

Vodafone Group Plc

Vodafone to Acquire Ono  
Analyst and Investor Presentation

Monday 17 March 2014

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**Vittorio Colao****Chief Executive Officer, Vodafone Group Plc**

Thank you operator and good morning everyone. Thank you for joining this call; I'm very pleased to be presenting today another major step in the evolution of our unified communications strategy, with the acquisition of Ono. In a moment I will talk you through the highlights of the transaction and how it fits in our broader strategy. Philipp Humm will then describe the business in more detail and how it strongly compliments our own presence in Spain. And finally, Nick Read will cover the synergies, the financial effects of the deal and the timetable. We will then all be happy to take your questions, for which we also be joined by Steve Pusey, CTO of Vodafone.

So I will move on to slide three. On slide three you will see we have set out the clear attractions of this acquisition. Firstly, Ono is a very strong business in its own right. It has a state-of-the-art next-generation network covering around 40% of the homes in Spain, it is fully upgraded to DOCSIS 3.0 and with a future-proof architecture allowing for capacity upgrades – easily achievable at low cost. As a result, Ono is the leading high-speed broadband provider in the country with a differentiated pay-TV offer based on Tivo. Ono's 1.9 million customer base has shown us a resilient ARPU that has been well-maintained despite the economic and competitive pressures in the market.

Secondly, as you know, we have commenced our own fibre build-out in Spain in conjunction with Orange. This acquisition significantly accelerates our time to market, giving us immediate access to over 7 million homes. In addition, it is in fact highly complementary to the first stages of our fibre deployment. So within 18 months we'll have access to approximately 10 million Spanish homes with next-generation infrastructure.

Thirdly, as in the case of KDG, this is a form of in-market consolidation. However, the weight of cost and capex synergy here is slightly different. In Germany we had a substantial LLU customer base, with clear cost savings achievable from migrating away from incumbent wholesale pricing. In Spain, we see savings in core network, the avoidance of fibre deployment and efficiency in sales and marketing costs, and of course from the migration of Ono's mobile traffic off the existing MVNO host onto our own network. Taking all of these together, we expect to generate annualised cost and capex synergies of around €240 million, with an NPV of around €2 billion. As always, there is clear cross-sell opportunities into each other's customer bases, particularly in a country that has seen a huge development of converged offerings. Ono has already demonstrated its ability in upselling mobile into its broadband base. Vodafone Spain has also done a great job at selling broadband into mobile base. We expect this to continue and to accelerate, supported by our very wide distribution network.

And finally, this transaction comfortably meets our financial criteria and is accretive to adjusted EPS and free cash flow per share in its first full year. The price we are paying for Ono equates to a multiple of 10.4 times 2013 operating free cash flow, taking cash flow and synergies and the value of the tax assets, which is very much in line with our on-trading multiple.

Turning to slide four – one that you will now be very familiar with as it has been presented for many years – our unified communications strategy is really making headway now, with decent wholesale access terms in some markets, excellent progress on fibre-build in others and acquisitions where they make financial sense. As we have always said, we are – and will continue to be – pragmatic in our approach and our strategy in each market will depend on market conditions, on opportunities and on incumbent position. The Ono acquisition is absolutely consistent with our strategy and approach.

In addition, you can see from the chart on the right that we are beginning to see a positive trend in our commercial performance on fixed broadband, with recent quarterly net add trends improving in all of our markets.

Now I will hand over to Philipp, who will take you through the business in more detail.

## **Philipp Humm**

### **Regional CEO Europe, Vodafone Group Plc**

Thank you Vittorio and good morning everyone. Turning to slide five, you can see that Ono is very well positioned in the Spanish market, also its existing scale and presence and its continued opportunity for growth. Ono is present in 13 of Spain's 17 regions, making it the largest cable operator in Spain. Revenues of around €1.6 billion have grown at a compound rate of just under 4% in the last year, supported by robust ARPU. The EBITDA margin is a healthy 42.6% and it generated operating free cash flow of over €400 million in 2013. Penetration of homes passed is still relatively low at 26%, but that presents us with a good growth opportunity given the additional distribution strength that Vodafone will bring. Ono provides the full suite of unified communication services that has done the good job of cross-selling into its existing base.

Turning now to slide six, Ono can lay claim to being one of the most modern large cable networks in Europe; with 7.2 million homes passed it is more than double the size of its nearest next-generation competitor in the Spanish market and the same size as all the other providers put together. All of that work was designed to deliver broadband and telephony services and since 1998 over €7 billion has been invested in the network, making it best-in-class for speed and leaving a clear and cost-effective path for further upgrade. It is fully DOCSIS 3.0-enabled, operates fully in 862 MHz and has a market-leading concentration of only 500 homes per fibre node. Without any further civil work, potential speed can easily be increased by a factor of 32 times, effectively future-proofing the network for growth in bandwidth demand. Importantly, Ono owns nearly all of the ducts that carry its network, making access cheap and hassle-free.

