Vodafone Group plc
Preliminary Results

Analyst and Investor Conference Call
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Full-year Highlights

Vittorio Colao
Group Chief Executive, Vodafone

Good morning. Welcome. Thank you for coming to our year-end presentations. I will follow the usual path. I will give you the highlight for the year; then I will pass to Nick for the financial review. And then I will cover the main six markets and the progress and the priorities for next year. And then, of course, I will be joined by my colleagues for questions.

So, financial performance first: this has been a year of continued growth in emerging markets and some stabilisation in Europe. We returned with group organic service revenue growth in the last quarter after 10 quarters, albeit a small one: +0.1%. Europe organic service revenue, at -2.4, is an improvement versus the quarter, essentially driven by commercial execution and some price stability and, of course, data growth. AMAP continues to perform well: 6% growth. Here, the story is the usual story of customer growth on one side, but very strong data performance on the other. And then, from a financial point of view, we are meeting our full-year guidance: 11.9 billion of EBITDA and 1.1 billion of free cash flow.

I will cover in more detail the strategic progress in the year: Spring is on track. We are at 62% of the mobile build – 63, to be precise. The European coverage is now already 72%. We are today the leading 4G operator in Europe.

20.2 million customers in 4G in 18 markets. Data volumes continue to grow – actually, accelerate – again at 80% growth. In AMAP, 116 million data customers. The Indian 3G coverage in the urban areas that we targeted is now 90%. This is, of course, before the new frequencies become available. And I have to say we also have very strong momentum in unified communications, with 11.3 million broadband homes in Europe, which makes us – depending whether you look at the markets we are in or total – between the third and the fourth largest provider of broadband in Europe.

Integration of Ono and KDG – and Nick will talk about it – is on track. The synergies are in line with expectations.

And finally, something we are happy about: Enterprise, in the last quarter, is back to organic growth again. We had good performance that I will cover later. The most interesting element is the expansion of our IP-VPN presence to 62 countries internationally now, which is almost twice what it used to be.

These are the highlight; Nick, over to you with the details.

Financial Review

Nick Read
Group Chief Financial Officer

Thank you, Vittorio. Good morning. I will start with high-level financials. So, first of all, group service revenue for the year declined 1.6%. As Vittorio said, the good news was quarter 4, after 10 quarters of decline, we finally moved back into positive territory, even though a very, very small 0.1%. Group EBITDA just down under 7% for the year. That 7% is a roughly £800 million absolute, year-over-year decline, principally in the first half, £600 million, pretty much European direct-margin decline, with a significant improvement in H2, given the stabilisation of our revenue. Adjusted operating profit, at £3.5 billion, was down 24%, due to the lower EBITDA but also the higher D&A as a result of Spring and spectrum costs.

If we move on to adjusted EPS, there is a slightly more detailed version sitting in the appendix, but I just wanted to touch on the key points. So, first of all, net financing cost: we had a mark-to-market loss of £134 million in the year versus, last year, a gain of £118 million; so, therefore, underlying there was a decline of 6.8% due to our lower average net debt position. Tax expenses fell £360 million year over year. £100 million was provision releases because we had successful settlements with a number of tax authorities around the world, and the remainder is lower Group profits. Adjusted effective tax rate of 29.4% was in line with expectation, and you should expect a high 20s in the medium term. Non-controlling interests declined, due to lower operating profits in those respective businesses, such as Vodacom. As a result, EPS declined 28%. So, in light of progress versus our Spring plan, we're confirming our full-year dividend growth of 2%, with a final total year dividend of 11.22p.

Let's take a look at our service revenue by country. We've excluded MTRs, and the Group as a whole declined 0.8%. And as you see on the right of the chart, most of the European countries were in decline, but I just want to draw your attention to the bottom part of the chart – the bar at the bottom. You see the progress made across the portfolio in the year and you see that, by and large, most countries improved performance over the course of the year, the one notable exception being Vodacom, which was under price pressure both in South Africa and the international operations.

Now, let's roll that on to quarter four and you see, basically, three factors: first of all, a number of countries that were growing accelerating; more countries have moved into growth; and, as a whole, by and large, negative countries improving their positions. And I was just saying to Philipp that, at this rate, we're going to have to find a different colour for the European countries. Clearly, the notable exception is Germany. Consumer mobile and DSL ARPUs remain under pressure, given the value players in the market, but also given the back-book pressure that we've had relative to pricing in the marketplace.

Now, with service revenue stabilising and moving back into growth, let's have a look at our EBITDA performance. What I've tried to do to get an underlying picture for EBITDA is put this on a constant exchange and eliminate M&A. So, what you see is that H2 has stabilised against H1 and is down £200 million year over year, that £200 million, essentially, being the Spring investment in the second half of the year. On a regional level, H2 saw Europe moderating considerably, so H2 for Europe was down £270 million year over year, playing against a H1 performance of down £700 million. And AMAP produced a growth of £130 million, slightly higher than the first half.

Moving on to free cash flow and the key drivers: capital expenditure, £9.2 billion, including £3 billion for Spring. Working capital had a slightly adverse significant variance of £2 billion year over year, and that, essentially, came down to four factors:

- First of all, last year, we had £300 million one-time benefit as we bought terminal vendors into our central procurement company and we got extended payment terms when we did that.

- Secondly, we had about £200 million of one-time payments this year. They included the Phones 4U deferred payment unwind and a Vodafone India payment to Indus for IRUs.

- The third factor was £500 million central-payment phasing. So, occasionally, we get good economic terms for doing early payments. We took that in FY15 and also in FY13, but we didn't do any of that in FY14.

- And then, finally, we have about £400-500 million of working capital movements in any given day, so, obviously, we get a degree of volatility.

Moving on to net interest, it's fallen, mainly because of one-time cost last year of £250 million in relation to the dollar-debt restructuring we did post Verizon Wireless. Moving on to cash tax, we've put Verizon Wireless down into the 'Other' line to show the underlying reduction year over year, and that's mainly driven by lower profits, but we did get the benefit of a number of lower, non-routine payments and some timing benefits, so you should look at that line as being a normalised level of about a billion going forward. Dividends received benefited from abnormal high payment from Indus; look at the FY14 as the normal run rate going forward. Which takes our free cash flow to £1.1 billion, or £4 billion excluding Spring.

So, I wanted to update you on my key priorities for FY15, which will remain my priorities for FY16: the delivery of integration synergies, Project Spring returns, and cost optimisation. And I just wanted to give a brief update on each in turn.

So, starting with KDG, we were very careful in the integration of KDG to make sure that we didn't lose momentum that they had in the marketplace. We're very pleased to say that KDG continues to accelerate in the quarter: total revenues up 7.1% versus Q3 of 6.5%, with strong NGN net adds of 123,000. Also, the KDG management took control of the DSL business of Vodafone and we've seen good gross add traction and momentum. And the migration to NGN products of our DSL is now hitting our target run rate as of the year end.

To maintain that commercial momentum and also to deliver in the Spring programme, we did make a decision to delay our technology integration by about four or five months, but we're now ramping up and this is a key priority for FY16. And finally, we'll move to a single organisation as of October, which is six months ahead of the original business plan.

Moving to Ono, we stabilised revenue excluding wholesale and the recent FTR reduction, but we're behind our expectations, and this is largely because of the very aggressive convergence pricing in the marketplace impacting our ARPU, though we are encouraged by some of the recent developments in pricing in the marketplace. We're very pleased with our Spanish team's performance in terms of the integration plan, and they've accelerated a number of aspects of it. They're now one organisation, co-located on the Vodafone campus. And I think there are three particular achievements that they've managed to do this year:

- The first is they renegotiated the MVNO contract with TEF. We will be fully migrating the customer base across by June, which is broadly seven months ahead of the original business case.

- Secondly, they optimised the FTTH build programme with Orange. We reduced the build and also made sure it was complementary to the Ono footprint.

- And then, finally, accelerated the cross-sell, with 90,000 mobile and 45,000 fixed gross adds being sold into the respective bases.

The second area was Project Spring. I think we've made excellent progress on the programme. As you see on the top-left chart, one of the key deliverables was to have a fully modernised, cost-efficient mobile network with high-capacity backhaul, single RAN, and as you see, we're at 73% and 68% of the build complete respectively. You see, then, onto the top right-hand, following is the rollout of 3G to emerging markets and 4G across Europe, and you see that the programme has now reached 56%, at the midway point. Bottom left, good progress on the NGN build. We're now at 28 million homes passed with our own infrastructure; self-build of 3.2 million in the actual year. And then, finally, Enterprise capability and geographical coverage has been expanded with IP-VPN to 62 countries, and we will be launching our MVNO in the US as of October.

Now, those builds' progress has had a strong impact on the customer experience. As you see on the top-left-hand chart, you see dropped-call rates have nearly achieved our targeted goal of 0.5% for Europe and 1.0% for AMAP. Top right, you see the rollout progress, so we're at 72% for 4G across Europe and at 82% 3G/4G for AMAP. Bottom left, you see that 88% of the data sessions are now greater than 3 megabits per second. This is our definition of high-definition video performance. And then, right-hand-bottom chart, you see the combination of coverage and consistent performance driving usage, and Vittorio will be expanding on this more in his presentation.

The third area is fit for growth. So, this is the cost programme that we initiated in the year. What is different about this cost programme, we're taking the total costs of the business, we're taking a three-year view within the business, and we are making sure that, centrally coordinated, we're identifying key initiatives that run across the business to shape our business so that it's fit for growth for the future.

As you see on the chart, on the left-hand side, total cost base, £30 billion. You see the make-up of that cost base. You see the next column being our three year CAGR, and what you see, we've done a solid performance, reducing that total cost base by about 1% per annum. You see that we benefited from interconnect costs lowering but also done a solid job on the opex side, which is partially offset by direct costs increasing and customer costs increasing.

What you see in the FY15 performance, I would argue, is a slightly stronger performance, bearing in mind interconnect with MTRs running their course, obviously, declining less, but what we've done a stronger performance both in the customer cost area, where we have held our customer costs through some optimisation of channels and commissions, and done a stronger job on the opex side, if we exclude the investments we've made from Spring.

Now, as part of this exercise, we are doing ATK benchmarking exercise that came up with six exercises where we felt there was greater opportunity. The first two are pretty obvious and also commercially sensitive, so I'm not going to go through those, but I thought I'd address the next four and just show you the degree of ambition that we have in each.

