Vodafone Group Plc

Results for the year ended 31 March 2019

Tuesday 14 May 2019

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Overview and Commercial Performance

Nick Read

Chief Executive Officer

Good morning, everyone. Thank you for attending today. As usual, I intend to go through our commercial performance, and then Margherita will go through our financial overview. And then I want to talk about the progress we're making on our strategic execution.

Overall, while no one at Vodafone is pleased with the share price development, I am encouraged by the pace of our execution of our new strategy that I outlined in November, which I plan to expand on in a moment. In terms of our financial performance, we faced a challenging competitive environment in Spain and Italy, as well as increased headwinds in South Africa. However, we delivered good growth in most of our other markets, allowing us to deliver the EBITDA and free cashflow guidance for the year. But clearly, top-line growth weakened during the year and spectrum costs were high. Combined, this had the effect of reducing our financial headroom. Vodafone is at a key point in its transformation, and it's critical that we have sufficient headroom to execute this transformation successfully. As a result, the Board made the decision, not taken lightly, to rebase our dividend to 9 eurocents per share, to rebuild headroom and accelerate our move to the low end of the leverage range of 2.5x to 3x within a few years, ensuring a secure, progressive dividend moving forward underpinning our determination to deliver much improved shareholder returns moving forward. Importantly, our ambition is to grow free cashflow and has not changed. We've incorporated the benefit of the Liberty deal into the long-term incentive target, which is €17.7 billion over the next three years.

Turning to our execution, as I came into this role I wanted to drive a more consistent commercial performance. We made a good start, achieving record low mobile contract churn in the year, and adding 1 million fixed broadband customers. The digital and radical simplification transformation of the Group has accelerated, and we have already executed half of the €1.2 billion opex target, which Margherita will expand on. And I will talk later about the new commercial initiatives we have around simplified price plans. We've made swift progress regarding our network sharing agreements that substantially improve our asset utilisation, as well as unlocking tower monetisation possibilities moving forward. Our new focus on partnering is evident across the business, from IBM in cloud to AT&T and ARM in IoT, which I will expand on. And, finally, we continue to actively manage our portfolio. In India, following the merger with Idea, we successfully closed India's largest ever rights issue last week, and we expect to close the tower merger in the coming months. And yesterday we announced the full sale of our business in New Zealand for €2.1 billion, a valuation 7.3x EBITDA.

In terms of our commercial performance, I have emphasised to all of our CEOs that I view churn as a key measure of our progress in deepening customer engagement. This focus across the Group has delivered the result you see on the chart on the left hand side, a marked step down. This was also the case in Europe, despite higher churn levels in Spain. One of our key levers to improve churn, and grow revenues going forward, is to win broadband market share and then drive convergence. And as you can see from the green columns on the right hand side, we added 1 million broadband customers, with a strong H2 performance. Long-term, I believe that single digit churn rates are a realistic target in most of our markets, given that we're already at those levels in a number of our other European markets and South Africa. And I believe that churn reduction is a growth lever for us moving forward.

Turning to our financial performance by major markets, the UK you see returns to service revenue growth for the first time in five years, in a stable, competitive environment, achieving a record low churn rate. A 6% underlying opex reduction, and improved customer profitability in business fixed drove the double-digit EBITDA growth that you see in the chart. Other AMAP, Turkey and Egypt, both continue to deliver excellent

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results. Our other smaller European markets contributing 12% of service revenue grew strongly. Typically, these are three plan markets, within a rational competitive environment. We delivered 2% service revenue growth, and almost 8% EBITDA growth in the year, with notable performances in Portugal, Greece and Hungary.

In Germany, we grew retail revenues over 2% in a stable competitive environment. Wholesale revenues dragged on the service revenue and EBITDA growth. Excluding wholesale, underlying EBITDA grew 8% in the year, compared to the 4% that you see on the chart. Vodacom had a mixed year with a sharp H2 slowdown in South Africa given headwinds, offset by double-digit international growth. Importantly, South Africa's service revenue growth stabilised in Q4, and in April, we have managed pricing successfully, to mitigate the impact of the new out of bundle data regulation. We continue to expect revenue growth to recover in H2 this year. The main drags in the year were Spain and Italy and let me take the opportunity to expand on those.

Let's start with Spain. The competitive environment remains intense, but stable over the quarter. As you can see from the porting charts on the right, we are competing effectively against Tef and Orange, despite our decision to step away from football rights at the current unprofitable levels. Similarly, the effective commercial repositioning of our second brand Lowi has dramatically reduced ports to MasMovil. During H2, Lowi achieved around a 30% share of mobile net adds in the value segment, up 18 percentage points year over year. Last month we launched our new speed tiered unlimited data plans for both mobile only and converged. As I will describe in more detail later in the presentation, our main goal is to drive value accretion in our existing base.

We've also taken radical cost action to simplify the business, with 1,000 FTEs due to exit by the end of June. And we've announced a significant 5G network sharing deal with Orange across fixed and mobile. These actions, together with lower content costs as we complete the lapping of the football in July, gives us confidence that the business will return to EBITDA growth in H2.

Turning to Italy, competitive intensity has begun to moderate. As you can see on the top chart, MNP activity has fallen back to levels experienced prior to Iliad's entry, and halved from the peak in Q2. We remain focused on spin down pressure on revenue, given lower pricing and larger allowances. However, both main and second brand headline pricing has been rising materially in recent months, as you can see from the bottom right chart, ultimately helping us to reduce the spin down pressure. Iliad has yet to move up their pricing, and we believe it's structurally unprofitable at current levels. So we expect this over time.

We had a strong fixed performance, with double-digit revenue growth supported by strong broadband net adds, as well as the excellent job on cost reduction, with a 10% opex reduction in the year. This cost performance together with lower commercial costs, driven by lower MNP volumes, drove the recovery in our EBITDA margin during H2.

Now, let me hand over to Margherita to go through the financials.

Financial Review

Margherita Della Valle

Chief Financial Officer

Good morning, everyone. As Nick has already highlighted, we have achieved our guidance for FY19. Let me now walk you through the financial highlights of the year in more detail. As before, please note that all the figures presented here are on an IAS 18 basis, to aid comparability with prior periods. On a reported basis, service revenue and EBITDA declined. This was primarily due to the sale of Qatar and the FX headwinds, as well as distortions created by UK handset financing, and the benefits of settlements in the prior year. So I will focus on the underlying trends, consistent with the approach that we took last year. I

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need to say that I'm really looking forward to my next presentation when this concept of underlying will no longer be required.

Staying on this basis, service revenue grew 0.3%, and EBITDA grew 3.1%. EBITDA growth was supported by a further net reduction in operating expenses by €400 million across Europe. As a result, our organic EBITDA margin expanded by 50 basis points to 31.1%. We have now delivered margin expansion for the fourth year in a row. Underlying EBIT increased by 9.4% and free cashflow pre-spectrum was stable year on year.

The bridge on slide 11 shows the walk from adjusted EBIT to reported earnings. I do not intend to go through in detail, as these movements are clearly explained in the press release. Please also note that the IFRS 15 statutory numbers for the year are not fully comparable with prior year IAS 18 numbers. But let me draw your attention to the material items.

First, as we announced in November, the results include non-cash impairment charges of €3.5 billion, primarily related to our Spanish business, as well as a €3.4 billion loss on disposal relating to the merger of Idea with Vodafone India. Second, you can see the impact from the first seven months of the Vodafone/Idea joint venture in the associates line. And third, the Group's underlying effective tax rate for the full year was 24.4%, up from 20.6% last year. In each year, our tax rate can vary based on the country mix of profits, but our medium-term tax guidance remains unchanged at low to mid 20s.