Moving on to slide seven, you can begin to see how the whole proposition comes together. It starts with the best quality network. Looking at the chart, top-left, you can see that Ono consistently records the highest average download speeds of all broadband providers in Spain and the gap is wide and growing. This is supplemented by the high standard of service, with installation times being half of the sector average at eight days. With TiVo growing strongly in the portfolio and the multi-screen content offer helping to drive strong mobile growth, it's another differentiator. Ono is now the clear number one in net promoter, with a gap of 15 points and growing over its nearest competitor. All of these elements serve to maintain ARPU at attractive levels, despite the presence of discounted bundles in the market.

So how do the two businesses look combined? On slide eight you can see that together we will have nearly €6 billion of revenues with nearly 15 million mobile customers and 2.4 million broadband customers – making us a strong number two unified communications operator in Spain. More importantly, we see continued potential for further cross-selling and upselling. Only 32% of Ono's broadband customer base has a mobile-converged offering and only 17% of Vodafone's customer base has fixed-converged offering.

Turning to the next slide, slide nine, we see a second driver of growth out of this combination. Although Ono has relatively high revenue generating units per customer, there is a low penetration of customers per homes passed. Ono's penetration stood at 26% at the end of 2013 when the standard in Europe is more like 35–40%, with some operators selling services to as many as two in three homes passed. We believe the key reason for under-penetration is a lack of push in the sales channel. Ono's been focusing on business channels and not enough on direct channels

such as sales through shops or agents. We think that the strength of the Vodafone brand and the breadth of the Vodafone retail distribution network in Spain will help accelerate the penetration of homes passed. We bring eight times the number of shops that Ono has and seven times the number of enterprise direct sales agents.

In addition, investments we're making in the Vodafone mobile networks through Project Spring – including the acceleration of our 4G roll-out – will enhance the mobile proposition available to all our customers, with the potential to grow both mobile penetration and mobile ARPU. We estimate total revenue synergies with an NPV of around €1 billion from the combination of the two businesses.

Now on slide ten, let's look at what the combination of our next-generation network achieves. We're going to refocus on fibre build-out in areas network-provided by Ono. As a result, our investment will be limited to the initial 1.5 million homes. We want to reach this target by September 2015. Together with Orange's targeted 1.5 million homes we will have next-generation access to around 10 million homes or 57% of the Spanish market. This will make us a real scale player in fast broadband and significantly accelerate our time to market.

And with that, I will now hand over to Nick, who will talk you through the cost synergies and some of the technical details of the transaction.

### **Nick Read**

#### **Chief Financial Officer Designate, Vodafone Group Plc**

Thanks Philipp and good morning everyone.

Turning to slide 11, I am going to cover the basis of the cost and capex synergy. We view cable M&A as market consolidation and this is particularly true of a business like Ono, which not only has fixed network benefits for us but has been strong in mobile for the last year or so. On the network side, the most obvious capex saving is the avoidance of building and operating fibre, beyond the initial 1.5 million homes targeted. These costs were factored into our long-range financial forecast and will now be avoided. This item alone is worth €250 million of avoided capex. Further benefits come from merging our national and regional backbones, migrating off LLU lines and central offices, and connecting our base stations to the Ono network. Taking all these network synergies together we save around another €65 million a year by the fourth full year following completion in terms of run-rate.

On SG&A, we think we can reduce the cost base of the combined businesses in marketing costs, head office, procurement, property and customer care, with a further annualised saving of around €100 million. Finally, on the mobile side we think we can achieve annual cost savings of around €75 million from migrating Ono's mobile business progressively off its MVNO platform onto our own network.

These are real, tangible, relatively easy to achieve synergies with a net present value of around €500 million. All in all, we are confident of being able to extract annual cost and capex efficiencies of around €240 million in the fourth full year following completion, with an NPV of around €2 billion. These significant synergies clearly deliver favourable economics for the transaction.

So finally, turning to slide 12 to review some of the financial effects and cover off some technical details. With a headline purchase price of €7.2 billion, the EV to EBITDA multiple is around 7.5 times and the EV to operating free cash flow multiple of 10.4 times – based on run-rate, cost and capex synergies, before integration costs and adjusted for net operating losses – which I believe is a very attractive valuation for a high-quality cable operator, particularly taking into account the

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current trading valuations of these assets. As a result, we expect it to be accreted to earnings per share and free cash flow per share, after cost and capex synergies but before integration costs from the first full year after completion. It also comfortably meets our M&A financial criteria.