So, if we take supply chain first, you see on the chart that we have €20 billion moving through our central procurement function. That's about 70% of the relevant spend and we're looking to take that up by the end of this coming year to 80%. You see in the process that we've managed to bring the number of vendors that we have from 40,000 down to 14,000, as we consolidate, and this group have delivered consistently, over many years, a 10% reduction in total costs for us per annum.

If you go over to the right-hand side, you see our shared service centres. As you see, FY15 we stood at 17,000 employees in our shared service centres. That is up 4,000 year over year. You see it delivers to us a £300 million per annum saving, given labour arbitrage going offshore and also cost efficiencies. We are targeting a quarter of our employees by FY18 will be in shared service centres, and I really want to stress the strategic advantage of shared service centres, because these are our employees in countries where we have operations and they have a passion for the service. And when we monitor the NPS from our operations, they are considerably higher than our outsourced partners, so we really think they add significant advantage to our business.

Moving to technology, we've done a lot in the network space. We've been doing a lot around rationalisation and modernisation. Now, 70% of our sites are shared across our business. Where we see the opportunity is in IT. If you take capex and opex, IT is roughly 5.5% of service revenue; we think we can drive that down to 3.5%-4.5% through the transformation of our CRM billing estate and also project volume and scope with our outsourced partners.

On the right-hand side, you see that we're trying to balance both efficiency but also a better customer experience with penetration of digital service. And we believe we can drive our adoption of My Vodafone app to over 70% of European smartphones from the 25% today. So, standing back on the cost front, what I would say is we've got very hard targets, multiyear on these initiatives, and its part of how we will deliver growth in our EBITDA going forward.

One topic that probably, as an industry, we don't talk too much about is spectrum, so I thought I would. Over the past five years, spectrum has been relatively heavy on us and the industry. We've averaged, over the past five years, just over £2 billion per annum, if we include the recent India auction. We've obviously been renewing and extending 900/1800MHz 4G spectrum in Europe and 3G in India. FY16 largely completes the picture for our major markets: we've got Germany, we've got Turkey, possibly South Africa. Post FY16, you see a lot lower level of spend going forward. Yes, we've got some potential more 3G in India – a country that keeps on giving – and Italy, 900/1800MHz in FY19. Before then, 700MHz arrives from FY20 onwards.

On to the balance sheet, you see, in red, the year-end net debt, £22.3 billion, with an average interest cost of 4.7%. To arrive at a pro forma for FY16, we obviously add the India spectrum that we secured, dividend, and then we have positive guidance free cash flow gets to you circa around the £28 billion mark. This does not include the $5.2 billion Verizon Wireless loan notes and does not include the FY16 spectrum auctions I've just mentioned. We're very comfortable operating with a BBB+ rating, which is broadly 2 to 2.5 times net debt to EBITDA. Moving into FY17 post Spring, we return back to a capital intensity of 13-14%, and the free cash flow starts to de-lever the company.

Moving on to guidance: so, to help with the rationale, what the chart attempts to do is take the reported FY15 EBITDA; it then takes that and restates it to FY16 guidance FX. We adjust for the recent Indian regulation changes and some drag in terms of MVNOs. Some minor M&A gets you to £11.4 billion on a like-for-like basis with the guidance for the year. So, essentially, we are between 1% and 5% growth. Now, why the delta? What are the key variables? And I'll answer it, so you don't have to ask me the question. So, one of them is India regulation and pricing. So, of course, India is the world's master at coming up with new regulation by the month, so, of course, there is always a degree of variability there. I would say you would also look at both the rate of recovery on ARPU both in Germany and Spain as being a key variable within the range.

So, finally, guiding on positive free cash flow and capex in the range of £8.5-£9.0 billion for the second year of Spring. So, given our performance, the fact that we're tracking to our Spring plan, net debt in line with expectation and strong underlying free cash flow, it's the Board's intention to grow the dividend per share in FY16.

So, to close, I think it's been a solid year of execution that returned Vodafone to growth. Guidance has delivered and we've made significant progress on our strategic priorities. Balance sheet remains strong and in line with the Spring plan. And we've got good underlying free cash flow, allowing us to grow the dividend per share.

On that, I will hand back to Vittorio.

Operational and Commercial Review

Vittorio Colao

Very good. So, let's go through some comments about the main markets and then talk more in general about the priorities for next year.

First of all, Germany. In Germany, we saw service revenue decline quarter on quarter. As Nick has already said, if you really look at the underlying performance, the previous quarter was a little bit helped by MVNO, carrier service revenues and some MTR cuts, so what you can say is a constant -3% performance over the last three quarters. Nick has already said, essentially, we are paying the cost of some back book re-pricing on both the mobile and the DSL base; probably also a little bit less than satisfying commercial performance.

Mobile contract net adds were up 137,000 in the quarter. This is a slowdown versus the previous quarter. This reflects the stronger emphasis that we are putting on branded connections and direct channels. We have some positives there, churn is coming down 1.7 percentage points to 14%, so there is improvement but, clearly, there is also some drag from past pricing.

On the other part of the bar (the blue bar) – instead, we have a very good performance. KDG, +7.1%. This is an acceleration. We also added 123,000 net adds in the quarter, which is a very good performance in the German market.

On the Vodafone fixed-line side, there was a little bit of a slowdown here. Again, there was carrier service contribution in Q3. Nonetheless, our DSL performance is still negative but much better than the previous year. It was 47,000 negative versus 186,000 last year. So, some improvements; probably the speed of the improvement has to be accelerated in Germany.

In the meantime, Project Spring is progressing well. We said already that we have resolved the network issues of last year. We are now co-leader in 4G coverage – 77% – and I have to say, as Nick already indicated, our performance on the voice front is also very good, with a 0.57% dropped call rate, which is the lowest in Europe and the lowest historically in Germany. So, recovery on track and, actually, I would say, fully done now on the networks front.

Full-year margin down 1.1 percentage point. It is improving in the second half. There is a lapping effect because, last year in the second half, we started investing more in commercial.

Priorities: Clearly, the priority number one is to improve the branded mobile mix and the ARPU, so it's the mobile Vodafone side that has to improve. We want to accelerate also the VDSL part of the business; the KDG part – the cable part – is doing well but we need to accelerate also the other part. Continue to deliver, as Nick has described, the KDG synergies. And complete Spring but, on that one, I am pretty confident that we are already in pretty good shape.

UK: now, UK is second quarter of growth in a row, which is good. This is clearly supported by 4G. There's a lot of momentum in 4G. We have 1.1% mobile service-revenue growth in the UK.

As you can see from the bottom part of the chart, contract ARPU is up 9%, and contract service revenues are up 4.5%. We have 3 million 4G customers. It's the highest using market for data and also the best market for content and integration of content with our own tariffs. The NPS is also very good.

On the Enterprise front, revenues were down 2%. Essentially, we are still being dragged a bit by the fixed side; the mobile side is doing well.

And Project Spring here, again, has made a significant improvement. The 4G coverage that you see in the chart is 63%, but that's measured with the Vodafone statistics that are a little bit more restrictive or more demanding than the Ofcom one. In the Ofcom local UK comparison, that is more 71%. And here, again, the dropped call rate has improved to 0.78%, which is not as good as Germany but still a significant improvement.

We are reporting a 21.2% EBITDA. The underlying margin is not as good, there is some benefit from network settlements there, and the margin is more 19.6%. This is driven, essentially, by two things: the fixed margin issue that I described before, and also some reallocation of international network costs that we used to have in other parts of Vodafone and, actually, they pertain more to the UK.

Priorities: here, we need to maintain the great growth momentum in 4G; we need to continue to drive data monetisation; roll out consumer broadband now in the summer, and TV later in the year; continue to strengthen our network and our service performance. As I said, we already improved but we want to push it to real excellence; and finally, build momentum back in Enterprise.

Third, India: India is a good story – continues to be a good story. We have double digit revenue growth. It looks a little bit lower than the previous quarter but there is a 1.5 percentage impact of MTR cuts. On a yearly basis, that would be five percentage points.

Essentially, what is going on in India is the usual thing: great growth of customers, 5.1 million customers. There is a little bit of voice decline in minutes of usage, but more stability in price. The voice decline in minutes of usage is, essentially, regional promotions that, in some parts of the country, are taking down the average but, essentially, the great story continues to be a great data story.

Data revenue grew 62% and volumes almost 80% in the country. We have increased the number of active data users to 64 million (23% growth) and we have 19 million 3G data users in India; the same number here last year I gave you was 7 million. So, it's really a fantastic story of data growth, with a lot of potential to go.

We also delivered Project Spring here, almost 13,000 sites built in a year, 1,000 shops, so I would say India continues to deliver.

29%, actually 29.6% EBITDA margin, growing versus last year despite the Spring opex and the higher A&R, so a really good story.

Priorities for next year: continue to drive data, expand 3G after having acquired the new frequencies; maintain the network differentiation to support voice; do a bit of segmentation again on a regional basis, geographical basis, and support with distribution in the different parts of the country; and finally, scale up M-Pesa, which now has a full distribution network and needs to be exploited commercially.

Now, Italy. Italy is an improving story, as you can see in the chart, and probably more improving also than competition, but it's still a challenged market. As you can see, we have improvement essentially driven by a better ARPU in prepaid. There's stability quarter over quarter and improvement versus last year, but we still have a customer base decline, despite the facts that we are MNP (Mobile Number Portability) positive in the country.

We have a very good performance in Italy in Enterprise and we have a very performance in fixed. You see the number of broadband net additions, the blue part of the chart continuously ramping up over the quarters. However, it remains a fragile landscape. I'm sure you'll have questions about Italy but still 30% of the activity in Italy is below the line, and below the line is incredibly competitive, so it can easily tilt in all directions. We are convinced that we have made the right choices. We have a very good 4G base. We have 2.8 million customers – doubled – in the market and we have more than 80% 4G coverage. So, in Italy as well, you start seeing the progress, the benefit of Spring.

Our fixed is growing well: 6.8% growth in the country. We have prepared 5,000 FTTC cabinets, which, if you add the Metroweb homes that we can access through them, brings the total of the marketable homes to 1 million and, of course, we have projects to expand it.

EBITDA margin also, the decline slowed down in the second half of the year. This is mostly due to very good cost control.

