

Vodafone Group plc
Preliminary Results

Analyst and Investor Conference Call
20 May 2014

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Opening Remarks

Vittorio Colao

Chief Executive Officer, Vodafone Group plc

Good afternoon. Thank you very much for coming today, again. We will follow, today, the usual programme. I will give you the highlights for the quarter just ended and the year; then I will handover to Nick who will do the usual financial review, and then I come back, and I will this time, talk about the six large units, their performance and their priorities, and then go through the key elements of our strategy. Of course, then we will be joined by our colleagues for Q&A.

So, full-year highlights: first of all, financial performance: our Q4 service revenue declined 3.8%, 4% if you include Italy at 100%. This is really two stories. One is Europe, where service revenue declined 8.5%. We have to say, and will comment, we have seen some improving trends in UK and Spain. And then a very good performance in emerging markets, 6%: with India up 12%, Vodacom 5.1%. Data and the data story will be a key topic here. In this quarter, we have improved our fixed broadband performance, so our customer base is now 9.3 million customers, the third largest in Europe, and despite some headwinds and some under performance that we'll talk about, we have met our full-year guidance, both in terms of AOP at £4.9 billion, and in terms of free cash flow at £4.8 billion.

Key topics for the strategic review that I will cover later: Vodafone Red, 12 million customers in 20 markets. Some good signs of improvement in churn and NPS; 4G now available in 14 markets, with again, good ARPU and good usage of data that we will share with you. Good enterprise acceleration in our key growth areas, Vodafone Global Enterprise and Machine to Machine growth, and I would say more growth in the recent quarters than in the average of the year, which is a good sign. Project Spring has started it's underway. We are accelerating the network build-out. Initial focus has been on India and Germany, we'll come onto that. And then of course unified communication with the fibre being laid down in Spain, Portugal, continuing with the commercial effort now, and Italy about to start. Ono is about to come. It's expected to be completed in the second quarter, and of course, just for the record, we have closed the US transaction with US\$85 billion returned to shareholders.

I will then turn to Nick, and then get back for the operation review.

Financial Review

Nick Read

Chief Financial Officer, Vodafone Group plc

Thank you, Vittorio. Good afternoon, everyone. So, firstly, I'd like to take the opportunity to go through financial highlights of the year, and then move on to my personal financial priorities for the year ahead.

The first point I'd like to point out is that this is a more complicated set of results than normal, given the varied bases of preparation and the M&A activity over the course of the year. To keep things simple, I have prepared the presentation on a management basis unless otherwise stated, which means that we account, on a proportionate basis, and include five months of the Verizon Wireless profit.

So, turning to slide 5, the highlights are as follows: total Group revenue declined 3.5% to £43.6 billion year on year, with Group organic service revenue down -4.3%. If you remove the MTR impact, it's -2.0%. Our AMAP region continued to perform strongly, growing at 6.1%. However, this was offset by ongoing pressures in Europe. As Vittorio has already highlighted in his first slide, Group service revenue, in the fourth quarter was down -3.8%, a one percentage point improvement in the third quarter, which was primarily a MTR effect. EBITDA at £12.8 billion gives us an organic margin of 29.4%, down 1.3 percentage points as the impact of revenue declines and increased customer investment in Europe offset improving margins in AMAP. Adjusted operating profit for the period fell 9.4% year on year, and this includes a £3.2 billion contribution from Verizon Wireless up until 2 September.

Moving on to the lower half of the income statement on slide 6, which is presented on a statutory basis. Financing cost, which I will take you through in more detail later, are a little lower than the previous year, primarily due to mark-to-market gains. Tax at £4.4 billion is higher than the prior year, and includes tax paid for the re-organisation of our US group prior to sale. I will expand on our tax position later.

On impairments, we've taken a £6.6 billion charge in the second half, related to Germany, Spain, Portugal, Czech Republic and Romania. These were driven by lower projected cash flows within the business plans, resulting from the tougher macroeconomic environment and heavy price competition we have suffered over the course of the last 12 months. We've recognised a deferred tax asset of £19.3 billion, slightly up on H1 due to finalisation of the calculations. This deferred tax relates to historical losses that we've disclosed in our accounts. The US disposal gave us better clarity and certainty over the future structure of the Group, and removed significant uncertainty around the utilisation of those tax losses and future income streams. This takes our total deferred tax assets to £20.6 billion.

As a result of the Verizon Wireless transaction and the disposal of our US group, we also recognised a £45 billion pre-tax gain on disposal. For the purposes of our earnings per share calculation, and to align with our peers, we've excluded the amortisation of customer bases and brand intangible assets, and as a result our overall statutory profit for the period was £59.3 billion, and our earnings per share, was 17.54p, down 12.8% year on year. Finally, we've announced the final dividend per share as 7.47p, giving total dividends of 11 pence, an 8% increase year over year.