We intend to fund the acquisition from existing cash and credit facilities. In terms of approvals and conditions, the deal will be referred to Brussels for competition approval. As we've experienced with KDG, we do not foresee any barriers and would expect to close in calendar Q3 of this year.

And with that, I will hand back to Vittorio to wrap up.

**Vittorio Colao:** Good. So, you have got the main, key points on Ono. I don't have a final slide; the transaction is absolutely on strategy, in line with everything we have been talking about for the last couple of years. We are impressed with the quality of the network of Ono: it is a solid, well-invested, carefully managed business with a strong management team and good prospects on its own, which I believe can be enhanced by being combined with Vodafone Spain. And we have acquired it at a fair and reasonable price, as Nick has indicated.

So now I would like to open for Q&A with Philipp, Nick and Steve who is joining us.

**Tim Boddy:** Yes, thanks very much. I had, I guess, a broad question and then just a couple of quick technical follow-ups. The broader question would be how you expect your partnership with Orange to evolve, in the context – would you consider giving them wholesale access to the 10 million homes – or to the extra 7 million homes – that you will now have access to? And then just some technical: it would be helpful if you could quantify the NPV of the annual savings and also confirm whether the consideration includes the cost of refinancing Ono's debt. Thank you.

**Vittorio Colao:** Tim, can you repeat please the first of the second – of the two technical questions, because I don't think we got it.

**Tim Boddy:** Oh, sorry. So, the technicals were just what NPV have you assumed for the net operating losses within Ono? And then secondly was around whether the principle includes the debt refinancing costs?

**Vittorio Colao:** Yes. I'll pass the two questions to Nick – who as CFO designate now needs to earn his salary – and I will take the broader one.

We don't see any impact on the cooperation with Orange. We've been working well with Orange; the FTTH plan is delivering and we will definitely continue to deliver that. There will be some refocusing, clearly, of where we are going to put our own share – because, of course, there is some reprioritisation that will take place – but I don't see anything impacting the agreed plan. Of course we'll have a discussion with them on the second leg of the plan, which was as you'll remember optional, and we will – in good partnership – be able to decide what's the best way forward.

Nick, do you want to take the two?

**Nick Read:** Yes. Morning, Tim. So, the first answer is the NPV of the net operating losses that we factored in is around about €400 million. In terms of debt refinancing, there's a combination of just normal debt and bonds. There's nothing onerous in terms of charges related to change of control regarding the bonds. Regarding the debt, there is a change of control provision – we're obviously engaged with the banks – at that point in time the cost of debt is around 8.2%. So it stands a bit higher than us, so I think that's an opportunity.

**Tim Boddy:** And does the €7.2 billion include the cost of refinancing that debt, of calling all that debt?

**Nick Read:** No. Effectively, what we're saying is we don't see any onerous charges.

**Tim Boddy:** Okay, thanks very much.

**Operator:** Our next question is from the line of Nick Delfas of Redburn Partners. Please go ahead with your question – your line is now open.

**Nick Delfas:** Yes, thanks very much. So, just in terms of the short term, could you talk a little bit about the direction of travel of EBITDA for 2014? Obviously it was down quite heavily at Ono in Q4. And secondly, the pricing levels in the Spanish market obviously have shifted downwards quite significantly. Are you expecting the market now to recover up towards the Ono level? Or do you expect to have to re-price the Ono base downwards? Thanks very much.

**Vittorio Colao:** Philipp, do you want to take this?

**Philipp Humm:** Yeah. Nick, thank you for your questions. I think going forward we expect the EBITDA overall to be similar, and improved then over time. On the re-pricing side, Ono has gone through a massive re-pricing of its own base. It has re-priced about 75% of its existing residential customers by adding fees and adding particular mobile RGUs. Looking at the price level we right now have with Ono and the market, we are very, very competitive. So we don't foresee – at this point in time – any further deterioration of prices from an Ono perspective.

**Nick Delfas:** Sorry, I missed what you said about the EBITDA. Are you expecting it to be stable from here? Because it was down 6% last year and 14% last quarter.

**Philipp Humm:** Yeah – no, we expect the EBITDA, year over year, to be stable.

**Nick Delfas:** Okay. Thanks very much.

**Philipp Humm:** You're welcome.

**Operator:** Our next question is from the line of Akhil Dattani of J.P. Morgan. Please go ahead with your question, your line is now open.