So, priorities for Italy: we need to increase to commercial momentum in prepaid. ARPU stabilisation has been good; we need to do a little bit better numbers in absolute; increase the 4G penetration now that we have this full, very well working network there; ramp up the NGN net adds. We have the plan to go to 3 million marketable homes by next year; and further grow Enterprise, which, as I said, is giving a lot of satisfactions in the country.

Vodacom, a few words. They announced yesterday, again another strong improvement in Vodacom. They are at now -0.2%, which is 3.7 percentage points improvement. This is driven, essentially, by South Africa. South Africa went to -2.0%; if you take out the MTR cut, actually South Africa is growing +2.1%. This is reflecting better prepaid ARPU and the more stabilised environment in South Africa. There is a big re-pricing that, as you know, we are doing and we have to go through in South Africa and, I have to say, it has been executed very well.

In the meantime, contract net adds up 13,000 – 3% but, again, data accelerating plus 25% of data revenues and, as you see in the chart, we have more and more better devices. South Africa is one of the places where we sell most of our Vodafone branded devices and cheap, affordable devices with good, intelligent bundled pricing, I will comment about prices later. Clearly are indicating that, even in prepaid markets, even in emerging markets, there is a very good potential to grow in terms of data.

The margin was down 1.2 percentage points but, in reality, after MTR, it was only down half a percentage point.

So, I have to say, quite frankly, a pretty good job done by our colleagues. Priorities for next year: maintain the data leadership. We need to, clearly, continue on Project Spring; continue the price transformation. It's been successful so far but we need to complete it, of course; develop Enterprise, which is the next big opportunity in South Africa; and launch our FTTH commercial propositions in the areas where we have access to fibre.

International, I won't spend much time, growing, again, 5%. There's a bit of lapping effect with Tanzania. Growing customers. M-Pesa is the next thing; is not, as I will say later, just a Tanzania thing but we also are working in other markets.

And finally, Spain. I have to say, graphically, there is an improvement but it's a small one, 1.1 percentage points. I have to say Spain remains a difficult market from an ARPU perspective both in mobile and in fixed, due to these converged offers that are in the market. There are some pricing positive signs in the market.

We had a negative performance in contract net adds, 41,000. This reflects our decision to reduce subsidies in February, a decision which has been followed by competitors but only later, and we already have better numbers for March, so we think it was the right decision.

We have a very strong momentum in fixed line. Fixed line grew by 4.5% ex Ono, and we have increased our fixed line base by 26,000. We now cover 8.5 million households in the market, and this is, of course, Ono plus the joint venture with Orange on FTTH.

The Ono performance, as Nick has mentioned, is in line with plans. We have service revenues of -2% because of ARPU pressure, but growth in customers, and we will migrate the Ono MVNO customers who used to be on, or are today on Telefónica earlier than expected into our own network.

We launched in April Vodafone ONE. Vodafone ONE is the full integrated response to Fusión. Early days to say how it goes but indications are positive.

In Spain, like in Italy, 2.9 million 4G customers. Good coverage, just slightly below 80%, and a very, very good performance from a network point of view.

Priorities in Spain: we need to, of course, leverage now on the bundles to increase, add value of the ARPU and lift up ARPU; grow our market share in unified communication; continue the integration of Ono and the work that we do with Orange to add the fibre homes to the general footprint; and continue to deliver on Spring and, again, this is another country where I don't have a particular concern that Spring will not deliver in a positive way.

So, if I conclude the six countries, I would say, in four countries, positive signs; in one country, I would say – this is Spain – okay signs but still some room to go because we are still more negative as a market, not as a company, in terms of recovery; and in one market – Germany – we need to do better, but the market conditions are, quite frankly, not bad.

Now, priorities for next year: let me describe the priorities for next year, essentially, through four chapters, which are the four chapters of Spring, and they all follow the market trends.

- So, what we are seeing in the market is, clearly, great acceleration of consumer demand for data in mature markets, and strong growth in emerging markets. This is addressed through the Spring network technology part.

- We see an increasing shift towards unified communications, which is what we are addressing with our new capabilities that we have added and we are adding in convergence.

- And I have to say we see an accelerating demand in Enterprise for international footprint and international services, which perfectly fit our focus on Enterprise, and these are the three main chapters of Spring.

- There is a fourth one that we have added now, which is the commercial side of the story – the monetisation side of the story. Of course, Spring is a great investment but we also want customers to perceive it, and so we are putting more emphasis, and we will be putting more emphasis, on the customer side of the Spring investment to make sure that we monetise what we are spending.

Let me cover them one by one. First of all, data and network technology. As I said, there is an acceleration of data, and Vodafone is today the leading operator in 4G in Europe. We have, in the world, 20 million customers, or 18.4 million if you take out the dongles, so let's say 20 million devices, 18.4 million customers in the world using 4G. We have quadrupled our 4G base. In Europe today, 30% of data is 4G. Now, this is great but this is only 13% of the customers, so the potential, the opportunity to really expand our services and, therefore, our revenues is still largely untapped. As you can see from the right-top graph, usage is going up 60% year over year. It has increased throughout – usage per customer – the year to 750 MB average – and this is phenomenon which takes place both in emerging and in mature markets; in both segments, we see growth every quarter. The shift from 3G to 4G, with the exception of Germany, where the increase is only 50%, is, essentially, a doubling. So, when customers move from 3G to 4G, essentially they double their use – exception, as I said, Germany.

The driver of this is content and video, and you remember last year we said we would really bank on content and video. I would like to say that we could see everything coming; of course we saw most of the things coming. We couldn't completely see but we were right. Everything that has happened this year indicates that content and video is the right strategy. We have sold 4.1 million bundles available in 12 markets now against 0.6 million, so 4.1 million customers buy service with us, which includes now content. Video usage is going up very fast. As I said, we couldn't exactly imagine which services would include video in their capabilities, but it is clearly accelerating, 48% of data traffic today is video.

And the interesting part is the bottom part of this chart. First of all, customers who buy one content do not necessarily use more only of that content but they also use more of everything else. This is the example of the UK, where people buy Netflix and, actually, they do watch a lot Netflix but the same people also watch much more Facebook, YouTube, Chrome and everything else. So, it is a self-reinforcing mechanism, and some of the new apps, or the more popular apps these days – Snapchat, Instagram here are examples – not only are growing a lot but they're also creating upload traffic, not just download traffic, and this is the new thing I was referring to.

Upload is becoming important. I couldn't believe my eyes when I heard the statistics from the UK. In the UK, if you take all the messaging apps – so, Facebook, WhatsApp, whatever, Google, whatever – 75% of the traffic today is Snapchat, which means that the upload and the different way of communicating is, actually, stimulating a lot of usage, which is why we are convinced that our strategy was right in going into bundling mobile and video.

And the result is shown on this picture, where we have, today, 54% of customers using data. First of all, this is, again, for me, the good news is the right part of the chart because there is still 46% to go. But 54% who use a quarter of these are already above 1GB. Last time, some investors told me, 'Yeah, yeah, but this is the usual few people, so you're building a network for the few who overuse.' So, the right part of the chart is the answer to that: no, the median usage is also going up. So, yes, of course, the 25% use a lot but there's also an increase in the median. And so, the combination of penetration and increased median usage will generate more revenue.

How we monetise that: through ladder pricing. The example on the bottom is the UK one, where you add £5 per bloc and you get always more and more and more, which is a way to, essentially, increase ARPU in an efficient way, adding services like roaming, adding content. And the cohort analysis now indicates a £1-1.25 per customer increase coming from all of this. Now, this is good and this, clearly, more on a mature-market thing.

In emerging markets also, we are seeing improvement and, again, everything will be supported by better networks and strong networks. +22%, Nick said, increase in customers using data; 116 million active. To me, again, the good news is that 64% of the customers still don't use. So, this is 116 million out of 300 million and we have an opportunity to really expand in an important way in emerging markets.

The two examples on the chart, I think, are very telling. In South Africa, we have increased the data bundles sold in a year by 139%. So, again, the proof that you can monetise data in emerging markets. It can be additive to voice. And if you compare – which I declare is not a completely perfect comparison – 2G to 3G Indian ARPU – and is not completely comparable because these are not exactly the same people but, again, it gives you an idea – the potential is 3.6 time increase of ARPU. So, a 3G customer is worth 3.6 times more than a 2G one. Now, not all of them will be able to afford, but some of them – a vast number of them – should. This is, I think, very good.

M-Pesa is the last part of the data story in emerging markets: 20 million customers, 273,000 sales agents. Yes, it's a good story in Kenya. I will not bore you with Kenya, because we all talked about Kenya a lot. We are also successful in Tanzania; we are now in the DRC, we are now in Mozambique, we are now also in South Africa.

So, a good story on data, both mature and emerging markets, supported by investment in network, investment in 4G, essentially, in our markets, and in 3G in emerging markets for the time being, and then expansion when we get the frequencies and everything else.

The second pillar and priority for next year: unified communications. So, first of all, basic information. So, where does Vodafone play in this arena? We play in the markets indicated in the chart, which is, essentially, most of the European markets. We cover today 28 million households directly and another 22 million through incumbents' networks via wholesale, so 50 million homes are today marketable in Europe by Vodafone. 25% of our revenue in Europe today is already fixed revenue, so, again, the transformation of Vodafone into a unified player is progressing well. We have 11.3 million broadband customers – 853,000 more than last year; 9.1 million TV; 5 million broadband NGN customers.

What is our ambition? Our ambition and priority for next year is to become a unified communication provider. We have expansion plans. I don't want to go into details into the expansion plans country by country, but here, I have to say, we have to be adaptive to the local conditions. So, in some markets, we are building fibre and, in some markets, we are building fibre with an electricity company, like in Ireland. In other markets, we are building it with ourselves – maybe with Orange, who is a competitor. In other markets, we are doing FTTC, like Italy. In other markets, we are sharing with Portugal Telecom or we are doing our own build, if the neighbourhoods allow and the cost to connect is reasonable, like in Portugal. But essentially, we have a strategy to increase, as you can see, our marketable homes everywhere in Europe, and continue with the transformation of Vodafone from purely mobile into a UC player.

We today have four countries where we have integrated offers: Spain, as I said; Germany, for a while; the Netherlands; and Portugal. In the year, we will launch in four more markets: the UK is coming; Italy will be coming as well; Greece; and Ireland. So, in eight of our markets, this year we will have quadruple-play integrated offers and, again, this will continue to push in the direction of being a full service provider into the homes.