Turning now to service revenue performance on slide 12, as the chart on the left shows, our underlying service revenue performance, adjusted for UK handset financing and a one-off settlement in Germany, slowed quarter on quarter to -0.6% from 0.1% in Q3. This as primarily driven by three markets. In the UK, there was a tough prior year comparison due to the phasing of business related project revenues. In Spain, there was a full quarter impact from the promotional discounting seen during Q3. And finally, in Italy, there was an MTR cut, and an impact from the phasing of loyalty programme changes. On an underlying basis, growth was broadly similar to Q3.

Looking ahead into FY20, we expect a gradual improvement in service revenue trends starting in Q2. This reflects both easier comparisons during the year, as well as the positive impact of the good commercial momentum that we achieved during H2, and we plan to maintain. From next quarter, we will focus on IFRS 15 growth rates which, as you can see from the chart on the right, are not materially different.

Onto the next slide, where you can see the contribution from our value drivers to organic service revenue growth. Within Europe Consumer, revenues in Germany, UK and Other Europe, which represent a third of the Group, contributed one percentage point to overall growth, with good momentum in both fixed and mobile. Vodafone Business continued to grow, as a strong performance in fixed offset challenges in mobile. In Emerging Consumer, data revenues increased as we monetised strong traffic growth and prices rose with inflation. Altogether, these drivers contributed to 2.3 percentage points of underlying service revenue growth in the year. This was offset, of course, by Spain and Italy, which, as Nick has just described, are now commercially stabilising, as well as by wholesale drags and MTR cuts.

However, we've made very good progress on our cost base. Last November, I set an ambitious target for net opex savings of at least €1.2 billion in Europe. This requires us to reduce European opex by over 13% in three years, net of any re-investment. Today we are already more than halfway towards this goal. 50% of the savings so far have been driven by digital. The largest savings have been in customer care, as I will outline with a case study shortly, and digital is really transforming all aspects of our operations from marketing to network maintenance. A further 30% of the savings have come from leveraging our Group scale. We have centralised 3,000 roles in Shared Services, whilst at the same time achieving 1,600 roles efficiencies through automation.

Looking at the waterfall chart, you can also see that in our Rest of the World segment we achieved our target or keeping organic opex growth below local inflation. This drive for efficiency is not only an opex story. Despite our robust commercial performance, as you can see we were also able to lower acquisition and retention costs in the year. This reflects the reduction in churn, as retaining existing customers is less costly than acquiring new ones. And we've also increased the proportion of online sales, which have doubled in the last two years, although I would say that we are only at the beginning of this journey. During the coming year we are ramping up our focus on radical simplification, with deep reorganisations of our businesses already

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executed across multiple markets, as well as simplified customer offers. This is why I am confident that we will deliver our opex targets for FY20 and for FY21.

In November, I shared with you a digital case study looking at German broadband. Today, we are moving to Italy where our virtual agent TOBi is transforming our customer care. A year ago, to reach our call centre you would typically be routed to an automatic response service giving a series of pre-set options. These contacts are showing in grey in the chart. Some of these calls ended up being resolved by human agents, which is the blue area. In April 2018 we launched TOBi as a chatbot, and TOBi also started handing over contacts to human agents when needed, which is the green area. TOBi uses advanced artificial intelligence to provide customers with a conversational experience via voice, web and the My Vodafone app. And TOBi continually learns new skills, helping us to deliver better NPS and reduce the number of human contacts, as you can see from the blue and green areas.

The real turning point has come when we launched TOBi via WhatsApp, and gradually replaced our IVR system with TOBi Voice. As of March, two-thirds of customer contacts in Italy were entirely automated, and for the second half of the year Italy reduced overall frequency of contact per customer by 15%, contributing to a 19% net saving in customer care opex. This is a major opportunity across the Group. We spend over €1 billion in customer care every year. We have now rolled out TOBi in 11 markets, with a further five planned this year. In Q4, the frequency of customer contact in Europe overall fell by 11%, and over the full year customer care opex fell by €90 million.

Moving back to our performance in the year, you can see that our intense focus on cost has supported a further expansion in organic margins, with underlying margins now at 31.1%, up 50 basis points organically. This is the fourth year in a row that we have expanded our margins, and we aim to do so again in FY20.

Our capital intensity remained broadly stable year on year, at 16%, compared to 15.7% in the prior year. The chart on the left shows our current capex mix and, on the right, how we expect this mix to evolve over time. With IT, fixed and maintenance costs declining while 5G rollout will be ramping up.

During the past few years, for example, we have significantly invested in IT transformation in order to upgrade our legacy systems. We are now over halfway through this journey, and these costs will decrease going forwards. In fixed, we see limited future build out requirements post the acquisition of Liberty's assets. In network and IT maintenance we continue to drive digital efficiencies. For example, 50% of our applications have already been migrated to the cloud, and we are virtualising 25% of our core network functions.

Although data revenues continue to grow strongly, we are holding capacity capex broadly stable, with the benefit of big data driven smart capex planning. In summary, we continue to believe that we can fund our 5G rollout within our mid-teens capital intensity envelope, and this is also supported, of course, by our new network sharing agreements.

We see significant opportunities for cash savings through active and passive mobile network sharing. Over the past six months we have struck agreements which allow us to move from limited passive sharing towards single nationwide tower grids, also including backhaul, as well as active radio sharing for 2G, 4G and 5G services outside major cities. These deals will allow us to save meaningful opex and capex, especially compared to the standalone costs of rolling out 5G.

The deals in Spain and Italy are expected to generate combined annual run rate savings over time of at least €200 million. Italy and Spain represent just over a third of our continental European towers. If we are successful in replicating this sharing approach, the potential is significant. In the UK, whilst unwinding our prior active sharing in major cities, we're extending the partnership with O2 to 5G and to backhaul.

Moving to free cashflow on slide 19 there are a few items to call out. First, working capital this year was broadly flat with a reversal of the €200 million EBITDA benefit from handset financing being offset by the sale of €250 million of handset receivables. This reflects our new policy decision to routinely sell all handset receivables going forwards, in order to increase our commercial flexibility. These sales effectively align our cash inflows from customer receivables with our cash outflows from handset purchases, allowing us to offer longer payment terms on increasingly costly smartphones without artificially constraining volumes.

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Second, net cash interest was €250 million lower year on year. This reflects a one-off benefit from the re-payment of outstanding guarantee fees by Vodafone Hutchison Australia. On an underlying basis, net financing costs were flat year on year.

Third, dividends paid to minorities were €200 million higher this year, primarily due to Egypt. During the prior, no dividend was paid. And finally, spectrum costs were €0.8 billion, reflecting the initial payments for 5G spectrum in Italy as well as Spain and the UK. We continue to expect FY20 to be the peak year of spectrum costs, given the ongoing 5G auction in Germany, and potential auctions in South Africa, the UK and Spain later in the year. Free cashflow post spectrum was €4.4 billion, stable year on year, and €5.5 billion on a guidance FX basis.