**Akhil Dattani:** Yeah, hi, good morning. This is Akhil from J.P. Morgan. Just two questions please. Firstly, I guess in terms of the intended strategy for Ono going forward, if we look at the company over the last year or so the bulk of their top line growth's been fuelled by very aggressively discounted mobile SIMs, particularly on the second SIM where they offer much lower prices than their peers. So I just wondered if you could maybe help us understand how you intend – if at all – to adapt that strategy going forward, because obviously that's been deflating your mobile price points as well.

And then secondly, just on the ULL side of things, I guess it hasn't been one of the major cost buckets you've talked about today. So can you just clarify how many of your DSL customers today are within Ono's footprint, so we can understand the synergy set? Thanks.

**Vittorio Colao:** Again, let me take the first question and then – I don't know – Nick, probably, will take the second one.

Clearly today's deal, once completed, will transform the dynamics of the Spanish market. I cannot answer in detail today your question, which is of course a very important one, because on one hand I can tell you of course there will be a different type of dynamics into the mobile market as a consequence of the fact that we bought them. In a way we will mimic more Telefonica's economics, so there will be two players with similar economics, large mobile base, very large NGN

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access base – actually ours will be twice as big as Telefonica's. And we will all use all source tech and brands, like Telefonica does and we do, to address the low end of the market.

So I think it will be beneficial. We will have to take a holistic view to the sector. I don't like to use the kind of 'repair' word because there's nothing to repair in the Spanish market. But, you know, in general I think that there will be new dynamics in the market once the transaction is complete.

And the ULL one...

**Nick Read:** Yeah – Akhil, we have 1 million DSL customers, broadly – of which about 60–70% of those customers sit within the Ono footprint. The footprint's a little bit smaller because of course they have lower penetration in Madrid and Barcelona if you were doing say for instance a comparison to the KDG business case.

**Akhil Dattani:** Thanks.

**Operator:** Our next question is from the line of Nick Lyall at UBS. Please go ahead with your question. Your line is now open.

**Nick Lyall:** Yeah, morning. It's Nick at UBS. Can I ask two please? Firstly on the integration costs: is it possible to give us the sort of size and timing that you're expecting of the cash integration cost? And then secondly, just interesting on that comment on branding and lower-end brands; would you intend, firstly, to keep the Ono brand, and presumably that's your second brand in the Spanish market is it? Thank you.

**Vittorio Colao:** I will take the second one and let Nick think about the integration question. We definitely see a value in the Ono brand. Ono is a brand which has very high recognition in the market and has done a quite good job in proposing themselves as an integrated provider. Of course, the main brand is always Vodafone and – as you have seen in many markets now – we are using more a combination of brands too – sometimes more – and that's more the strategy for the future. So I think we will keep the Ono brand. Now, operationally, how it will be targeted and where it will be put is going to be decided by Philipp with a local team and the local team will, of course, incorporate the Ono colleagues.

Nick: integration?

**Nick Read:** Nick, the integration costs are around €250 million, spread over about four years.

**Nick Lyall:** Thanks very much.

**Operator:** Our next question is from the line of James Britton at Nomura. Please go ahead with your question. Your line is now open.

**James Britton:** Thanks very much. I've got a couple of questions please. Firstly, just a follow-on from Nick's question: can you give us just a little bit more information as to why Ono sort of has been struggling a little bit on EBITDA generation in 2013? I think there was a sort of mid-teens decline in the fourth quarter on EBITDA. So why should we have confidence in your view that it will be stable going forward? Explain a little bit more why that result was, I guess, so negative.

And then secondly, would it be desirable to add further cable assets in the four regions not covered by Ono at some point in the future? Thanks.

**Vittorio Colao:** Philipp will get the EBITDA question. On the further thing, as I said this morning to the wires, let us do this before we think about the next one. As we always said, our strategy for convergence and for unified communication is not just purely about M&A: it's M&A, it's organic and it's commercial agreements. So we will definitely try to reach the maximum number of homes in

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every country where we decide to do so, but how to do it will depend a lot on commercial conditions and our own organic alternatives. So I will not comment on further M&A at this stage, because our strategy is not exclusively about M&A.

Philipp?

**Philipp Humm:** Now to your first question on EBITDA, Ono has very successfully repositioned its product portfolio on speed and convergence and very successfully, actually, sold into the base additional wireless lines, which is also why the EBITDA then, of this year, has some deterioration in the last quarter. As I said earlier, we expect EBITDA over the next year to be quite stable to positive, so we don't foresee that to be a long-term effect.

**James Britton:** Can I just ask one follow-up on the TV performance? I see they've got an innovative TV proposition, they have TiVo, there's a high NPS score there as well, but can you explain why the TV base has fallen almost 10% last year? Thank you.