Moving to the offices – third priority for next year – Enterprise. Enterprise, again, is a good story from Vodafone. We have 10.5 billion in revenues from them; it's 27% of the group service revenue. It's, essentially, an 80% Europe/20% non-Europe story, and it's a story that we have built, thanks to Spring, leveraging on the brand on the one hand and leveraging on the presence – a very efficient presence – built by Nick Jeffery and his team across different markets, which we have really expanded in a massive way this year. We have added, this year, 28 countries in terms of IP-VPN presence; we now can be in 62 countries. We have 256 PoPs around the world – plus 76 – and we can serve Machine-to-Machine and One Net in 10-30 countries, depending on the product. We also opened four new data centres – two in Europe and two in Africa – to serve our customers with cloud and hosting services.

And the result is that we are back to growth in the fourth quarter in Enterprise – it's 1.4% growth. It's growth that is coming mostly from the new and the more, I would say, Vodafone typical areas. First of all, Vodafone Global Enterprise, 1.8% growth, which is, of course, very good, but also very good is that total contract value is going up 14%, and the length of contract is also extended by 2 months, and this is a very important point. I meet a lot of companies, of corporates, and they give us the credit that we are the, essentially, only very credible international provider for enterprise services. Interestingly enough, more than half – or around half – of the new propositions have fixed line components in it, so it's not just that we are serving whatever – Netflix and TV – into individuals but we are also coming into convergence from the other end, from the big names, and we have indicated some there.

+25% growth in Machine-to-Machine; connections are up 33%. It's a small but becoming more relevant business. We are now, I think, in the range of half a billion euro, probably, in terms of size, or a little bit less, but growing very nicely. We're clearly betting on automotive – the integration of Cobra is going very well and it has been rebranded Vodafone Automotive. And finally, Cloud & Hosting, a smaller business: 11% growth. Launched services in Germany. Opened new data centres. Again, back to growth. Not a huge business but a business which is very integral to what we want to achieve in Enterprise in the future. So, this is the third area of investment for next year.

And the fourth one is really the commercial experience of the customer. Now, this is, of course, in terms of money, smaller than the rest, but I think, in terms of importance, it's much bigger. We really need to change the perception – and we are changing the perception – of the customers. We are halfway through. This is the year when I want to make the difference.

First of all, on Retail, we have transformed 3,500 retail shops. We will continue the transformation. The results are pretty good. We have a very good increase in sales in the new shops across all categories. This is important because, yes, it's not only a productivity thing; it also allows to rationalise the others – i.e. reduce the marginal shops and reduce the cost – back to the topic that Nick was raising – reduce the cost of distribution through improved productivity of the high-end and the highly invested shops, but also, most importantly, the customers are happy, with higher NPS.

The second area of investment is, clearly, also the digital. Digital is going to be the core. 12.5 million My Vodafone app users. We are going to enrich the app in a massive way, use it much more as a video, as a TV in your hands, and as a contact mechanism also to reduce the cost and the contacts that we have in the real world. We already have, today, more than six average contacts per months through it. I think we can improve that but, most importantly, we need to improve the number of people that use it.

And the results are in the bottom part of the chart: if you look at the NPS leadership, we now have recovered NPS leadership in four out of six of the larger opcos, because I will not tell you about the small ones, where we already have it. And in the two where we have not recovered yet, it's still not worsening, so I would say the picture from a customer perception point of view has improved in the year; it has to improve more, which is why we have increased, this year, the weight in our incentives, starting from mine. Customers' statistics, metrics, like churn, like ARPU, like NPS, like brand consideration will be weighted 40% in our annual reward system from everybody – from me down – because we need to make sure that the money that we are spending – which is a lot of money – on Spring actually gets appreciated and recognised by the customers in their surveys and in their opinions and, of course, also in their behaviour through churn and ARPU.

So, four areas of focus in the year: data, technology, mobile, 4G and 3G, unified communications, Enterprise and customer experience.

In summary, to wrap up both my presentation and Nick's presentation, I would say it's been a year of progress. We need now to increase commercial momentum in 4G and in NGN – both our own and the one that we resell. Complete Project Spring – I'm confident that it will be completed probably by the end of the financial year or around there. We have got a good performance in unified communication, Enterprise, emerging markets; the focus for this year will be launching our unified communication products, including TV, in the consumer space, and continuing the international expansion of Enterprise. We returned to growth in Q4; as Nick said, our ambition now is to return to EBITDA growth, not just to service growth, which I think is what shareholders care about, and deliver the cost synergies of the acquisition is very important. We had some good competitive performance in many markets but not in all markets, I have to say. I really want all markets to show good competitive performance, especially the big six. And we confirmed our guidance and the dividend increase of 2% we want to continue, to confirm, to meet guidance and to continue to increase dividends.

Thank you very much for your attention. Nick and Steve can join me now for questions. We also have in the audience Serpil, Paolo, Nick, and I would like to take this opportunity to introduce Johan. Johan, you don't need to stand up because you're so tall that… Actually, taller than me. That's not really respectful. Johan has joined us. He's the new CTO and will take over from Steve at the end of July, and he's already in a kind of overlapping period to get up to speed.

Questions and Answers

Stephen Howard, HSBC

My question's really about Germany. Do you accept that this market is absolutely your key barometer, as it were? You've got consolidation that has happened, you've got relatively benign macro trends, and you've got your rivals who are posting better figures, and yet it seems to me that you're lagging rather badly here. Should we be making a comparison with the Australian experience, where the difficulties you had with your network caused years of underperformance or is that taking an excessively bearish perspective?

Vittorio Colao

I think, Stephen, you are completely – no, I cannot say that. Sorry. Let's be very practical: first of all, Germany, you're right, is a good market and is an important market for us, and it is our most important market. And in many ways, it's also a very indicative market of the trends of the industry and, in that sense, we are positive. Our performance in Germany is not satisfactory for us but it's not coming from the network. I can guarantee to you the network in Germany works, the performance is much better. We had a hiccup, which we have fixed by now, and we will continue to fix and improve, and it's not even remotely comparable to the Australian situation. Spectrum availability is different, our network presence is different, the fixed line is different, the backbone is different. Technically, it's a completely different thing.

As I said – Nick said – we had a re-pricing issue, which, again, was not the issue in Australia. We had a re-pricing issue. We have to re-price this and this is biting and, if I have to be transparent, we need to focus earlier on branded connection – Vodafone-branded connection – as opposed to wholesaler and service providers, and on the direct channel. And it has taken a little bit of time. We have done a lot of stuff. Clearly, this network thing has created a bit of distraction. Clearly, KDG is doing very well on the other hand. And so, if you take a holistic German view, actually we have not lost market share, if you put together Vodafone and KDG. But I'm not in denial: I'm saying, on the mobile position, we need to do a little bit better. But I wouldn't put Australia next to Germany, please.

Stephen Howard

No, sure, but what I'm worried about is: is that still casting a shadow over the performance of the operation in Germany? So, really, you're saying it's purely commercial at this stage.

Vittorio Colao

I am saying it's commercial. I'm saying it's commercial and it is already in the right direction. So, if anything, it's a matter of speed. For me, it's more speed than anything else. We're doing the right things; we need to increase the speed and the intensity.

Simon Weedon, Citi

Moving smoothly on to another question on Germany, slightly rephrased – actually, I wanted to ask about Germany and Ireland. Ireland seems to have deteriorated quite a bit during the year; Germany, as Stephen was saying, is underperforming the peer group. I'm puzzled as to why they don't have the same re-pricing issue that you have. I guess the question to me is: we would expect to see some passive benefits from consolidation. Both Germany and Ireland have seen consolidation. Only two other network competitors – well, operator competitors – in both. Is this what passive benefits looks like or is that still to come, and is this what Project Spring benefits look like or are they still to come as well? So, that's on the Germany and Ireland question.

And then, on Project Spring, I wonder if, since you've discussed and been prepared to float the idea of a possibility of a smaller-scale Project summer at some later point, should we now be thinking that, actually, it's going to be much more about trying to make the Project Spring investment work better, and that Project Summer is maybe Project Autumn some further way down the line, if it was ever needed at all?

Nick Read

Maybe, if Philipp does Ireland but, in terms of Germany, just a clarification point: optically, it looks like a deterioration but I think, as Vittorio covered; in Q3, when you remember we came out with our results, we said it was a particularly strong wholesale and carrier quarter and, basically, if you stripped out the abnormal performance, that's about 1.8 percentage points on quarter three. Then you had an MTR adjustment in Q4, that's 0.2 negative. So, broadly, we've been consistently negative 3.

The point about the back book is just to say our ARPUs were higher in mobile in the German marketplace and, therefore, addressing the current market pricing, we've had to move down further. So, you're seeing, with our consumer contracts, ARPU is down about 6%. So, I'd argued, on net-add performance, we've been doing well; it's just that ARPU back-book pressure that we're facing in Germany, at which point, throughout next year, we'll still have a bit of that quarter two and quarter three, but then you're going to see an improvement in the second half. So, I'd say that on Germany. I don't if you want to add – and then I'll come back to Spring.

Philipp Humm, Regional CEO Europe

Yes. Maybe just to add on Germany: so, a key issue is ARPU. We have taken necessary measures. Expect in H2 to see some improvements. On Ireland, it's really two factors: one factor is we had, the year before, a big MTR settlement, which is, obviously, going positively into last year and is a drag now on a year-over-year comparison, which is coming through. And we had also, from a business point of view, we are under attack in the prepaid area, where we lost some share, which has been fixed in the meantime with a new line-up which is in the market and is doing quite well. Going forward, I'm quite positive on the Irish market.

Nick Read

Just in terms of Spring and then returning to the capital intensity of 13-14%, I'd make a couple of observations. We are building a fully modernised efficient mobile network, post-Spring, that has been sized for high data growth going forward both on – you can talk about it more – backbone and backhaul. When you're looking at 13-14%, what you have to say is, within that number, broadly speaking, the mobile is about 12%. We've returned to about 12%, which was higher than our normal mobile spend, even though we've done all the work we've done in Spring. That fix sits around about 18%, which I would argue is in line with most cable companies. I think it's appropriately positioned for what we need to do going forward.