Turning on to the balance sheet on slide 20, we closed the year with a net debt of €27 billion. This was €4 billion less than we had projected at half one, principally reflecting the proceeds from the mandatory convertible bonds raised in March of €3.8 billion. During the year, we also started to buy back the prior mandatory bond for €0.6 billion, with the balance of €1 billion to be repurchased in FY20. On a pro-forma basis, for the deal with Liberty Global, this means we ended the year with leverage at 2.9x, towards the upper end of our 2.5x to 3x range, as expected. By the end of FY19, we had successfully completed the funding of Liberty Global's assets, having raised a total of €20 billion at an average euro equivalent rate of 2.3%, and with a weighted average maturity of 9.7 years.

Looking ahead to FY20 now, the waterfall on slide 21 shows the basis for our guidance, which adjusts for the non-cash impacts on EBITDA of UK asset financing and IFRS 15 and 16 accounting changes. We expect adjusted EBITDA in FY20 to be between €13.8 billion and €14.2 billion based on guidance FX rates, which implies low single digit organic growth. We anticipate a stronger performance in H2, as revenue growth gradually recovers and as content costs reduce in Spain. As a reminder, in the second half of the year we will also benefit from the impact of the acquisition of Liberty's assets, which has not yet been included in the annual guidance. Together with sustained mid-teen capital intensity, we expect to generate free cashflow pre-spectrum of at least €5.4 billion.

On slide 22 you can see on the left our historic track record of meeting our cumulative three years free cashflow targets, which we have achieved despite capital expenditure remaining at the top end of guidance range. As the Liberty deal is expected to close shortly, we have included the accretion from the transaction on our new long-term target of €17.7 billion, together with the significant integration cost that we expect to incur in the initial years. Excluding both Liberty and the estimated benefit from our new policy of selling receivables, which is approximately €0.5 billion during the three year period, our free cashflow outlook for our core business has not materially changed. This target range for the new LTIP implies substantial dividend cover under our new policy, after taking into account historic average spectrum costs.

The rebased dividend level also significantly accelerates our organic de-leveraging momentum, and we intend to move to the bottom end of our targeted 2.5x to 3x range in the next few years, rebuilding financial headroom. The chart on slide 23 illustrates the key de-leveraging drivers. At the midpoint of our new LTIP range we will generate cash equivalent to 1.1 turns of de-leveraging in the next three years. The new dividend payout will increase leverage by half a turn, a saving of 0.3 turns compared to the prior policy. Over the next two to three years, we also intend to buy back the mandatory convertible bond that we recently issued, which would add 0.2 turns.

Finally, there are a range of other potential factors. We need to fund 5G spectrum costs, which we can offset partially or in whole through organic EBITDA growth in euro terms, and through non-core asset sales such as New Zealand. My priority will be to move at pace through our de-leveraging, as we are doing on the structural repositioning of our cost base.

With that, let me hand back to Nick to walk you through our strategy progress.

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Strategy Progress

Nick Read

Thank you, Margherita. Let me start first of all start with the strategic framework that we shared with you back in the November presentation. Vodafone strives to be a purpose-led company, playing a critical role in enabling a digital society. To enable this future for Europe, I believe that we need a new social contract between the industry and governments, where we commit to invest in leading Gigabit infrastructure, building consumer trust and driving innovation, and in return European regulators need to ensure a more balanced, competitive environment supporting European operators to compete against global players, gain scale and ensure infrastructure investors earn a reasonable rate of return. At the same time, we need to intensify our own efforts to improve our returns within the current regulatory structure. Margherita has already gone through radical simplification and digital, so I really want to focus on the Gigabit network, customer engagement and scaling our platforms.

The foundation of our strategy is our commitment to leading Gigabit networks. In NGN fixed, you can see on the left-hand chart the pending Liberty deal, along with incumbent network rollouts, will increase our NGN footprint to 122 million homes. More importantly, the quality of the footprint significantly improves, passing 54 million NGN homes with our own network. We're able to offer Gigabit speeds across much of this footprint, thanks to the DOCSIS 3.1 upgrade in Spain, Germany and Netherlands underway. And we plan to upgrade the Unity footprint in the next few years. This gives us a long lasting competitive advantage on network speeds, supporting market share gains with attractive incremental margins.

Given this growth opportunity, coupled with the €6 billion of cost and capex synergies, I remain convinced that this deal will create substantial value for shareholders. Last week, we submitted a comprehensive remedy package to address the key concerns regarding broadband competition and OTT capacity availability, and therefore our confidence that the deal will close in July. Additionally, the number of homes passed by strategic partnerships, which offer superior economics to standard incumbent wholesale rates, increased to 9 million during the year. This is primarily due to the success of Open Fiber, which has now reached 3.7 million homes and targeting 5 million by year end.

Moving to mobile, this year we are launching Europe's largest 5G network, bringing a range of long-term opportunities. From a customer perspective, 5G brings real benefits. Because it is 10 times faster , download speeds will dramatically drop, encouraging greater data consumption. Super-low latency enables real-time services like multiplayer e-gaming, a space we intend to take a leadership position, launching the world's largest competition through our partnership with ESL. 5G is also a much more cost-efficient technology, which will support affordable speed tiered data plans, and over time 5G will enable a huge range of new services. Vodafone really wants to be at the heart of a digital society.

So given these opportunities, I'm pleased to announce the official launch of our 5G network in the UK on 3 July, and 5G handsets will be available from 23 May. We intend to launch in eight other European markets over the coming months, with live services in over 50 cities by the end of the year with full roaming for Vodafone customers.

I talked about a new social contract to enable a digital society. Network sharing is an important component in that new contract, where all stakeholders benefit. Customers benefit from improved coverage, along with more rapid 5G rollout. Society benefits from the accelerated productivity from our faster 5G deployment, with a lower environmental impact. And Vodafone benefits from improved returns through industrial synergies, whilst we retain our network differentiation, as covered by Margherita.

In addition, having captured the industrial synergies through country level agreements, there is a clear opportunity to monetise our towers. We're exploring all options that will create value for shareholders. In Italy, Spain and the UK, representing 48% of these towers, we are moving to finalise the network sharing agreements this quarter, while assessing monetisation options. In Germany, whilst the 5G auction is ongoing, we cannot pursue discussions. Clearly, once the auction is closed we will be treating that as a

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priority. We aim to announce further agreements in other, smaller European markets, which could also further unlock further tower monetisation opportunities.

Moving to deepening our customer engagement, starting with the European consumer segment, which represents approximately 50% of our revenues, in this segment we've started to radically redesign our price plans, and I'd like to take the opportunity to go through the principles that underpin the new commercial approach, taking Spain as an example. As shown at the top half of the chart, the first priority is to simplify the price plans for the customer and our operations. In most markets, we have thousands of legacy price plans, which create huge complexity for the customer and for the business. So the second priority is to migrate our customer base over to the new plans, to then simplify the IT estate, further improving the customer experience. The challenge is to simplify these plans in a way that is ARPU accretive. This is achieved by a combination of the new unlimited data plans, reduced promotional discounts and through AI-enhanced base management activities. Importantly, the new speed tier plans crate a clear ladder for upselling. The pricing and the way we introduce the plans, whether below the line, above the line, will vary by market. But I believe that maintaining a future monetisation ladder is a significant growth opportunity for the industry.

Finally, by simplifying our core offering, it creates a window of opportunity to engage with our customers on value-added products and services. As you can see from the bottom half of the chart, we have a wide range of options, which will help lower churn and drive revenue growth.