**Philipp Humm:** Yes. TiVo overall is performing very, very successfully and as we have a very high NPS – the overall TV base reduction is really more a macro development in the market; as you know, Spain was in a recession out of which it just came out and we saw overall in the market some further – customers basically getting rid of the pay-TV offering. We expect that to change now going forward as the economy is recovering.

**James Britton:** Okay, thanks.

**Operator:** Our next question is from the line of David Wright at Deutsche Bank. Please go ahead. Your line is open.

**David Wright:** Yeah, good morning guys; couple of questions from me. First of all, could you just give us an idea of the sort of catalysts for this deal? We've obviously had some press speculation about an Ono IPO. I guess you have just freed a lot of capacity in your balance sheet post-Verizon, but what was the catalyst for you to do this deal? Was it those circumstances or was it any other particular event?

And then just secondly, I think Vittorio you might have mentioned a moment ago about not really commenting on M&A, but clearly in the last 12 months we've had a deal to acquire fixed infrastructure in Germany, we now have one in Spain – if we are looking at your asset portfolio, the UK and Italy now stand out as bigger markets than Spain. And we've just seen Telecom Italia launch a convergent product. We obviously have a different competitive scenario in the UK; is there anything you can tell us about how you're thinking about those markets and the need to build versus the need to acquire? Thank you.

**Vittorio Colao:** Yeah. I think the answer to both questions is more or less the same. First of all, everything has to be put in the context of a strategy which we announced a couple of years ago, which was evolution driven by IT and driven by market development – evolution and also regulatory development. Evolution into a unified communication player, but not at any cost – owning the infrastructure and not at any cost – offering quadruple play into consumers, because of course the TV solution is different by market.

So first of all, it is in the context of our strategy. Second: one of the catalysts for a deal – to be honest, the joke I could use is, you know, it depends on the music; it takes two to dance and when the music is right, you dance. And in this case the music was the fact that there was an IPO coming and clearly the owners looked at alternatives to the IPO. So you always need something to trigger a conversation, but in this case I would say it was just the fact that the owners wanted to IPO and to start anew their ownerships of this asset. As simple as that.

In terms of sequencing priorities and other alternatives, as I said, it depends a lot on conditions in the market, it depends a lot on our alternatives, it depends – quite frankly – also on how much convergence is relevant. As you know, the UK today for Vodafone is a 50% enterprise market as opposed to the 28–30% that happens in the other markets, so it's a mostly enterprise market which is why in the UK we did Cable & Wireless first.

Italy, we have our own FTTC programme and again we are starting to market more heavily our own offers. We have an offer completely equivalent to the Telecom Italia one that we are starting to market as well, and again it's going to be a combination of organic, commercial agreements and inorganic. When inorganic happens – you know, honestly, it depends; it takes two to dance.

**David Wright:** Okay. And just one super-quick follow-up. Thank you for that. Just, I guess, to Nick: you've obviously brought some additional leverage into the balance sheet with this deal. Could you just reiterate, I guess, the guidance on the balance sheet leverage, or where you would see a ceiling at the moment please?

**Nick Read:** Yes. In the Q3 results Andy presented a sort of pro forma net debt after the Verizon Wireless transaction of about €12 billion, so obviously this transaction takes net debt to EBITDA probably just over about 1.5 times. We remain very comfortable with our previously targeted two times on a mid-term basis, but obviously for the right opportunity we would consider going higher, but only if we had a clear path to return back to the two times.

**David Wright:** That's very clear, thanks guys.

**Operator:** Our next question is from the line of Frank Knowles at New Street Research. Please go ahead. Your line is now open.

**Frank Knowles:** Yes, hello, thank you. I just wondered, on slide nine you talked about the revenue synergies and mentioned the enterprise side of the business, which hasn't been discussed much. Could you give an idea how much are these synergies split between residential and enterprise, and maybe give a bit more colour on enterprise as to how the existing offers of both Ono and Vodafone in the enterprise market actually mesh together and compare? Thank you.

**Philipp Humm:** Yeah, I mean, on the revenue synergies overall, as the majority of the business is the residential business today, the majority of the benefit will be on the residential side. I mean, just to give you an idea, we're looking at a little bit more than 0.1 billion customers on the enterprise side. So it's a smaller piece. There we can obviously add – very quickly – value by integrating with our – today's enterprise sales forces. But as I said, the majority of the benefit will be on the consumer side.

**Frank Knowles:** Thank you.

**Operator:** Our next question is from the line of Paul Marsch at Berenberg. Please go ahead with your question. Your line is now open.