Akhil Dattani, JP Morgan

Just a couple of quick follow-ups: firstly, if I start on Germany again if you don't mind, on Germany, if I look at the KPIs that you've reported, it does look now that your year-over-year ARPU trend has stabilised this quarter. Just to Philipp's point about the H2 improving message, should we now think about the back book having been largely repriced? Are there more headwinds? Just how do you think about that H2 outlook?

Secondly on unified communications, Vittorio mentioned how pretty much all your major markets now have been addressed on the front. I guess one of the interesting things we've seen this year is some of the fixed-line-only players moving into mobile through acquiring assets, so shifting away from the historical MVNO-type strategy. I'd just be interested to get your perspective on what you think has been the catalyst to force them to go infrastructure-based and whether you think this will become a broader trend going forward.

The very last question is just looking at your organic service revenue trends versus your organic total revenue trends. Historically, they were very closely aligned. In the last couple of quarters, total revenue is growing a lot faster than service. What I was just trying to understand is if that's just high handset sales and that's it, or is it a lot driven by this leasing change. If it is leasing, how should we really be looking at things? Should we be focusing more on total versus service or how do you really think about the message there? Thanks.

Vittorio Colao

I'm happy to pass the first and the last question to Nick, especially the last, and I'll take the strategic and unified.

Nick Read

Okay, so the quick answer to the general point I think I covered, which is to say I don't think you'll see quarter-over-quarter improvement in service revenue profile for Germany in Q1 but, from that point onwards, you should see a steady improvement as we lap on the book.

On the second or third point, which is, yes, you get a degree of handset sales, so South African can spike up sometimes in terms of total sales versus service revenue. The handset financing we're doing is predominantly in Spain so, in November, we moved in line with the rest of the market in terms of our commercial model. That had an impact in terms of Spain in the second half, in terms of EBITDA, of a positive of around £100 million. Obviously as we roll forward – and there is a little bit in Germany, but nowhere near the same order of magnitude and we've been doing it for quite a while – when you look into next year, therefore, there is a drag effect that we get from handset financing in terms of our service revenues of broadly £160 million.

Vittorio Colao

On the strategic question, what is happening on the fixed side – are they changing their mind after BT, Belgium and everything else – it's a question for them essentially. My interpretation is that, as we said many times, you should never exaggerate one-sided arguments. Mobile is good; fixed is good. Mobile is bad; fixed is bad. The reality is that convergence is a fact of life. There are cost savings and there are opportunities to deploy services and to manage customer experiences, which are clearly better when you control assets.

You know, it goes without saying that many of the complaints or the litigious positions that we are taking with incumbents is when incumbents make our lives miserable, because they don't like us to basically compete with them. As much as we try to buy cable, build fibre or control the customer experience on the total side, I imagine that they have exactly the same issue on the other side. This is justified by important cost synergies. I predict that this is a trend and probably not just for Europe. It's a trend that has started in Europe, but I fear that, even in other markets now, people start thinking about what the future will look like and this makes more interesting the whole landscape, because there are more combinations possible.

Shall we move here? Tim, James, Andrew, do you want to come back and then I go to the other side?

Tim Boddy, Goldman Sachs

Two questions, if I may. The first is just around your margin ambition. It was great to see some more clarity on the ongoing opportunity on opex. We just saw Numericable in France, which owns about a third of homes with a fibre network and a national mobile footprint, guiding for mid-40s EBITDA margins. We've seen Numericable going for mid-40s EBITDA margins with a pretty similar footprint. Obviously in Germany and Spain, where you have a similar kind of mix of assets, your current margins are more in the high 20s/low 30s. Is there a step change possible in the industry cost structure that companies like Numericable are discovering and should you be even raising your ambition further on longer-term cost?

The second one was really around group structure. I just get the sense, when you're looking at Enterprise, there's really synergy in being global. I wondered, if you were to break up the group in some way, how big the dis-synergies on revenue and cost be?

Vittorio Colao

They're both questions for me. The second one is I'm not considering breaking up the group. I think Enterprise would definitely suffer. Can you manage it in other ways? Listen, historically all the telcos in the world have tried to do alliances to serve internationally customers. I can tell you it's very hard. Even us, we have our own 60-something countries, plus we have the partner markets, but it's difficult to coordinate through partners and so on. Nick and myself sometimes get involved in, 'You should call this guy who's a partner there, because he's not delivering on the large accounts,' so it's complicated to do it not controlling your own people and your own office. It would be a dis-synergy, clearly. The other dis-synergy could be purchasing. Of course there are other ways that you can deal with it but, again, same story, so we're not considering it now.

The Drahi question is very, very interesting. I can tell you all the CEOs of the telcos in Europe, we are scratching our head and we are thinking about it. We are talking and meeting. I have a very pertinent position on this. First, it is true that we need to rethink, as operators, continuously the way we run our business. We are doing it; we will be doing. We'll continuously be doing. It is true that we need to take some different approaches to cost, which I think Nick is leading in an effective way. We are seeing also in our emerging markets how they manage things sometimes differently and, again, this is progressively coming into it.

Second however, it also depends a lot on which business you want to serve and for how long. There could be areas where excessive reduction of redundancies, robustness and so on – Enterprise is one, but not just one – over time can create clearly problems. It depends on your time horizon. If your time horizon is three or four years, maybe it works. If it's ten, maybe it doesn't and then you end up under-investing. There are other companies, and I don't want to name them, that three or four years ago were mentioned as the great cash regenerators and da, da, da. You know, they had eventually to sell assets to remain in the business, so we have to be consistent with our long-term orientation, but not in denial.

The third thing is we have to learn and be open to look at what they're doing, if it is significantly different. It is sometimes interesting, because SFR is a partner market with us, so we are exchanging ideas. It's interesting that they remain a partner market with us, so we must be buying at good prices, right? Andrew, James, Nick, then I also come there. I saw you.

Andrew Beale, Arete Research

I just wanted to dig into the EBITDA guidance for this year. Nick obviously gave us that waterfall chart, which said £100-500 million of organic improvement. I just wondered if we could dig below the surface and look at some of the buckets, maybe on a qualitative basis rather than actual numbers. First of all, revenues – you've got a mix of growing and declining businesses. Are you expecting a net drag in gross profit terms from revenues still again this year or is neutral to positive now?

Secondly in terms of net cost reduction, what is that year over year? What are you expecting? Thirdly in terms of the Spring opex, is that still a significant year-over-year drag? The other one I guess is handset financing; what EBITDA boost are you expecting from that shift to handset financing in the coming year? Finally, I guess the delta is going to be commercial spending. Is that going to be up significantly?

Nick Read

I won't complete the full spreadsheet on the stage, but what I would say is that, clearly, we're back into top-line growth and we would expect that momentum to continue. I would point to quarter one/quarter two as having a number of effects that will mean that the quarter-over-quarter improvement will not be as great as experienced in quarter four, because we're lapping on the India price increases that we did; we're lapping on the Italy price increases that we did, so I'd see it slightly moderated in the first two quarters, before then slightly reaccelerating in the second half. Obviously that then impacts gross margins, so it's a flow-through effect.

I would say handset financing is actually a negative on EBITDA next year, within the number. That's a negative of about £100 million drag on EBITDA. I would say that on opex we're working very hard. If you sort of stood back and looked at it on a regional basis, I talked about the second half of Europe being down. EBITDA on the second half was down £270 million and we would expect that to be moderated in the first half of the year, and then AMAP continuing to perform at similar levels. H1 of this year, they were up 100 million of EBITDA; second half, up £130 million. I'm expecting a similar type of performance in the first half. That's about as much of the spreadsheet I'm willing to go to.

James Britton, Nomura

I've got one question on MVNOs and another one on handset costs. Firstly on MVNOs, you've been really very disciplined on 4G access for MVNOs. Are you a little concerned that other operators aren't following your lead in quite such a disciplined way? I guess specifically I'm thinking about the recent launch in the UK, which suggests that the cost of capacity available is actually still quite a lot lower than retail prices in the market.

The second one on unit handset costs: are you expecting much inflation in unit costs this year, as the handset vendors manage their exposure to the weaker euro and, if so, do you see that as an opportunity to reprice and squeeze gross margin higher or do you see it as a challenge to capture your share for higher network service?

Vittorio Colao

Okay, let me pass the second question to Paolo, who has time to think will I reply to the first one. Listen, on MVNOs let me reiterate two things that I strongly, strongly believe: first, MVNOs are not necessarily bad, as long as you price intelligently to them, which does not mean overprice; it means price intelligently, which means not allow to use your own network capacity as a marketing tool to acquire customers and then one day do something else at corporate level, which is again a different version of the same game of service providers and all these things. We have been disciplined. We are giving some 4G MVNOs things, I believe two probably in the world. One I don't think is announced. I don't know; we'll see. Again, it has to be in mutual interest and I'm saying this to say we're not structurally thinking it's bad; we think it's bad when it's done as a bulk deal, and a bulk deal is dangerous because bulk capacity gets sold or actually mis-sold very often. That's the first point.

The second point is how we react if there is a third player, which could be in the UK, in Italy, in Spain or so on, who decides to be more liberal. In the end, you have to make a decision. If you are convinced that you have a good network and a good service – that's why we introduced the fourth element, which was the strong commercial and customer management, customer experience thing – if you are convinced that you have a good one and that your network is good and your service is good, and you'll be able to bundle content in an intelligent way, you should not be worried if somebody else gives it away for nothing or for a low thing. In the end, this will not hurt them more than it hurts you. Over time, this will be very apparent and very evident in some of our competitors. If the market completely commoditises, then of course we will have to change our views, but our current strategy is not to go for the commoditisation; it's to go for an intelligent pricing of data, eventually also working with MVNOs if they are willing to accept our pricing philosophy.

Paolo Bertoluzzo, Group Chief Commercial and Operations Officer

We don't see any major shift driven by currencies here. The key point is that there is a mix effect, and you have the high-end new models, for example the new iPhone or now the Galaxy coming out, and trying to again pull up the margins for them. This is a normal dynamic, and us doing a little bit the opposite at the lower end of the market, with our Vodafone branded devices, both in Europe on 4G and 3G in emerging markets, which drives down the accessibility for 3G and 4G for our customers. That's a mix effect more than a currency effect.