Our scaled platforms also have an important role to play in driving deeper customer engagement. My Vodafone app is not only our primary support channel for customers, but also a key distribution mechanism for personalised products and service offerings. Across Europe, over 50 million unique customers now use My Vodafone every month. Our loyalty programmes, such as Happy in Italy, that leverage discounts provided free of charge from our commercial partners, plays the key role in driving frequency of use of the app. Happy now has over 9 million users, with at least 3 million checking their app every Friday to see the latest offer. We are now even trialling a subscription model for customers to access exclusive offers.

TV is another important platform. As I highlighted in November, post the Liberty deal we will have over 22 million paying TV customers, one of the largest bases in Europe. We are moving to a single platform, which has been launched in four markets, with Spain coming Q1 this year. Integration plans for the Liberty assets are well advanced, obviously within the limitations pending EC clearance. And it is our intention to launch VTV in the remaining CEE markets this fiscal year. Our goal is to be the partner of choice for content distribution.

Moving to Vodafone Business, contributing 30% of our revenues. Though only marginally positive, we continue to have a better performance than most incumbent peers. As you can see in the grey bar on the left hand chart, business mobile remains under pressure. In the SOHO/SME segment, which represents about half of the segment revenues, we're being negatively impacted by consumer pricing, especially in southern Europe. And in large corporates, which is around 20% of the segment revenues, pricing on renewals remains challenging. Our strategy is to offset this pressure, to broaden our product offering. And this is working, as you can see with the purple bars. In fixed, we're gaining share. In IoT, our growth has been impacted by the slowdown in the automotive industry. However, IoT connectivity revenues continue to grow at 15%. We've had an excellent year in cloud, with some significant wins, and concluded a new IBM partnership, moving from a capex intensive model to a variable cost model, whilst gaining a full range of cloud products and services. And finally, we are starting to develop a suite of digital solutions for SOHO, to underpin the ARPU premium we enjoy in the segment.

I'd like to reinforce two future growth opportunities for Vodafone Business. The first is that we aim to play a disrupter role in the fixed networking market, by capitalising on new SD-WAN technologies, accelerating the pace of our fixed gains. This new technology allows corporates to flex bandwidth requirements based on demand, achieving costs savings of up to 40%. Incumbents will be slow to move given the obvious dilution that they will experience. This creates a significant window of opportunity for Vodafone. We've just been awarded leader designation in the Gartner Magic Quadrant for SD-WAN, which provides strong credentials to underpin our ambition in this space.

Secondly, our aim is to build the largest global IoT platform. Though already a global leader, we are expanding through key partnerships with AT&T and ARM. Together with AT&T we bring together the leading

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IoT players for the automotive segment in Europe and in the US, allowing us to offer a car manufacturer a harmonised product and services roadmap. With ARM, we will integrate connectivity into the actual chip itself, removing the need for a SIM card, ultimately with the potential to connect billions of new devices at a new price point.

Finally, Emerging Consumer segment, contributing 16% of revenues during the year and grow at 7.5%. The key drivers of this growth, highlighted on the left hand side, were the ongoing migration of customer base from voice to data services, from 2G/3G to 4G handsets, and our ability to cross-sell M-Pesa financial services. As you can see, the penetration on all these services is still relatively low, so we see significant growth opportunity ahead. In addition, we've been able to balance inflation with pricing actions enabling this segment to grow in euro terms during the year.

Turning to M-Pesa on the right hand side, this is now Africa's leading payment platform, with 37 million customers, processing 11 billion transactions, a platform that is significantly larger than any African alternative. Given our unique scale, we believe this is an opportunity to leverage strategic partnerships, to accelerate the platform's development to be the payments platform of sub-Saharan Africa. To enable this we've transferred both the platform and the brand down to Vodacom and Safaricom.

To summarise, the industry remains challenged with low macro visibility. However, we are focused on moving at pace on our strategy. We are starting to deliver more consistent commercial performance, especially in Spain and Italy, which should support a gradual recovery in service revenue from Q2 onwards. We are highly confident on delivering our net opex reduction target, given that half of this goal has already been executed. These savings are driven by digital and radical simplification, which is making us structurally a stronger business. We've made good progress on improving asset utilisation through network sharing deals, and we're exploring a range of monetisation options for our towers with a clear focus on value creation. We're on track to close the Liberty acquisition in July, and intend to have a fast start on realising the benefits. And though the decision was not taken lightly our new dividend policy promises and prioritises rapid de-leveraging towards the lower end of the range in the next few years, improving our financial headroom to deliver the transformation in growth and cash generation we are targeting.

In FY20 we expect to continue to grow, with a stronger performance in H2 as we see the benefit of our actions, and we have a clear ambition to continue to grow free cashflow as demonstrated by our LTIP. And on that, I will let Margherita join me for Q&A.

Questions and Answers

Nick Read

I am being told that if you could keep it to one question – I know that is always a challenge for this audience – then everyone gets a chance to ask a question.

Polo Tang, UBS

It's Polo Tang from UBS. I have one question. The question is really about service revenues. How confident are you that service revenue declines have bottomed out at -0.6%, or are we going to be bumping along the bottom around about here? If you are confident that we have reached the bottom, what are the key data points and key levers that you would point to in terms of you confidence that things potentially could inflect on the top line?

Nick Read

We are confident that from Q2 we will see a gradual improvement in service revenue trends. We are lapping, obviously, Italy in Q1. We are lapping Spain in Q2. And we are lapping South Africa in Q3.

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Margherita Della Valle

Yes, and I would add that although there are some elements that are still limiting the revenue potential, such as the degree of competitiveness that we still see in the Spanish market, we have seen in the second half of the year good commercial momentum in our drivers of revenue. I would just single out churn. The fact that we have the lowest ever churn in Europe is going to be a key driver in terms of revenue delivery, which is why, as Nick mentioned, we see through the year a continuous trend upwards.

Georgios Ierodiaconou, Citi

Hey, it's Georgios from Citi. Just a question on the dividend. I'd be interested first to give us perspective, given the free cashflow targets you've set are still in line with what you have before, and I appreciate the slower service revenue growth, what drove you to make the decision now versus earlier? And also you are talking about a progressive divided policy from here. Do you mind sharing with us what will be the components to drive the progression over time? Thank you.

Nick Read

Just to give a perspective on the decision around the dividend, clearly as you rightly say, that we're maintaining – we met our guidance on free cashflow. We continue to deliver against our targets on a cumulative basis on our long-term incentive plans on free cashflow, and we've increased our target to €17.7 billion. However, if I go back to November to now, I would call on a couple of factors. I would say, first of all, revenue trends have been lower. We've had more pressure, I would say a more intense environment in Spain, and obviously we had headwinds in South Africa. Combined with the fact that we've had the German auction, which continues to run on, obviously at a higher level than we anticipated, along with the capex required for the coverage obligations.

So I'd say the headroom was getting increasingly tight, and I think there's a moment as management, and a board, you need to stand back and say, 'We need to create more headroom proactively, because we're at a really important moment for the company, in terms of its transformation. Whether it's transformation for convergence, whether it's transformation for 5G, whether it's the digital transformation, we need to create more flexibility and more headroom.' And therefore we wanted to proactively accelerate our de-levering to do that. Now, the dividend wasn't the only mechanism to do that. Of course, we are working the portfolio and other measures as well, but it was one contributing factor. What we wanted to be able to do at the end of this is to say that you have a secure dividend. That the dividend is now set at an appropriate level. If you take the free cashflow of €5.4 billion and then you take off restructuring – let's call it €200 million – and let's take off the long-term average of spectrum, €1.2 billion, you're down to four, and then you've got a dividend of €2.4 billion. So it's a sort of 60% distribution, which is why we set the level that we did, because we feel that now we can have that secure dividend moving forward.