**Paul Marsch:** Yeah, thank you. I wondered if I could just ask you to clarify what proportion of the total 3 million household footprint through the Orange agreement will actually now overlap with the Ono areas? I guess I'm presuming that all of the Orange component is still going to be aimed at the most valuable residential areas, so wouldn't it make sense for those to overlap to a considerable degree with the Ono footprint? And in which case, I'm wondering how you get to your over 10 million household footprint through the pulling together of Ono's footprint with your fibre footprint?

And then I guess a technical question: does doing this deal with Ono change the way that you might think about sourcing pay-TV programming for distribution to your fibre customer base?

**Vittorio Colao:** Let me take the second question, and the answer to the second question is we don't know yet in the sense that we need to talk to our colleagues. I mean, I was in Germany last week to meet with our KDG colleagues and it is very clear that in the whole area of content – content-sourcing, content-packaging – these companies have more competence, quite frankly, than Vodafone, and that's why we buy them. That's because we also want to have competent people. So I am, quite frankly, honestly not capable to give you an answer to the second question because one of the reasons why we do these things is exactly to acquire more competencies there. And again, it was remarkable that the KDG people are already having good ideas, and as of 1<sup>st</sup> April when we have all the papers right we will integrate more KDG for 2014, and we start – we are already starting to create the backbone of content competence in Europe. And forget for a second New Zealand which has some critical mass, which was also part of my strategy from the beginning.

On the other question, I think Philipp can answer. I just want to say that clearly we haven't talked to Orange yet, because of course it was not possible before. But of course one of the first phone calls today in the afternoon will be to Orange.

**Paul Marsch:** Okay.

**Philipp Humm:** As Vittorio said earlier, we have a very good partnership with Orange so we'll sit together and make sure that the future roll-out will consider as much as possible the Ono footprint and the Ono network. If you look at what has been done so far, we have focused our activities mainly in the Madrid and Barcelona area which is where Ono is really only weakly present. So from that point of view there is not too much overlap there today, and as you remember our target was to be – by April was 800,000 homes passed, together with Orange. So we still have another 2.2 million, then, to go thereafter.

**Paul Marsch:** Thanks.

**Operator:** Our next question is from the line of Simon Weeden at Citigroup. Please go ahead – your line is open.

**Simon Weeden:** Yes, thank you very much for taking the question. Just on TV, a couple of things. I'm probably a bit behind on where Spain is with its TV tax, but I did wonder if there was a negative synergy here of applying it across the whole of the Vodafone revenue base there rather than just the Ono base, assuming Ono is paying one.

And the second one is regarding TiVo, how that fits with your thinking about the interactive TV platform you want to use elsewhere and whether the long-term objective would be to have all the different markets on the same underlying technology platform for the set-top box and the interactive services? Thanks.

**Vittorio Colao:** I'll take the second, because this is a more cross-country type of thing, and let either Nick or Philipp take the tax thing.

It's early days. As I said, I was in KDG last week – there is some joint analysis that Vodafone Group –both to go – Germany and now Spain – will do on the interactive TV thing. Clearly we will try to get the best out of the now-enlarged footprint, and clearly it's an important part of the strategy and we shouldn't forget our own Portuguese experience – which is small, but actually even our new German colleagues recognise its pretty high quality. So it's going to be a Group effort; not decided yet in which direction we go.

**Philipp Humm:** Yeah, and coming to the TV tax, I mean, Spain alone today – the TV tax for the Spanish business – Vodafone business – is obviously a difficult position, which is why we decided not to, actually on TV as it applies to the overall revenue and not only to the TV revenue. Now,

going forward we will try to gain as many of our mobile customers to basically then use the TV proposition from Ono. TV tax will become less of relevance from Vodafone's point of view, because we will then have a substantial business to justify paying a TV tax also on the Vodafone share.

**Simon Weeden:** Can you give me a number or two on the quantum of the operating cost impact or the equivalent operating cost impact?

**Philipp Humm:** No; that will depend a lot on how we will run the proposition, so it's a little bit early to tell right now.

**Simon Weeden:** Okay, thank you. Thank you very much for that.

**Operator:** Our next question is from the line of Luis Prota of Morgan Stanley. Please go ahead with your question. Your line is now open.

**Luis Prota:** Yes, hello, it's Luis from Morgan Stanley. Just a question on comparing the deal in Germany and this one in Spain in terms of synergies; Vittorio, you made a very quick comment on this one regarding unbundled local loop clients in Germany, but I wonder whether you could elaborate a bit, even from a qualitative standpoint, on why synergies in the German deal accounted for around 3% of opex and capex combined and this deal is around 5%, if my numbers are not wrong. So what is driving higher synergies here in Spain than in Germany, please? Thank you.