What is really important that you now understand is that, more and more, we're looking at the business regardless of how then we do the bundle price as a separate business, in between what we get for our services and how much with get, we charge the customer, for the cost of the device. That's actually the way that we look at the business now and we run the business. Every month, for example, we look at the net revenues, the net margins that we bring into the company, with the net acquisitions net of subsidy. Therefore, this dynamic is more and more something that we pass through the market and we manage separately.

James Britton

Can you share with us whether that net number is actually tracking the service revenue growth number or was it slightly below, because handset costs are going higher?

Nick Read

If you are saying are handset costs going up and are we having to take that hit, the answer is no.

Vittorio Colao

The answer is no. What Paolo is saying is we try to be neutral to that. Regardless of whether we have a model in the market that is split handset/instalment, the philosophy we're trying to drive is we don't make money on the handset. What we make is the difference between what we get and the handset cost. Nick.

Nick Delfas, Redburn Partners

Thanks very much. First of all on Project Spring, a question for Steve: great coverage at London Bridge in the evenings, not so great in Gatwick. That's the first part of the question. When exactly does Project Spring end? I think Vittorio said around March 2016; is it before or after?

Vittorio Colao

It depends on the country.

Nick Delfas

I guess there's a concern out there that Project Spring will leak into FY17, so that's really the question: does it end in March 2016 or will it continue a little bit further than that? Within that, I noticed some of the data session numbers that you give have improved a little in Spain; some of them haven't. I'm just interested also in what the dynamics are of how that data session, at more than 3 megabits per second, figures, which is quite important for video. What's driving the quarter-on-quarter development?

Steve Pusey, Group Chief Technology Officer

Do you want me to take all of those? First of all, Project Spring, as Vittorio said, is country by country. Some countries will actually finish early. Two countries will edge over, generally for 4G coverage, a choice to put more into voice and fixed for a period. That's all within our own plan. The only country that will edge beyond is the UK, where it's been more challenging than others to deploy fast, but we're catching up, as you can see by the stats.

To your very point, what's the second or the remaining part of Spring? I would say it's a simple focus on completing the data coverage, 3G in a lot of emerging markets and 4G in Europe – very clear, very simple and focused – and complete the voice holes, which are more prevalent in the UK than anywhere else. In the rest of Europe and AMAP, it's largely the three 'R's, road, rail and rural, and completing those irritating pockets, filling them in, so as we get that contiguous service. The UK is dramatically improving and we're focusing very hard to fill those holes in, as you're start to notice, which is on the positive side, I hope, one by one, as we go through there. That's very good.

In terms of the 3-megabit consistency, driven largely by getting footprint coverage consistent and the associated backhaul, it's a simple coverage map. For 4G, you have to get the 800 MHz out there to get it consistent. We can put performance on top of that if we want to get the peak speeds up, which a lot of the journalists talk about, but more important for us is getting that base level of high-definition video, the most challenging application to cover consistent everywhere. That's our goal. You can see for the larger markets, Spain up into the mid-80s now, all the markets will be beyond 90 before we finish this.

Nick Delfas

Is there a reason why Italy and Spain show improvement when Germany and the UK don't? I guess you answered the UK to a degree.

Steve Pusey

It's just percentage of coverage, as the coverage goes up.

Vittorio Colao

The UK is the most difficult place to intervene.

Nick Delfas

Can I have one cost question? Nick mentioned the A.T. Kearney-driven work, IT going down from 5.5% I guess to 3.5%.

Nick Read

3.5-4.5%, yes.

Nick Delfas

That could be up to £800 million of savings. Could you give us a timescale? I might have missed it.

Nick Read

Three to five years.

David Wright, Bank of America Merrill Lynch

I have a couple of questions, please. The first one is just on the capex, 13-14%. You mentioned 12-18%. If I just run the back-of-the-envelope and do 18% fixed at 25% of service revenues and 12% at the remainder, I get exactly 13.5%, so I get that one 100%. If I adopt my advanced maths, it suggests that you roll over 14% when you get to one third fixed sales, which is probably not too far away in your ambitions, I would have thought. My question is: as the fixed starts going up, does that capex breach 14% quite quickly?

If I could ask a second question a little bit independently please, just on India, one of the EBITDA range drivers that you've given is Indian pricing. We had some commentary from both Bharti and Idea that they've actually started becoming more competitive again in the mid to low end, earlier in their full-year transcripts. I wondered if you had noticed that and were reacting to that.

Nick Read

Just a couple of points on the 13-14% again. 13-14% is our central case that delivers £1 billion incremental free cash flow by year five. Clearly, if we have markets that are over-performing, and let's say it's fixed-success capex, then obviously that proportion would go up. Depending on how you're arriving at your numbers depends on what movement we would see, but it would be success-based capex.

Serpil Timuray, Regional CEO, Africa, Middle East and Asia Pacific Region

On India, our basic growth story is coming from customer growth on one side and on data growth on the other side. The market has been quite saturated in terms of price increase capability this year and we do expect that this will continue for next year. Basically our growth is coming more from data this year and that's our projection for next year as well. You have to realise that, in India, this is a circle-by-circle strategy. In some circles, we are the leaders; in some circles, we are the challengers. There is a mix effect and it's really a regional play, and we are very carefully monitoring that.

Polo Tang, UBS

I just have two questions. Firstly, what are your thoughts in terms of the acquisition of BASE by Liberty Global, and do you think potentially Liberty Global should look at acquiring you, rather than the other way round?

The second question is really just some more colour in terms of Germany. It's just a generic question in terms of how you're seeing the competition behave in responding to the current market environment. Specifically in terms of MagentaEINS, the converged bundle from DT, any impact on Vodafone? Thanks.

Vittorio Colao

Let me tell you, Polo, first of all, a question of whether Liberty should acquire us is a question for Mike, not for me. I can give you a big price, if you want, but it's really not a question for me. We always look at assets. We always look at opportunities to integrate. Again, back to the question of putting things together, it's a matter of synergies and it's a matter of convergence relative to the market needs. Markets are already showing needs; other markets are not. You have to judge whether the price reflects both or not. That's the only answer I can give, apart from the joke.

On colour about Germany, I would say it's a good market. We are seeing positive signs of competition. I mean, I hope I'm not paranoid, but I'm paid to be paranoid. I see Drillisch and the interaction between Drillisch and 1&1 potentially dangerous, because they can come like they came with this too low offer, Philipp. One is €19 and the other one is, I don't know, in the mid-teens, which can drag a little bit down. When I met investors six months ago, I said – I remember very neatly I had a chart and I said – 'I don't think the problem is the behaviour of the big players. The problem is,' back to the MVNO question, if these deals allow people to go really a little bit crazy to get market share, then the reaction from the others becomes more unpredictable.' In general, it's a good market, so we keep our eyes on the low end, but in general the behaviour is positive.

MagentaEINS is priced intelligently; it's a good pricing. I think they have moved a lot of customers into it, rather than acquired, but again it's something that I see in the end as positive. I cannot say we have seen an impact from it, because I think it was more of a customer-based thing, but it will have an impact and, therefore, we will have to respond and have our own products in that space. Philipp, any further comments in follow-up?

Philipp Humm

Let me just add a bit to MagentaEINS. Overall, we have not seen an impact on our base. We are focused very much now on cross-selling cable in particular into our mobile base. We have so far about 255,000 customers who are on our bundled product; Deutsche has 475,000 so far and we are ramping up the activities also here to drive up cross-sell into our fixed-line base with mobile.

John Karidis, Stifel

I'm basically after some more colour on two issues, handset financing and fixed-line wholesale access. On handset financing, could I ask Nick maybe to repeat what he said about the number benefits in H2, and can I ask you to give us a few-second tutorial on this? Is it a bit like what we see in the States, whereby you recognise the full retail value of the handset at sale and there's also no handset subsidy?

In terms of wholesale access, could you please, Vittorio, I guess talk a little bit more of the challenges of that, specifically in Germany, Italy and Spain?

Nick Read

The short answer to handset financing is that in the second half was worth around £120 million, £100 million of it in Spain, so Spain is the major market where we've made the modal shift.

John Karidis

In what, EBITDA?

Nick Read

Yes, in EBITDA. For Spain, it's effectively a split model, where we're recognising the margin of the handset sale upfront, so just pure sale and then basically we're spreading the cost of the handset, rather than booking the full cost of the subsidy in the month we acquire the customer, so that's why you get the EBITDA benefit in the year you're doing it and then you get the unwind effect in subsequent years, which is why it's a drag next fiscal year.

Vittorio Colao

Let me comment on it and then I move to the wholesale question. I have to tell you, honestly, John, I don't know what it is, as Paolo said before, I look at net now. In this industry has been this concept of subsidy, which is a bit of a strange concept. The reality is customers give me money and I give money to Tim Cook, Jay Lee or to whoever. I should look at the net, because all these different models will reflect different market conditions. In some markets, it's financing; in some markets, it's split. In some markets, it's below EBITDA and some competitors also account in funny ways.

At the end of the day, my simplistic view is cash is cash. You look at what the customers give you. When I go into the shops, which I do often, in the markets, any market, I take the price and multiply times 24. I take away the cost of the handset and that's my money. The rest is something that I pass to somebody else. How it is accounted for, I'm very glad I have Nick next to me, because you know the creativity of accountants is fantastic. It's important that we get this correct, because it's the net that matters. We also need customers to understand that when they say, 'Oh, I'm giving to Vodafone £43,' you're not giving to Vodafone £43; you're giving to us £20. £23 goes to Cupertino. Please be thankful for me for whatever, the extra gig that I give you. This is more of a philosophical point.

Wholesale is a different situation in different markets. Our position, and this is the position in which, as I said, we are increasing a little bit our competitive position, is that we want access to wholesale, because we all know that it's impossible to cover all the areas. We want it at a decent price and we want it at good operating conditions. The good operating conditions are almost as important, if not more important, than a decent price. I got some statistics yesterday from my colleagues, the head of the countries in Europe, which in some countries are frankly horrendous. We have some cases where they are 60% turning down our request. You cannot possibly think that six customers out of ten that we are trying to get are technically no good. We get in another country 200-and-something hours for a technical intervention, a fault repair. If you are at home and you wait for 200 hours, I can tell you… On all these things, we are going to become very – and I have already gone to Brussels myself, showing the papers and saying, 'This is the next thing.'