And then, in terms of progressive, look, we have to see how the business evolves going forward. Clearly, if you look back, we have been growing our dividend in line with inflation. Clearly, at the moment our priority is de-levering, and therefore you shouldn't expect a higher growth than that.

Ian Morrison, Barclays

It's Ian Morrison, Barclays. A question on the cost side. We all tend to focus on the €1.2 billion, the €400 million. But you have called out a number of times today lower churn, and you've reduced the A&R expense by €100 million. But I guess on the other side you've seen the increase in emerging market costs through inflation. So how should we think about the trajectory of the A&R spend? You've said churn reducing a number of times. Should we take that €100 million reduction on a €1 billion base and extrapolate it? Would it be lumpy? What confidence do you have that can keep trending down? Thank you.

Margherita Della Valle

Yes, the A&R spend is obviously a combination of volumes commercially as well as unitary costs. What we do see, in terms of medium-term trends on unitary costs is two factors. The first one, that I mentioned

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earlier, is the loyalty increase in our base. Clearly, acquiring new customers is more expensive than retaining existing ones, so here we see a continued trend of efficiencies, but the second point, which I think is even more important if you look at the medium-term, is digital. I was mentioning earlier that we now sell 17% of our contracts online across Europe. And although this is twice as much as it was two years, so a good progression, I think in that area we're just at the beginning of our journey. If you think about the baseline it applies to, we spend almost €3 billion per year in commissions across the Group, so clearly evolving digital is an opportunity for further efficiencies in this area.

Akhil Dattani, J.P. Morgan

Hi, it's Akhil from J.P. Morgan. Can I ask a question on the Liberty deal, please? You've, as you said last week, come out with a pretty comprehensive package in terms of remedies on cable wholesale. I guess I was after a bit of colour in terms of the thought process that led you to come out to where you did, and how you feel confident that's not going to jeopardise the strategic value of that transaction. And I guess linked to that, the broader question is you mentioned the need for regulatory change and a more conductive environment at the EC level. How does that tally with the decision to offer these remedies? I guess if we look at Holland, that was not necessary for cable consolidation. In Dutch mobile, Deutsche was quite hard-line about not offering remedies. What was your thought process in terms of contending on that, given the broader construct of what you're talking about? Thanks.

Nick Read

I would somewhat separate the two. I'm trying to evolve a dialogue moving forward. That will take years, but I want to say, 'Let's start now, because I think the conditions are very different,' and what governments want is high speed networks throughout the country to enable productivity and a digital society. So my point is, 'Well, if you want that, please support the industry and we will go through that dialogue.' I just want to make sure that there is a change in the conversation if they want to achieve that goal.

Specifically to the remedies in Germany, our team and I personally have been very engaged with the EC. Their key concern was broadband competition in the Unity footprint. The fact that by us merging with Unity we were removing a competitor in the marketplace, and that competitor needed to get reinstated. Therefore, our thought process was we would offer a package. We went to the market, discussed with a number of players in the market. We found a partner in Tef. We think that they are the right partner, strategically, commercial, financially, to work with going forward. The package includes speeds up to 300mbps. Of course, we, Vodafone will have the ability to market up to one gig. And we are very much focused in that area. We were only replacing a DSL competitor and therefore up to 300mbps, we felt, was a compelling offer and allows Tef to be a serious competitor in the marketplace.

The package proposed does not impact the economics that we discussed at the point of the transaction. And what I would say is now that is going in for market testing, and because it's going in to market testing I really don't want to expand any further other than I believe that is a very comprehensive package that resolves all of the concerns of the EC, which is why I believe we're very confident on completing in July.

David Wright, BoAML

Thank you. Sorry for that one. Just a little bit on – obviously we had the rating agencies came out and downgraded the stock, and also put you guys on negative watch. I wonder if, when they did that, they obviously have some forward visibility of your business plan, I understand. But I assume they didn't see the New Zealand negotiation, they didn't see visibility of the dividend cut. Could I ask, have you spoken to them yet about the dividend cut, and whether that could adjust their view, certainly the negative watch? Thank you.

Margherita Della Valle

So no, we have not spoken to them yet. This will happen later this month, as usual. I would say that their decisions – and I think they explained them very well in their press releases – didn't include any de-

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leveraging initiative proactively from Vodafone, although it was somehow expected that we will, for example, continue to optimise our footprint. So it was very clear, and it doesn't include this decision.

David Wright

So you could possibly assume, with the dividend cut, that there might be a more proactive debate with them. Put it that way.

Margherita Della Valle

I would let them answer that question.

Participant

Okay, thank you very much.

Nick Delfas, Redburn

Nick Delfas from Redburn. Just a couple of things on Spain, on slide 29, with the pricing that you showed. I just wonder whether you're setting out prices very high for the unlimited option, which is obviously a great product for you, with a full network, and the same thing would be true in Italy, where maybe Iliad or MásMóvil have to buy capacity, so why are you pricing over €40 when your average is around €17, €18? It's just a question of philosophy on the structure.

Nick Read

What I'd say we are trying to position this as accretive, as we go into the base, we have a number of levers. Obviously, if we want to adjust to get different performance levels, we want to see how this lands in the marketplace. This is really a more-for-more type execution.

Margherita Della Valle

It's a new concept in – coming into the market, so it's important to take these opportunities to do more for more executions, as Nick is saying, and trying to get the maximum ARPU impact.

Nick Delfas

Could I just ask one follow-up on churn? Have you got a target in mind of where you think it should be on a three-year view?

Nick Read

I am very much – this is ambition, yeah, as opposed to guidance, but ambition is to be single digit. I mean, I just don't understand why we operate with double digits, and we've got to be focused on that. I think with everything we are doing, with digital, with having that one-to-one relationship with customers, if we've got a great network, if we have a digital one to one relationship, if we are broadening the products and services that we're offering and going from a single mobile contract into now a broad base of many products, I have to believe single digit is possible, and therefore everyone is focused on it.

Margherita Della Valle

And we already have seven markets in Europe single digit, plus the early results of convergence points there.

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Nick Read

Can I just reinforce, when I – I really think that we are transforming our business model as well as our business, yeah. So these levers we're pulling, fine, we've always been known for high quality networks, but radical simplification and digital and the way we're working as business is a change in our overall business model, and I think we're going to see many benefits to that.

Guy Peddy, Macquarie Capital Securities

Thanks. Guy Peddy, Macquarie. Not sure if we're meant to say that, but anyway. Quick question on capex. You've kept your mid-teens capex guidance, but since, like, November, you've announced lots of transactions or hopeful transactions for potential network sharing, which should help your capex probably in the mid-term, i.e. it's going to take a while to flow through. So I'm thinking, for example, for your mid-term target, is – are those network sharing deals allowing you to do other things, i.e. accelerating 5G? Is it because of Germany, the fact that there will be an incremental cost to rolling out networks there because of the network rollouts? I'm just trying to see what are the moving parts that we should be thinking of as how you scope capex going forwards. Thank you.

Margherita Della Valle

I think that we still need to see the full potential of the network sharing deals. So we have called out, let's say, two and a half, Italy, Spain and the UK. We are now working also on the other markets. What we see in the network sharing deals is that you have a certain shape to the way the savings are coming through. In the early years, you are actually investing a little bit more, because you need to reset the networks. We are adjusting effectively, usually, typically, two halves of the country to operate in sync. This requires to decommission some sites and establish new ones. Typically what we see at the moment is that these early investments, it's a sort of breakeven point in year 3, and then after that you ramp up gradually to the full potential. So we are talking about a time horizon that should get us from 2022 onwards to start seeing the benefits in our capex. I would say it's early days to think about how we will look at the mix at that point. For sure, this only, I would say, adds to our level of comfort in thinking that we can operate within the mid-teens target.