**Nick Read:** Well, clearly the first category of cost capex synergies that I talked about was the migration of the mobile traffic from Telefonica onto our own network, which is €0.5 billion NPV. So that's the material difference between the two. And of course we are saving and avoiding the fibre build, second-phase.

**Luis Prota:** Okay, thank you.

**Operator:** Our next question is from the line of Ottavio Adorisio of Société Générale. Please go ahead with your question. Your line is now open.

**Ottavio Adorisio:** Hi, good morning gentlemen. I have a couple of questions. The first is a follow-up from the JV build-out and the second is on a comparison with KDG. Taking the first: now, following the deal, you are paying almost more than €1,000 per home passed. When I look at the implied costs for your JV with Orange per home passed with fibre, it's only €167. Now, arguably Vodafone gains in terms of time to market; but that would only amount to around two years' advantage, as your target for the JV referred to 2017 whereas the Ono integration is likely to complete by 2015. As a result, I was wondering if you could share with us if it's the case that, given your fibre build-out experience in Spain, the JV guidance of €167 has proven far too optimistic and it's therefore making more sense to buy? And that – if that is the case, what are the implications for countries where you have a limited option to buy cable assets, such as Netherlands, Portugal and Italy?

Moving to the second question – that is, basically, the comparison with KDG – today you say that good quality metrics for Ono also justify part of the price you pay because – due to low bandwidth contention, since Ono has only 500 homes per node. However, on the other side of the spectrum, there is another cable asset – the one you bought last year, KDG – that has more than 1,500 homes per node passed and one of the lowest metrics in network performance. I was therefore wondering if you have any plans to boost capex for KDG integration as part of the Project Spring, beyond the one you announced at the time of the acquisition? Thank you.

**Vittorio Colao:** Yeah, let me give you the first answer because it's kind of the easier and more strategic, and then maybe my colleagues can give you the answer on Germany.

It is not the case that the costs per home passed are going higher. The difference between the two – the comparison that you made between the two situations is in one case you buy a company with customers, with revenues, with cash flow and with EBITDA. And in the other case you build a network but then you have, yourself, to acquire the customers, to set up everything: the brand, call-centres and everything else. So, technically the comparison you make is correct, but then you are basically comparing two different situations. It's not just time to market, it's time to market with an existing company as opposed to time to market and then you have to build it yourself.

On KDG, Spring – who wants to comment?

**Phillip Humm:** I guess I'll start on this one. On the KDG deal, so I think we – in both cases we have great networks and the difference, really, between Ono and KDG is that Ono is a bit more advanced in the way it has developed the network, pushing down the fibre so it has 500 households per node at this point in time. And as you know, we are spending – and what we announced at the time – we're spending more capex on KDG – which was this €300 million overlay we had mentioned at the time – to further modernise and enhance the KDG network, which is not something we need to do now in the Ono case as Ono is already state-of-the-art and modern, in that sense.

There's no implication of – to answer your question – on KDG to ramp up more than what we have already said at the time of the acquisition. Did that answer your question?

**Ottavio Adorisio:** Yes, it does. And I was just wondering in terms of just a follow-up for KDG: basically, you reckon that 1,500 homes per node is basically ideal? Or you want to bring it down to under 500 like the Ono network topology?

**Steve Pusey:** It's Steve here, good morning. I think, you know, the beauty of a cable television network is that you can adjust that topology based on the area that you're marketing to. So there will be environments in Germany where it will come down to 500 and there will be areas where it will stay at a greater volume, based on the market opportunity in front of us. And that is the big attraction of a cable infrastructure.

**Ottavio Adorisio:** Okay, thank you.

**Operator:** Our next question is from the line of Maurice Patrick at Barclays. Please go ahead. Your line is open.

**Maurice Patrick:** Morning guys. On the ULL base you spoke about, can I just check if the saving from migration adds onto the network for the 60% of customers is reflected in that – synergies or not? Perhaps just some thoughts from yourselves in terms of how you might incentivise those customers to migrate across onto the cable network? Thank you.

**Nick Read:** So, yes it's reflected in that second block of network and IT synergies, so the €0.8 billion NPV, and obviously we will incentivise through higher speeds and more enriched packages.

**Maurice Patrick:** Great, thanks.

**Operator:** Our next question is from the line of Jerry Dellis at Jefferies. Please go ahead with your question – your line is now open.

**Jerry Dellis:** Yes, good morning. Thank you for taking my question. The first question is around the MVNO that Ono currently has I believe with Telefonica. Over what sort of time frame is it going to be possible to migrate those customers across, please?