Having said that, not everybody's the same. There are more moderate positions and more cooperative positions in Europe. You referred explicitly to Germany, Italy and Spain. I would say it's the right order – Germany, Italy and Spain. In Germany, we have a constructive dialogue with Deutsche. It's not perfect; we are not completely in alignment with them, again a lot of discussions. We are trying to improve our access to the contingent model. There's a big discussion about vectoring; they want to do this 500-metre vectoring, which has some competitive implications, but we are positively engaged.

The Italian discussion is polluted by the Metroweb saga, which is a nice attempt to slow down and reduce competition. Of course we will not play that game. Spain is probably the most difficult environment, where we had to go together with Orange and we will share our joint capability because, not only on the fibre front but also on the content front, Telefónica is closing up the fortress again and content is going to be the next one.

Guy Peddy, Macquarie Securities

A slightly big-picture question: you spent vast amounts of money on M&A in Spain and Germany. You've also spent a lot of money in Project Spring but, in both of those markets, you have a competitor that, in Telefónica is closing shop or, in Deutsche Telekom, is just clearly executing materially better. Do you think that throws into jeopardy your strategy of trying to be a big one equal? Can you actually get there? The way I'm thinking about this is, if you price closely off the incumbent, don't you give the consumer even more reason to actually go and take the incumbent's services? Have you thought about actually saying, 'You know what, it's not working in those markets? We can't compete with the incumbent. We need to start running those assets more for cash now,' and therefore moderate your long-term expectations?

Vittorio Colao

It's a bit like the previous question; I have to push back a bit on this. I don't think it's correct what you're saying, that it's not working. It's true that you say in Germany they're executing better in mobile but, if you look at our total share in Germany, actually we're stable. I would say our strategy is working; our big strategy at a higher level is working in Germany. Again, I'm not in denial and I'm not hiding behind anything in saying there are elements of our execution that I would like to see in a faster implementation mode, but I don't think that's true.

If I look in Spain, if I look at the last quarter, honestly of all the players who are the ones that have lost revenue versus the previous quarter, and in the previous quarter we were not the worst again, in the previous quarter we were not the worst and in the previous quarter we were not the worst. You take the quarter-on-quarter evolution of our revenues in Spain, it's actually not the worst. Now the worst is, depending on the quarter, somebody else. It doesn't seem to me that it is not working. It just seems to me that, for market levels, ARPU has been taken in Germany to levels that are not constructive. Good news: there have been pricing moves in Germany recently. We made some moves; others made other moves. We'll see where it goes. Consolidation is taking place. I don't think that it is the case that you can say it's not working. It is challenging from an industry-profitability perspective, I agree with you, but I wouldn't say that it is not working. At least that's not what the numbers indicate. Robert.

Robert Grindle, Deutsche Bank

In the UK, you said convergence is a fact of life, but not really for your UK consumer customers. Are you going a bit more slowly with your fixed broadband approach in the UK and is that because of caution about the changing regulatory environment or even opportunity due to the changing regulatory environment?

Secondly, it's back to Germany, I'm afraid. That graph showing that the Germans don't use as much as other Europeans when they go to 4G, are you seeing signs that Germans are more price-sensitive on data, or even low users of data, just as they were for voice?

Vittorio Colao

Robert, let me start with the second question. It's one of those things that I've been scratching my head for 15 years and I came to the conclusion that we are different. Why do Germans write letters and don't call call centres, I don't know, but that's the reality. Why do Germans use less minutes of usage? I'm talking about the old thing. I don't know – cultural or the way the community is organised. I don't know. It seems to be the case with data.

Maybe you can help me on this one. I tried to look into the transcripts of my competitors' calls, when they talk about data and content. It seems that content in Germany was a bit less, also for others. I don't think Netflix is a big success in Germany with anybody. I don't know. It could be that maybe we need to improve our marketing capability. Again back to the previous question, I think we need to learn and not be in denial on anything, but my sense is that there is something a little bit more quiet, more conservative. .

I remember SMS in my old days, when I was selling SMS like crazy in Italy. Everyone was like 'Why?' It's not the case in Germany. There is something probably in the consumer that is marginally different, but we are watching. If you can prove to me that there are opportunities by listening to competitors or doing something, I'm very happy to consider.

On the UK, it's the other way round. We are more determined to go into broadband and we are more determined to go into TV and content. As I said, we have confirmed today that we are launching our broadband offer over the summer and we are launching our TV offer later in the year, and it will be a modern cloud-based appealing TV offer, which of course our competitors will fight against and will try to limit our commercial reach, hence my comment about regulatory conditions. It's very important that this market continues to be as competitive as it has been in the past.

Shall we come back here? Yes, Maurice, I have to come back here, otherwise somebody told me that, when I do like this, these guys get twice, so we'll redo it again.

Maurice Patrick, Barclays Capital

A question on M&A: you talked about hoping to price ARPU recovery in Germany later in the year. You mentioned some of the pricing increases in Spain. Do you think too much ARPU repair might put off some of the recent spate consolidation we've seen. If you read some of the comments from Commissioner Vestager, etc., they seem a bit hawkish on price increases. Perhaps to put it another way, do you think we should be thinking less around price increases and more about ARPU growth? Do you think some of the regulators can differentiate on that?

Vittorio Colao

Both. You touch a super-good point. First of all, what I said to Commissioner Vestager is it's not about price increases; it's about return on capital. Consolidation is good, because it shrinks the capital base. The same money produced by the market increases the return on capital. It's not about increasing prices.

Second, if you think about what we just discussed, we are saying that customers are using 50% more data. Germans are actually using only 50% more data; the others are using 80-100% more for marginal positive ARPU increases. Prices, defined as unit prices, are actually going down. Spending is going up, because people use it much more, but I think this is the type of speech, the narrative, that we need to use with the Commissions and they accept it, because these are the numbers. This is the true representation of what's happening.

Ottavio Adorisio, Société Générale

A couple of questions; the first one is on Ono. It looks like this year had an EBITDA decline in excess of 20%. I believe that some of it is broadly integration costs. If you can just say, how much of this was accounting and how much was organic growth, considering that you were looking for stable for this year?

The second one is on integration costs. You booked around 360 million for year. That is a more than 50% increase from last year. I reckon that again Ono has contributed. Can you tell us for next year how much to expect in terms of restructuring or integration costs, whatever you want to call it?

The third is basically a sum-up of the many questions you've received on fixed capex. On the chart, you show in terms of your unified communications strategy you have quite good trends but, undeniably, you lag well behind the integrated incumbent in terms of NGN market components. In follow-up from the answer you gave to previous questions, when you benchmark three different markets in Europe, you say that Germany is actually the best vis-à-vis Italy and Spain, in terms of wholesale access conditions. If I look at your pricing strategy in Germany, you have a big difference between the pricing you offer for quad play in the cable areas, KDG, and where you actually have to access Deutsche Telekom's network and therefore you have to rely on that leasing strategy. I assume that, as you said, it's all down to net, because you have to recover the costs. Your actual pricing can be higher.

My question to you is: as all the integrated operators, over the last year and a half, have been stepping up the capex and actually increasing their coverage, therefore, you will be facing a significantly bigger battle in areas where you don't have cables that are limited to parts of Germany and parts of Spain. Are you basically waiting for wholesale pricing to come down at some stage or are you more willing to actually invest on the capex and the to be more aggressive with your NGN rollout? Thanks.

Vittorio Colao

You take the Ono questions and then Philipp and I will get the second part, which is more a strategic question.

Nick Read

In terms of the organic EBITDA excluding restructuring, I suggest you see me afterwards. I have a number I just want to verify. On restructuring, yes, in cash terms it was 336 million this year, which plays against last year of about 210. We don't guide on restructuring costs going forward, but something along those lines again for next year.

Vittorio Colao

On the second part of the question, first of all, I don't recognise some of the statements behind your question so maybe, Philipp, you can comment on the cable/no cable thing. Let me say on the broader question, the fixed incumbents are expanding their coverage. What are you going to do? Are you going to use their own products, not making money or making little money, or is this going to drive a further build on our side? The answer will be it depends.

At the end of the day, if I'm using somebody else's network I'm saving capex and they're putting the capex down. Yes, I have lower margin, but I also have lower capital invested. If I have an opportunity, as I said before, to take the example of Portugal, of building at a relatively low cost, I would be building. If I have the opportunity, see Ono or see KDG, to buy a cable network at a value where I can see the synergies justify the cost, I will buy and, if I don't, I will just use the wholesale network. Hence, I will be very combative in getting a good price and good access conditions.

I don't see that as a strategic problem, if you want. I see that, as I always said, as a make-versus-buy decision that we have to do country by country. To be honest, it changes over time. From time to time, incumbents change their mind. I can mention several examples; I can mention Portugal, for example. They say, 'You know what? Return on capital in those areas is not very good. Come on board with me.' Italy, in theory, should be another case. So far it's not, but it will probably become a similar case. It's not an impediment. It will change a lot the amount of capital versus the return but, in the end, the return on capital will be the important metric. On the split of cable/non-cable, Philipp.

Philipp Humm

Maybe just to explain, as a mobile player, we are national and, as a cable player, we are regional. We are always faced with the situation that we need to have a national proposition. If you take the example from Germany, and I'm more than happy to share the details, if you want, a little bit later, all the pricing of cable and copper is 100% aligned. The general strategy we have is we're more or less trying to sell at the same price point the fastest speed on cable, then on copper. Cable as a product is superior and allows us to move away customers from buying copper. Where we don't have a cable product, we are obviously then a bit more moderate there, but we are at exactly the same price level.

Ottavio Adorisio

You basically confirmed that you have the same prices for the bundle you have on the KDG areas. I checked it out and it didn't look to be the case when I went on the website.

Philipp Humm

Sure, sure; it's the same and I can more than happily share that.

Emmet Kelly, Morgan Stanley

Just two questions, please. Firstly a question for Nick: could you comment a little bit on the UK EBITDA margin and the reallocation of costs, where those costs were beforehand and what the outlook is for that in the future?

The second question, Vittorio, is on the Italian market, which hasn't been discussed this morning. I guess, in the past, you've made super-duper profits in Italy if we go back 10 years. Obviously the market's been pretty beaten-up over the last six or seven years in particular. Where do you see Vodafone Italy in a year's time? It looks like maybe the pieces are coming together there. It's one market where you've really ramped up LTE coverage very, very quickly over the last 12 months. There's no cable in that market; there's limited fibre as well. It's the opposite of Germany as well, insofar as you've got very high historic MoU and also SMS. Are these all positive indicators, do you think, for LTE in Italy, in the future? How does that market work in terms of handset subsidies going forward? Is that a bit of a deal-breaker for LTE take-up, given that it's a market where customers traditionally purchase their own handset? Thank you.