Nick Read

Yeah. Just to build a couple of points, I would say that clearly the benefits of sharing is we believe we can deliver a leading network, in terms of quality. We're also ensuring we have still a high degree of differentiation, because we're not doing the active in the metro areas, so it is a differentiated experience. Plus, we have our own spectrum etc. And then we're creating strategic flexibility by doing this, because it gives us the opportunity to invest in other areas if we want or actually take it to free cashflow. So I think it ticks a lot, a lot of boxes, and also it is good for, if you like, coverage obligations, good for commitments to governments, etc, so I really think it's a very good, positive development, and of course, ultimately, gives us optionality on tower monetisation on the second step.

Participant

Let me just – it's easier if I just go through and then round and back.

Usman, Berenberg

Thanks. It's Usman from Berenberg. On the service revenue trends, I guess going into H2 one of the biggest risk factors is Spanish TV customers, if Telefonica decides to have another go at whatever remaining football customers you have remaining. I know that there are cost savings that are coming in that will offset that, but just in terms of your confidence in the second half recovery. How are you thinking about the potential risk that Spain flares up again and you lose a bunch of TV customers? And just related to that, I guess if you could – if it is possible to tell us how many of the football TV customers you have lost so far. Thank you.

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Nick Read

Yes. So we've lost 90,000 football customers, which, frankly, was in line with our expectation. These are, if you like, the more hardened football fans, so they would definitely switch. You could argue that the others are not quite as passionate, if there's such a thing as a non-passionate football Spanish customer. We would expect to lose some customers, further losses, so that is in our expectations for Spain, but, as you saw on the port-in charts, I think we are performing well against TEF and Orange. We're competing head to head. We're competing well against MásMóvil.

So I think what we've done in Spain is really reposition the company. It doesn't matter now how intense the market is, we have a really effective second brand in Lowi, we're competing well in the higher end and we've taken a lot of cost out, so we have financial flexibility, given the opex reduction in cost, so that's why we're very confident on second half EBITDA growth.

Great. We'll go to the back and then we'll come across.

Jerry Dellis, Jefferies

Yes. Good morning. It's Jerry Dellis from Jefferies. I'd be grateful if you could outline please the components that would put Vodafone in a position of sustainably growing group organic service revenues. So once you get through the near-term lift from the, sort of, easier comps in Q1, Q2, Q3, what is it that really keeps the Vodafone Group growing? It strikes me that some of the areas in which you are doing commercially better, such as consumer fixed broadband and also enterprise, essentially require a situation in which you're taking market share at another operator's expense, and that feels like quite a competitively disruptive sort of thing to be doing. So is there a way of Vodafone growing in perhaps a more oligopolistic fashion over the medium and longer term? Thank you.

Nick Read

Yeah. I'm not too sure I'd quite answer it like that, but what I would say – I mean, I think the framework that I tried to present in the second half, so I apologise if it wasn't effective enough for you – what I would say is, unlimited, five tiered, 5G going forward I think is an opportunity to move customers up the ladder and monetise. Of course, do other large incumbents need to follow a similar path? Yes, they do, which is why we felt it was really important to go out quickly with the concept and let's see how it's adopted. Of course, it can be undermined. If it's undermined, the opportunity goes away for the industry, not just for Vodafone. I'd argue, and I'm trying to stress in my presentation, why I think it's a constructive development for the industry that they should take.

I would also say fixed broadband – I mean, we have a fantastic asset, especially post Liberty Global, unique compared to any other player in the marketplace, so that will be a unique engine of growth for us going forward. We are being very successful in converged, so we added 1 million converge customers over the year, and you can see the process we're doing to simplify the service down so we sell more products. So we see a number of opportunities for us to execute a growth in revenues that maybe others would struggle to do in that sector. So I wouldn't necessarily put us within the sector in that respect.

I think enterprise – we have a unique set of assets and footprint, and we have demonstrated, systematically that we are taking share at other people's expense. SD-WAN is a massive opportunity for us because that's a moment when corporate customers decide, 'Okay, I need to move to SD-WAN.' They will all move over the next five years. They will need to move to that next, and I think it's a re-evaluation moment that we've never had before. So that's a little bit how I'm looking at it. Over the next five years we have a number of unique opportunities to grab, but we have to go aggressively now to grab the opportunity, and then I think our – sorry, our merging footprint is a strong set of number one leading positions through Africa, and M-Pesa is a fantastic platform. So look, I see you're right to say we've got to lap a number of things, Q1, 2, 3. Once we're through that, where's my confidence coming through? It's there.

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Robert Grindle, Deutsche Bank

Yeah, thanks. It's Robert from Deutsche Bank. Firstly, a point of clarification on the LTIP Free cash flow guidance over three years. I think it includes the integration cost for Liberty. I don't think we've been given the three-year integration cost for Liberty, so if we could have that please. And my question is you were early to engage with CityFibre in the UK on the first 1 million homes, taking the volumes of them, but you've been quite quiet since. Are you engaging with the other altnet FTTH builders in the UK? How do you see that developing from a Vodafone perspective in the near term? Thank you.

Margherita Della Valle

Yes, I can take Liberty. We did indicate that we expected €1.2 billion of integration costs, of which circa 70% in the first three years, so that gives you a reference. Clearly, the net number after this integration cost, in terms of contribution, is relatively limited.

Nick Read

Yeah, CityFibre, I would say good solid delivery, live in five, I think two more cities coming up. Bit early to talk about really, commercial progress. What I'd say is, you know, have we made the decision to go from one to five yet? No, because we need to see the performance, so we need to keep seeing them continue to drive forward. You look like you want to –

Robert Grindle

[Inaudible] finished. Since you're wholesaling broadband in Germany, would you consider wholesaling broadband in the UK if that was on offer. Cable broadband I mean. Thank you.

Nick Read

Sorry, if Virgin want to offer us cable?

Robert Grindle

Yes, would you do that?

Nick Read

Yeah. No, of course. We just want to focus on driving fixed broadband add and convergence over time, securing our mobile position in the marketplace. I think we're doing a really good job. I mean, I think Nick Jeffery, our CEO in the UK, has really energised the business, is driving it forward. We did, what 200 more or less, 200,000 fixed broadband net adds over the year. I mean, that's a pretty good performance. In terms of the net adds in the marketplace, I think that was significant. I haven't got the percentage, but I think we are the strongest player. So what I'd say is we want to keep that momentum, so we will talk to all providers, clearly on good commercial terms.

John Karidis, Numis

Right, thank you. Good morning. It's John Karidis here from Numis. One big question and a tiny one, given that Nick Jeffery isn't here, if I may. The big question is about 5G. So you talked about the sort of various benefits. If I look at Verizon or AT&T, they talk about edge computing. They talk about millimetre wave spectrum. I haven't heard Vodafone talk about either and I just sort of wonder whether 5G for the next couple of years in Europe is going to be more marketing rather than true things like – true services like ultra-low latency and all the other good stuff that we're talking about, given that we're missing fundamental network enablers for 5G. So that's the big question.