And then the second question is – is really the next, sort of, six months between now and closing – what should we expect to see in terms of changes in the way that both standalone Ono and standalone Vodafone are run in Spain in order to prepare for the prospective merger? You obviously can't sort of prejudge the outcome of the deliberations with the authorities, but what could we see from Vodafone in particular over the next six months as you prepare for this closing? Thank you.

**Vittorio Colao:** Yes. I would say relatively easy to answer. First of all, we don't expect any major difficulty from the authorisation point of view from Brussels nor from Spain, as this is clearly a consolidation that does not hit any meaningful threshold in terms of market share, or in terms of market power. We plan to come out of Telefonica by 16<sup>th</sup> April – yes, by 16<sup>th</sup> April. And again, it will be a smooth process and I don't think that we should expect any difficulty there.

On the management, again there will be stability in the Ono management. Clearly we have to keep running the companies as separate entities, but clearly both companies have to be run as best as possible to prepare for the integration. So, like we did in the previous case – Cable&Wireless or KDG – I think we know we have pretty much a structured way to approaching these phases.

**Jerry Dellis:** Okay, thank you.

**Operator:** We're going to the next question. If anybody has any further questions at this stage, could you please press 0 and then 1 on your phone keypad now. And while that's happening – we'll go to the line of Mandeep Singh at Redburn Partners. Mandeep, please go ahead. Your line is open.

**Mandeep Singh:** Okay, thank you for taking the question. The question was more of a general one – actually two questions, if you don't mind. First of all, on your Project Spring capex guidance, as you do these types of deals are you actually going to reduce the capex guidance you'll be giving for Project Spring? That's the first question.

Secondly, more of a general question regarding M&A: if we look at Cable&Wireless Worldwide or we look at Kabel Deutschland, you are spending a fraction of the amount of what the business was worth in the market you are making the acquisition in. This seems to me the first one where you are making an acquisition where the value of what you're acquiring actually materially exceeds the value of the existing asset in the country. So, for me this is quite a step-change, and is this something that you're willing to consider for the future? Actually spending more on the target to fix your existing business than you have done in the past? Thank you.

**Vittorio Colao:** Yes, I take both questions and then maybe Nick can comment a bit on them. On the Spring – I mean, while it is obvious that you have to put things and categorise things into different buckets, in the end what we really do is optimising our spending. So we'll avoid the duplication of spending and there will be optimisation across the piece and – you know, honestly, organic, inorganic, commercial deals are a very dynamic type of situation. So spending will change, for sure – not on the wireless side, at least for this type of deal – so 4G priority and everything else will remain there.

On the second point, I reject a little bit the concept of fixing the business. We don't fix things; we basically make investments that have to pass our financial test and have consistency with the overall strategy. Sometimes they are, as you said, a fraction of the value. Sometimes they are an important investment. But at the end of the day, it's about value creation and it's about long-term strategic consistency with our declared vision for the future. And again, we declared unified communication; this is on-strategy. We declared M&A criteria; this is consistent. And we have clearly commercial end-technology synergies that can justify deals, in this case a deal which is slightly bigger than our own size. In other cases it will be smaller. But the important thing is the consistency with strategy and the financial discipline. Any comments on Spring?

**Nick Read:** Yeah, just one build which is obviously the Spring capex for Spain was predominantly 4G and VDSL extension, more from the 60–65% penetration up to close to 80%. So it didn't have anything to do with fibre.

**Mandeep Singh:** Okay. Thank you very much.

**Operator:** Our next question is back to the line of Tim Boddy at Goldman Sachs. Please go ahead. Your line is open.

**Tim Boddy:** Yes, thanks – a quick follow-up. Can you disclose whether there was a break fee agreed in the transaction and how much it was and whether it was different – you know, your break fee is different from their break fee? Thank you.

**Vittorio Colao:** €200 million linked to anti-trust approvals, which we do not see a problem with.

**Tim Boddy:** So there's no break fee dependent on a change of control?

**Vittorio Colao:** No.

**Tim Boddy:** Okay, thanks so much.

**Operator:** Gentlemen, as there are no further questions in the queue may I please pass the call back to you to close?

**Vittorio Colao:** Yes, thank you operator and thank you all for your questions. Again, let me reiterate the four points. First, this acquisition is absolutely on-strategy and another step in the evolution from a mostly-mobile Vodafone to a unified communications player. Second, good assets with strong management team and, most importantly, twice the size of home-reach of the next closest competitor. Third, good synergies and enhancement of both our operation and Ono's operation, thanks to the combination, and fourth – important – passes the financial test and we think it's a fair and reasonable price for both parties.

Thank you very much for your questions and, again, thank you, operator, for conducting this.