Nick Read

The quick answer on the UK is part of Spring was us expanding our Enterprise footprint, capabilities, products and services. We took the opportunity, as we were expanding and making investments, to sort of sit back and say how did we want to allocate some of these costs across the group. Of course, if you do it on something like Enterprise service revenue, the UK's a very big Enterprise business and therefore it attracted about 100 million more, in terms of its allocation. These aren't necessarily incremental costs to the group; it was just an allocation key that disproportionately hit the UK business. If we exclude this and exclude the settlements made, which were positive, you'll get into a flat EBITDA margin for the UK.

Vittorio Colao

The question on Italy and where is Italy going, especially where is Vodafone Italy going, are two different questions. Where is Italy going? I have to tell you: this is the pricing table of Italy. The specific thing that is not in any other pricing table is that we have a distinction between above the line and below the line and, below the line, we have a €5 offer from one player, which compares to €15 above the line from the two leaders, us and Telecom Italia. This is the essence of my comment.

It is a market that is showing signs of improvement but, until you have in the market offers below the line that are so distant from the above one, it's unstable, because you don't know whether it's tuned up or down and you don't know about the credibility of your advertising. It is essential that this situation, at some point, gets reduced. I'm happy with the recent performance. The trend is one of the best that we have in Vodafone and the job that our colleagues have done on cost has been also very good. There is this instability that stays there, so trends are good, usage is good, low pricing, great 4G, data usage is also good and we have a much better performance, at least in the last quarter, than our competitors, but it's still a negative with a big ticking thing that is there. Everything goes back to consolidation – Wind, Hutch and the whole thing. It's another saga that we have been discussing many times.

In terms of Vodafone Italy, I am positive. We have positive growth in fixed line, positive growth in Enterprise. I have to say also in broadband, we have taken a number that is not huge, but it's better than most players in the market, and we are ramping up our coverage from 1 million marketable homes to 3 million. If, on top of that, we can find a good agreement with Telecom Italia on this Metroweb saga, then return on capital, not necessarily the margins but return on capital could go up pretty quickly, because Italy, given the nature of the market and the subsidies are limited and continue to be limited, can become again a very high return on capital market. I don't think the EBITDA margins will go back to where they were but, if we are rational with capital allocation in Italy, it could be a good story.

Nick Read

Don't forget that in quarter one/quarter two last year we did several price increases, so we start lapping on those, so the progress on quarter over quarter will be pretty minimal over the next quarters, before then starting to improve again, for all the underlying things Vittorio said.

Vittorio Colao

We go back here. Anybody I didn't see?

James Ratzer, New Street Research

I have two questions, please. The first one was just regarding your message about increasing commercial activity in the market. It seems like you're kind of giving a signal you want to increase that to start seeing the benefit or allowing customers to see the benefit of Project Spring, but it seems like your competitors are also hearing that message as well. We've seen Deutsche Telekom increase their own SACs, TI saying they don't want to give up customers, and it seems like Bharti and Idea are giving quite bullish revenue growth guidance for this year. How should we, as analysts sitting here in a year's time, measure whether that commercial push has been a success?

Vittorio Colao

ARPU.

James Ratzer

Should we be looking at ARPU? We shouldn't be measuring whether you think it's service revenue market share or contract net adds. We should be looking more at the ARPU metric.

Vittorio Colao

You guys have a difficult job, because you have all these stories, they all individually make sense and then you put them together and you say, 'They cannot be all winning and all doing the same thing.' Right? The reality is, if we manage to really change the perception of the value of data, which I think we are, because I hear more for customers who are more positive and have a higher willingness to spend for data, and we can go into this more expansionary phase, in the end it should be ARPU. It should not be price per gig or whatever; it should be ARPU. Then some people will focus more on subs and other people more on service revenues.

At the end of the day, look at the UK for example, in the UK we are doing marginally better than even the biggest competitor. I think it's about smart pricing. I think it's about the service that we get. I think it's about the content we are bundling together. That is a positive story. Now, probably EE will have another positive story. They will tell you, 'I'm not doing exactly the same things, but I am doing this.' Fine. It's conducive to a better environment.

I'm a little bit less optimistic when I hear again sheer customer counts or things like that, because it's very easy in our business to inflate customer counts just by buying growth. I would say ARPU; I would say stability and enrichment of price plans is the right place to go, in most markets.

James Ratzer

Thank you. Now on to the second question I had, I don't know how much you can comment on this, but I'll ask nonetheless. It was just regarding M&A. There's obviously been a lot of speculation in the marketplace around Liberty Global. I was wondering if you could say whether you've had any discussions with Liberty Global about any kind of potential deal. If the answer to that is no, are you tempted to pick up the phone to Mike Fries and see if a deal can be done? It seems like most people think there are significant synergies that could be unlocked from such a transaction.

Vittorio Colao

I don't think I have to look at my scripted answers to tell you that I don't comment on what I have done or what I will do, unless there is something that we need to report about. If I have not made those comments, it means there is nothing that I have to report about. In practical terms, we look at assets; we look at countries. If we find things that make sense, whether it's Liberty, Hellas Online or whatever, we'll look and consider and, if there aren't, we continue with our organic strategy and we continue with our own Spring investment and our own commercial exploits. That's the only thing I can say. Anybody? Yes, one here, there. We have another five or the minutes, if you want.

Mark Wade, Rogge Global Partners

Just an extension of that last one: if we look at the UK, obviously BT/EE next year; you're looking to expand. To what extent do you feel under some degree of urgency in terms of how you're going to build out your UK plan? Would you like to get a bit of a front step ahead of BT/EE? Obviously we look at Virgin Media. Just away from price, operationally, what is the head-start you want to get there and what are the benefits of, let's say, a transaction with Virgin Media operationally? Can you achieve it purely through organic?

Vittorio Colao

It's a smart way to really ask the same question. Let me answer instead a different question, which you didn't ask, which is a question about the UK. First of all, how urgent and how pressed do we feel, do I feel? I'm paid to be paranoid and I'm paid to feel the urgency. The answer is: I do feel the urgency. I am a bit frustrated by the slow and difficult environment for installing equipment in this country, but my colleagues are working hard and we have improved, as we showed today, the numbers, not as much as Italy, but eventually we'll get there.

We have pushed and Philipp has pushed a lot to get a broadband offer that could be marketable this summer and to have a TV offer that is marketable before the end of the year, because I do feel that it is essential to have the whole set of products and services that customers might ask for. What I don't feel pressured is, for the time being, to decide from a pricing perspective do I want to be completely disruptive, do I want to be moderately disruptive or do I want to be just another player. That will depend a lot on what other competitors do, because I'm not the biggest player in the market. Pressure to deliver, a lot. Pressure to disrupt, we will decide depending.

One comment on BT/EE, which you kind of implied: it's a deal that has to go through with remedies and with mitigations, otherwise it's better for it not to go through. EE cannot keep the network-sharing agreement with 3. If they keep it, they would have, between 3, O2 and EE, a disproportionate dominant share of UK mobile traffic. From a regulatory point of view, that should not be allowed and cannot be allowed, so they have to give up on that one, otherwise the deal should not go through. They have to give up some spectrum, because you cannot allow somebody who controls all the fixed line in the country and the majority of the links to also have 60% of the 4G-ready frequencies. They have to give decent fair access to fibre, ideally with a split of Openreach; in practice, probably with strong remedies.

I don't take it for granted that it will go through easily and without landscape changes. If it goes through, which I could even support with the right conditions, it is not that we are going to be completely on the side. Yes, there is a much bigger competitor, but we cannot allow it to go through without appropriate measures.

Jerry Dellis, Jefferies

I've got two questions, please. Firstly around content, given the fortress rebuilding activities of Telefónica, BT and others, using exclusive content to differentiate their service propositions, could there ever be a situation in which, maybe on a market-by-market basis, Vodafone would consider procuring content directly or is there enough runway in your current strategy around using wholesale bundles?

Secondly a question on wholesale competitors in the mobile arena: Liberty Global seems to be indicating that European antitrust remedies offer them interesting access to European mobile. TalkTalk last week was suggesting they could be highly disruptive using a network of 4G femtocells, backed up by a national roaming agreement, so 4G femtocells backed up by national roaming. In general, do you think there are conditions now where wholesale competitors in the mobile arena might be capable of being more disruptive in future? Is that realistic? Is that something you're concerned about?

Vittorio Colao

No, less than in the past to be honest. The whole story of wi-fi, femto, hybrid networks, mixed networks, meshed, whatever you call them, it seems to me, is losing traction rather than getting traction, because it's very complicated and it doesn't deliver a predictable customer experience and you rely on too many pieces. As I said in my earlier answer to Akhil, I think even Liberty's going in a different direction. With all due respect, if you are TalkTalk, you have to say that and you have to say you're going to be disruptive to mobile, but the worst thing for them is if somebody's disruptive on fixed, because then it's 100% of what they do. I don't think I am more worried.

Having said that, yes, in some countries, on some occasions, there will be a player who will get very good conditions. I mentioned before the Drillisch case. I remember – and again, some of you remember – that I said openly that when the German remedies were out, I don't think it's going to be such a good thing in the long term, because Drillisch could at some point play a more negative role. Now, it has not happened yet, but it could happen. We keep our eyes on it, because we have to keep our eyes on it, but I wouldn't say directionally I'm more concerned today than six months ago. I wouldn't.

Content? Can we procure, Paolo, directly content? I would say it's early for us. In some markets, we are starting to think about it. It depends a lot also on the regulators. The Spanish regulator has come with this strange thing that 50% of the channels should be made available at a reasonable price, without saying what is reasonable. If the regulators want to have open access to content, then there's no need to go and push up the prices. If at some point this becomes… BT itself is buying content then de facto not really giving it to anybody. We have to see whether this becomes a delicate key success factor for winning the customer. If it does, we will consider, but we are still in the building of our base and in getting it to the big screens it is early.

Anybody with a last question? No, in which case I thank you and I hope next time we see you it's not only about revenue growth, but also EBITDA growth.