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The second question, given that Nick isn't here, again back – I'll try again. CityFibre, does it deserve mention in your quarterly numbers? I sort of wonder – you said you haven't given – it's too early to talk about commercials, but can you talk at least about how many – how big is the footprint? The cities that you're talking about, how many potential households will you be able to reach at the end of this year or next year? Is it a few thousand or a few hundred thousand? We have no idea at this stage I'm afraid, so any help would be useful.

Nick Read

On CityFibre, to be honest I'll have to come back. Look, at this point it's not material for us, but in terms of their execution, they're tracking solidly to the plans they committed to, but if you can follow up with the IR team on specifics.

In terms of 5G, I think you have the wrong read there in terms of 5G. We are very committed to 5G, you know. I wouldn't say that – we are seriously launching and now rolling out. I mean, 50 cities across the year I think is a serious operational launch. We're doing 19 in the UK this year, so we are very committed to 5G. Of course, you know, we have to get the combination of equipment, handsets and spectrum available, and so spectrum has been holding us back, and also the equipment availability for the roll out. I'd say all of those things are coming together over the next two months, that we're good to go in a good number of markets. So I'd say then you're going to start to see the momentum.

I think what you will see is that there is a good cost play for us in major metro areas where there is large data volume, and therefore I think you're going to see that from all players, work the major cities out, rather than any other type of execution. And I would draw a distinction between us and the US, which is on millimetre wave. You know, that isn't the spectrum that we are executing on in Europe, and of course we want to do a more integrated 4G, 5G play.

Stephen Howard, HSBC Investment Bank plc

Hi, it's Steven Howard at HSBC. The topic is network sharing and towers again. I was hoping I might get you to talk a little bit more about some of the risks here. So if I take the various Italian agreements that you've been busy signing, as far as I can see this is going to create Italy's dominant mobile infrastructure provider. That sounds to me like the kind of thing that's going to go to Brussels for review by the European Commission and we've just seen with the Unitymedia deal that you have done you've had to offer up what I consider to be some fairly worrisomely extensive remedies in order to get that through. Not your fault I'm sure, but that just is the prevailing regulatory attitude.

So perhaps you could just reassure us that you won't find yourself compelled to give away more access than you would like to the infrastructure, because, going back to your earlier point about why is churn high in this industry, well, you know, surely one reason churn is high is because customers don't see the differentiation, don't see sufficient differentiation between the networks. So is there a risk here that you wind up compromising your ability to differentiate because of remedies that you've got to offer up?

Nick Read

I think you're making some important points, of which of course we went through in our consideration, so if I just sort of summarise how I'm thinking about this. So fine, when we do a tower company, the tower company will have to offer towers to other tenancies in the country. I think the possibility of just making it between two large players I think would have a major issue in terms of competition, whether local or Brussels. I think Italy itself I think our view is it will remain local, but there could be the possibility it goes to EC. We don't see it as a given that it goes to EC.

What I would say is it comes down to pricing of the rate to go on towers. There's other considerations, like do you put your strategic towers in or you don't put strategic towers in, so you have choices of what goes into that entity or not. You've also got other considerations like loading on the towers. So fine, the tower might be able to take two. Can it take three? No, therefore there's a cost for someone to upgrade the tower if they want to come on. So, to be honest, there's a lot of details that we go through, so that's why, when we

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announce an MOU, it takes five, six months to go through contracting, because we have to align around a number of these principles. So I'd say that's the sharing of the passive.

Then you have the thing about the active sharing. From an active sharing perspective, the large metros are not included. It's only outside of that, and therefore we don't see that as part of any requirement from a competition perspective. We see that as a benefit on coverage being delivered, yeah, but not on a national basis, and so therefore we see less regulatory intervention on the active side.

And then finally, you've got our spectrum holding, so Italy would be a really good example. Ourselves and TI obviously got a significant amount of spectrum for 5G. The others didn't. They have to use their own spectrum. So look at it as we analyse the various components within a package so that we can land the industrial synergies without undermining our differentiation in the market.

Jakob Bluestone, Credit Suisse

Hi. Jakob Bluestone from Credit Suisse. If I can just get back to the service revenue topic. I mean, obviously it was an important part in the decision to change the dividend, alongside leverage. I'm just sort of hoping to understand a little bit better where do you think service revenue can sort of end up, you know, one or two years out, and particularly also how – I mean, how important is – what sort of revenue growth do you think you would need to get back to start growing the dividend again? I mean, would you be willing to grow the dividend with flat revenues, or do you really need to see, sort of, meaningful revenue growth before you start talking about, you know, growing the dividend more meaningfully? Thank you.

Margherita Della Valle

So on the service revenue performance overall, without sort of going back again through the dynamics of this year, because we have mentioned them before, but let me tell you that the key element in this progression for the remaining part of the year is going to be the degree of competitiveness in Spain, which is still quite high. Once you go through the various phases I was mentioning before, which is quarterly lapping of our earlier FY19 impacts, you can get to a position where you go more towards long-term projection of revenue based on the various factors that Nick was declaring before. I would say if you look at our markets today you will see that, outside of Italy and Spain, you have good revenue performance today in Europe, so what we need to get to is a position in which this performance is the European performance overall, driven by low churn, good growth in broadband and a more stable competitive environment.

Sam McHugh, Exane

Good morning. It's Sam McHugh from Exane here. Just kind of a big picture commercial question for you if you like. So a year ago we talked a lot more about more for more pricing and you getting your fair share of the high, medium and low end of your markets, given that, after you'd stopped doing a lot of MVNOs, you felt like some other people were perhaps taking advantage of you in those segments of the market. Now, that strategy's ultimately led to negative service revenue growth and today you seem to have shifted a bit, by talking about simplification of plans but still hoping to take ARPU's up, and also you mentioned an increasing focus on monetising your existing base. So I guess what I'd like to ask is this a signal that you want to be more rational again for your competitors, and then isn't there a risk that this just plays out exactly like it did in the past, with people trying to take advantage of you again, as you kind of shift and raise prices and focus just on your own customer base?

Nick Read

I think it's important to go back to what I was saying in November, because the point I was trying to register about driving more consistent commercial performance was saying we have to compete at the high, the mid and the low. Now, actually, let's start at the low. What we did was we came out of wholesale, because we said, 'Okay, we're not going to wholesale. There's a great network that we did on 4G.' Others did, so we lost that revenue, but what – the mistake we made was we didn't really replace it with a second brand or a value proposition, and so we under-indexed in the low value segment. What I said was we will correct that, and we are going to compete in the value, whether it's through a second brand, whether it's through a product. It

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could be through wholesale, but not at discounted prices. So the point is we just need to be participating in that segment, and I think you'll see in the performance, whether it's Italy, Spain, etc of us doing that.

I think in the mids we sort of said, 'Look, I think there's an opportunity in digital', so what we do is we, essentially, dial down the proposition and have a lower cost of delivery, whether it's commissioned or whatever it is, and therefore protect the margin but at a lower price point, and we are doing a number of offers there.

At the top end, we're simplifying the proposition. We are doing the tiered unlimited in a number of markets, not all markets and not all above the line. I wouldn't call that – I mean, it's a rational approach to monetising, unlimited. The market can follow, or it can't. If it doesn't, we will compete. So don't see it as we will sit there, all principled, under-indexing on performance, saying, 'I wonder why no one followed us.' We're saying we think that's the right approach for the industry. We highly recommend the industry goes down that path, but if they chose not to, by market, we will respond, so we will compete on all three levels.

Andrew Lee, Goldman Sachs.

