because we're underneath cost for all players, and so let's see if it was just a moment of excessive intensity, given a lot of players were exiting the market. I think there was a little bit of land grab for those customers. But no, we're confident that any support that may be required on funding going forward, we've got the Indian tower assets and, therefore, it won't have an impact to the Group's reported leverage position.

**David Wright**

Just to be clear, this is not beyond the original Indus plan. You're not talking any of your Indus assets outside the perimeter of the original plan. Is that correct?

**Nick Read**

At this point in time, we're exactly per our initial plan. But of course, we have a sizable Indus stake sitting over in India and, of course, we said all along that's a stake that could get liquidated over time and we'll see what we do with the funds.

**David Wright**

And still a calendar-first-half or is it a fiscal-first-half target for completion?

**Nick Read**

I think calendar-first.

**Vittorio Colao**

Calendar.

**David Wright**

That's the one question, I guess. Thank you very much, guys.

**San Dhillon, Exane**

Hi, guys. I guess your thunder was somewhat stolen this morning, given that one of your European telecom peers made a large bid for a content-broadcast company. I would love to get your views on the convergence

of TV and content into a fixed/mobile bundle, whether you think that is important, especially given that you have pretty large TV exposure through your cable acquisitions in Germany, Spain and in the Netherlands as well.

**Vittorio Colao**

Well, this is a big topic. I imagine you are referring to TDC. First of all, I wouldn't call it TV; I would call it video because what is TV and what is not TV is becoming very blurred. Our position remains the same: we love to distribute video, whether it's Netflix, the BBC, whatever – Sky, YouTube. We love it and we love to have the possibility to monetise it. Whether it's on cable or on mobile, it doesn't make a difference. This is very different from the need to own production assets.

I am sceptical about the need to own production assets. I am sceptical about the ability to monetise exclusive content rights – typically, football or soccer, which is usually very expensive and has become more and more expensive, very hard to monetise in a direct way. That does not mean that some operators especially in particular linguistic or cultural areas of the world, might see a value in doing it. I still remain not convinced that, at the end of the day, content should go to everybody and I don't see huge synergies in owning exclusive production or rights for a telecom operator. Unless you think you cannot distribute to your competitors and use it in an, let's say, anti-competitive way, which, usually, the regulators don't allow. So, we remain on our – we like to distribute. If we are forced, we can also bid, but we don't think it's value-creating.

**Andrew Lee, Goldman Sachs**

Thank you. Good morning, everyone. I just wanted to follow up on Robert's question around churn. I wondered, given we're not talking about cost reductions and EBITDA today, if you could give us an update on your digitalisation improvement on the top line and where we should start to see that coming through. If there's any stats you could give us on customer-perception improvement following the digital tech you're incorporated so far, the NPS scores, churn, calls into the call centre or successful convergence rates of upselling. If there's anything you can give us that can show us the impact of – or any positive impact of digitalisation on your top line today and, if not, when should we start to see that come through? Thank you.

**Vittorio Colao**

We'd prefer to give those details a little bit more time and a little bit more explanation, so probably May would be the right time, and an in-person presentation would be probably better. Let me say, from my point of view, this is a multiyear programme. We are very optimistic about the ability to deliver real, actual cost reduction from the digitalisation, and real, actual improvements from the customer point of view in terms of the experience, initially more on the consumer side; on the Enterprise side, it will take longer.

And we have, I would say – we are already ahead of our implementation plan, with more and more OpCos coming onboard between now and April, and the whole of Vodafone being fully in the programme next year. It's a multi-year programme, so you will have this topic over and over again, but I would say, rather than giving gross targets that are, in the end, complicated for you guys, because then you need to see how much is reinvested, I think you will see the benefit in net actual cost reductions.

Nick, do you want to give out more today or do you prefer to wait for May?

**Nick Read**

I think we wait for May. I think you've summarised well.

**Justin Funnell, Credit Suisse**

I hope you can hear me. I just wanted to touch on margins a bit. Without drawing you into a conversation about next year's guidance, if we just take a look back at slide 6, I'm just trying to understand the margins of these different revenue segments a little bit more. So, European consumer mobile's growing – I presume that's a decent margin business. Same for AMAP. Consumer Fixed line, because of your cable assets, a

good margin. Enterprise, I suppose some margin there. And then, if you look at the negative drags, we've got regulation. You get good margin on inbound roaming but less on outbound. Handset financing, I think you – essentially, you can see margins negative in this segment because of SAC, so, as this reduces, this could boost your EBITDA. And then carrier, presumably, is a low-margin business.

So, ultimately, I'm trying to get to the implied EBITDA growth coming out of this revenue mix. You've got about 3% growth from the green boxes. The greys are very low-margin. I could, rule of thumb, take 3%, times by two, to get to EBITDA growth from operational gearing and then add on savings, and I'm getting a mid-to-high-single-digit EBITDA growth rate. That's before the impact of Iliad. So, what am I getting wrong when I make that sort of calculation, please?

**Vittorio Colao**

I love your way of saying 'I don't want to drag you into next year's guidance' and then try to backward-engineer me into a question that gives you that. Let me say I think your analysis is not wrong. That's why we wanted to say that we are confident about our delivery for this year, not for next year. You also confirm, more or less, what we said so far in the year, that we see a modest revenue growth but a more sustained mid-single-digit EBITDA growth. Of your comments – again, I don't want to go too much in detail – if one wants to be really picky, you would say probably the wholesale MVNO part of the grey is a real profit that you didn't mention, because, of course, that's money that comes in and goes to the bottom line, but everything else you have said is directionally right, I would say. Nick?

**Nick Read**

Justin, I'm just sitting here a little bit confused. Are you saying that growing at 10% is somehow not pacey enough for you on that logic?

**Justin Funnell**

No, I think the basic issue with your share price is that people love the 10% but don't really think it's sustainable, whereas your slide there on slide 6, if the maths of the margin of the different columns is right, then, dare I say it, perhaps it is. At least before we think about the impact of Iliad in Italy.

**Vittorio Colao**

Listen, we are not going to give guidance for next year. I think we basically said that, apart from this comment on Wholesale, your comments are directionally right but we are not going to change guidance or to even talk about guidance. For this year, we are confident we can deliver.

**Justin Funnell**

Okay. Thanks a lot.

**Vittorio Colao**

And we need to leave something for May, no, apart from digital telco.

## **Closing Comments**

**Vittorio Colao**

I think we covered really a lot of ground. I would say good delivery, growth, give and take, more or less in line with the previous quarter, and I would say happy about the commercial momentum, especially on fixed-line but also on Mobile. Once you look into the details, we are continuing to deliver and we are confident that we can confirm the guidance and then have a good discussion in May about next year. Thank you very much for all of your questions and I look forward to seeing you in the coming weeks.