It's Andrew Lee from Goldman Sachs. I had a question on your deleveraging activities and the role of infrastructure funds and investment houses in that. If you could just give us some more colour on the opportunity. I mean, we've seen you monetise in New Zealand overnight, and how much more scope is there for you to benefit from this? How widely would you look across your portfolio of assets to monetise, rather than do things like network sharing, and how wide is the interest from these funds? Thank you.

Nick Read

What I'd say is I think we've been very active on the portfolio. When you look back, we've done Qatar. We've done lots of activity in India. We've done – we're trying to do Australia, New Zealand. We've put Safaricom into Vodacom. We monetised some of our stake out of Vodacom. So I think the one message I'd have is when we say we continuously optimise our portfolio, we're continuously optimising the portfolio. I think the additional opportunity is things we can do with towers, and I think the important thing is, by – there's a window of opportunity, with 5G coming, to do the industrial synergies around network sharing. So at the moment the focus is to land those deals in each of the key markets so that we land the future profile of a strong network, as we discussed before.

But I think, simultaneously, we can review opportunities around monetisation, and the key is the – obviously the multiples that potentially these infra funds are willing to pay. That multiple compares to, you could argue, the incremental financing cost of hybrids, etc, sitting at 4%. So I think that we would do something if we can see a clear path to value creation. In some instances, like Italy, to realise the industrial synergies you have to do the monetisation, because TI has already done that. So it unlocks the industrial synergies. So see it as like a market by market situation, always with the mindset of now wanting to undermine our differentiation or strategic position.

Andrew Lee

I just want to ask a quick follow up on that, just in terms of balance. You mentioned a balance in terms of multiples you'd get versus your funding costs, but could you just talk briefly maybe about the balance between selling at a high multiple but then committing your retail business to a ratcheting cost base that's involved in selling certainly tower companies.

Nick Read

Look, there's a little bit here around, if you've done the sharing, then, by definition, there's a partner on the other side, and these are the considerations you go through, yeah. So what I'd say, it's not just in our – you know, we will be discussing with them, because it's all about where you set that anchor tenancy ratio is really fundamental, and then what are the MSAs, escalations. I mean, I don't want to bore you with it all, but, you know, these are all the considerations. That's why it takes five, six months to go through these things, because you've got to go through all those details to set your business correctly up for the long term. And

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with a number of these relationships, ourselves along with the partner, want to maintain control of the tower company, which will be the situation in Italy, as an example.

Emmet Kelly, Morgan Stanley

Hi, it's Emmet Kelly at Morgan Stanley. I have a question please on the Italian business. So it's exactly one year since Iliad launched in Italy. Obviously, it was a bit of a shock and awe when they launched, one year ago, but if I look at what's happening in the last couple of quarters you see price rises from Vodafone, from TI. You've also seen a big net adds slowdown at Iliad. I think they were attracting 500,000-600,000 subs a month originally, and now it's down to 400,000-500,000 per quarter. Is it fair to say the worst is probably behind us, and are you comfortable to you have repriced a very large portion of your back book, the ones that needed to have their price adjusted, or is there still much more to go on that? Thank you.

Margherita Della Valle

So, as usual, I would preface by saying, being a prepaid market, Italy tends to be quite volatile on, I would say, both directions over time. What we have seen in the last year is, as you mentioned, a gradual spin down of our base towards ARPUs as a result of the price war triggered by the entrance of Iliad and, in some cases, preceding the actual entrance of Iliad. What we see now is two strong signals of stabilisation. The first one is that the volumes of mobile number portability have drastically reduced. We are now back to levels which we had not seen since 2016, so well before Iliad's entry. And then we have repositioned the pricing of not just the new connections but also the customer base, gradually, throughout the last two quarters.

The entry level pricing, just to give you an idea for the top tier player at the moment in Italy is €19, and for the second brands we are talking about €13. So the fact that these price points have grown gradually effectively acts as a limitation in terms of the movement of the customer base towards lower price plans. It's effectively, sort of, closing the gap at the moment in this direction. And, by the way, similar price movements have happened on the fixed side of the business. So that, at the moment, is all positive.

I think if you look forward, the critical element for the development of the Italian market is still going to be Iliad's pricing. They are still, at the moment, at €7.99, a position that we believe is margin negative on a variable basis. The question is when and how will they move out of that position. We've had actually a quick glimpse, because a month ago they tried something which was called a flash sale at €10. Yes, it sounds like the opposite of a sale. In reality, there were a few more gigabytes in the price plans, but still. It stayed on the market, I think, for about a week and then came out. I think, in terms of longer-term development of the market, it's quite critical to understand how this pricing repositioning at their end can happen.

Nick Read

James, you've been really patient. You are our last question of the day.

James Ratzer, New Street Research

Thank you. I'll hopefully take advantage of my patience and maybe ask two quick questions then please.

Nick Read

Abuse.

James Ratzer

Abuse, sorry, yes. So just the first one on the balance sheet please. I mean, you've guided quite clearly that you want to manage down to 2.5x net debt to EBITDA. Why 2.5x, out of interest? I mean, it seems like your free cash flow guidance is moving up. There's going to be less regulatory intervention in the sector. You just

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raised €20 billion at 2% cost to debt and the credit market thought your leverage was going to be three times, so are you not doing equity investors a disservice by deleveraging the balance sheet? Could it not be run more aggressively?

And then the second question, quick one just on EBITDA guidance. It looks like you're guiding to around 2% growth at the midpoint of a range similar to what you did last year organically, but yet you've given pretty clear guidance that Spain should improve. I'd like to think Italy should as well, so what's getting worse, or is the EBITDA guidance conservative? Thank you.

Nick Read

I think these are both great questions for you.

Margherita Della Valle

In terms of EBITDA guidance, you are right, what we see in terms of mix of countries going into the year is Spain improving. But equally, if you look back at the year that we have just closed, we had some strong performances in markets which may this year not replicate at the same level. An example for everyone could be the UK, where we have grown EBITDA double digit this year and it's unlikely that we will replicate this, for example, in a market where the annual licence fee is increasing. So that's for the mix.

Clearly, the guidance is a range, so it could move between the two extremes, depending on the overall conditions. What is sure is that, in terms of phasing throughout the year, we are seeing that H2 is going to be the strong point. Remember that in half one we are lapping some very tough comparatives. Last year, in half one the revenue growth was 1%, so clearly we will see the difference from that. We do see half two as the really step change.

On the balance sheet, why 2.5x? I think Nick talked to the fact that we see our cash flow generation unchanged - guidance hit, but at the same time we see a round off to the more uncertain competitive – uncertain environment, more broadly, and we want to be really flexible and maintain headroom in terms of how we operate within this environment, within the context of all the transformations that we are executing. We think our shareholders will value the fact that we are strengthening our positions on moving quickly towards the bottom end of our leverage range. As Nick was mentioning earlier, we plan to do this with a package of initiatives. It's not just the dividends. It should take – for example, what we have announced today. We have the dividends. We have the sale of New Zealand. Collectively, these take out 0.4 of a turn in the next three years, and that's part of this intention to really lighten the load of debt as we move forward, to gain flexibility.

Nick Read

I think, importantly, you know, this is a proactive move that, if you sit back and you say, were there to be a downside scenario, recession, whatever, or a lower economic cycle, you know, really competitively positions us with a strong balance sheet and a very secure dividend to do the transformation work.

And on that, thank you very much for all attending. If you've got further questions, I'm happy to take them outside over a coffee.

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