Now, onto slide 7. Now, Vittorio will be talking about our performance of each of the countries in a little bit more detail later. However, I thought it would be helpful to go through the changing profile of the Group. Looking at the pie chart, at the top, in red we have Europe, and in blue, we have AMAP. As you can see from the metrics, AMAP is strong and growing. The AMAP customer base is up 9% in the year, and now accounts for over 70% of the total Group. In terms of service revenue and EBITDA, AMAP grew by 6.1% and 16% respectively, with margins continuing to expand now well over 30%. And finally, 38% of the operating free cash flow of the Group now comes from the AMAP region. On the bottom of the slide, you can see full-year service revenue growth pre-MTRs. The Group as a whole was down -2.0%. With AMAP growing at 7.8%, and Europe declining at 6.5%. Clearly, on the left-hand side, you see the countries from emerging markets growing strongly, and on the right, the more challenged European markets.

Now, going through a service revenue walk, full-year reported service revenue declined -2.4% to £39.5 billion. On an organic basis, after adjusting for foreign exchange and M&A, this figure was a decline of -4.3%. As you can see, we continued to increase our mobile in-bundle revenues, up £1.2 billion in the year, with 61% now of our mobile revenues in Europe now in-bundle. Clearly this comes at a cost on our out-of-bundle, which was down £1.8 billion. Finally, we lost £900 million because of MTRs. Now, one of the important positives looking forward is that the MTR drag this year was around 2%. Next year's projected to be around 1.3-1.4% and that includes the South African recent rate reduction. As we previously highlighted, a number of our MVNO relationships did not fit as strategic priorities. In total, we terminated five contracts in four countries, and renewed a further three. Though the impact was relatively small this year, in 14/15, the impact will have a drag factor of around £150 million to £200 million on both service revenue and EBITDA.

Turning to our EBITDA performance on slide 9, across the Group our reported margin declined by -1.1%, and 1.3 percentage points on an organic basis. In Europe, competitive pricing and increased customer investment in the second half of the year resulted in a compression of the margins. The impact of this was partially mitigated by the ongoing cost optimisation programme we have, and we managed to save a net £0.3 billion in Europe opex in the year. In AMAP, we continued to grow and expand margins through strong top-line performance, good cost control, and I'm very pleased to see that Australia also contributed, as we have now started to turn the business around.

Moving to slide 10, financing costs, which, on an underlying basis, were £1.2 billion, broadly consistent with the prior year. However, on a fully reported statutory basis, our net financing costs have decreased, primarily due to the recognition of mark-to-market gains. Overall, the average cost of debt decreased slightly to 4.9% in 13/14. For 14/15, the cost of net debt will increase to slightly over 6%, and this is a factor of US debt being retired whilst the mix of India, as an overall composite, going up.

On to slide 11 and tax. Our Group effective tax rate for the year was 27.3%. This was higher than the prior year, primarily due to the lower UK tax rate reducing the value of the UK capital allowances, and the impact of UK CFC rules. You will recall we quoted a US\$5 billion estimated tax liability, communicated at the interims to do with the Verizon Wireless transaction. We finalised our tax position, and we estimate that to be US\$3.6 billion. In 14/15, we expect our effective tax rate to be in the high 20s, which is in line with the Group's continuing operations current-year rate.

Turning to slide 12 and our cash flow, we generated £4.4 billion of cash in the year, which was down year on year, primarily due to those difficult trading conditions in Europe, that you can see on the top, impacting EBITDA. Capital additions were higher, primarily due to investments made in the UK, India, Spain and Germany. Our working capital position was elevated in the year, primarily around the £0.5 billion that we spent to do with Project Spring, though the cash payment will be in 14/15. We received £2.8 billion of Verizon Wireless tax distributions during the year, and we have received the final distribution in May, which was £362 million. So overall, reported free cash flow per share was 16.6 pence. However, it should be noted, in addition, for the free cash flow reported here, that we also received an income dividend of £2.1 billion from Verizon Wireless.

Moving on to our balance sheets on slide 13, net debt at the start of the year was £27 billion, and it closed the year at £15.5 billion. The key drivers were the acquisition of KDG for £8.5 billion, which includes not only our ownership, but also the minorities at £1.4 billion – more than offset, obviously, by the US transaction of £19.5 billion. Also included in the year-end figure is the tax payment on the reorganisation related to the Verizon Wireless transaction, and finally, also included was the deferred India spectrum licence cost of £1.5 billion, and the debt from joint ventures was also included.

Looking at pro forma debt for 14/15, we start by moving from a management view to a statutory view, to reach the opening position of £13.7 billion. We're expecting outflows of £6 billion related to the acquisition of Ono. Positive free cash flow for the year, post all of our capital investments, and finally, a dividend of around £3 billion. As a result, our net debt position, at the end of the year, will be approximately £23 billion, or two times net debt to EBITDA. We remain comfortable at this level of leverage, maintaining a degree of flexibility, as long as we see a clear path back to two times in the medium term. It's worth noting that the pro-forma debt position does not include the Verizon loan notes, or potential spectrum.

So, turning to slide 14, my priorities, as the incoming CFO, and there's essentially three: first of all, delivering the integration synergies from acquisitions; secondly, delivering Project Spring returns; and finally, keeping a relentless focus on cost reduction through the Group. So, let's take each of those in order.

So, the first is our recent acquisitions, starting with Cable & Wireless. We consciously prioritised the integration of the assets, which represented about 90% of the value we ascribed to the business. So, what have been our achievements to date? 75% of the new high-speed UK network is now complete. Over 50% of our international IP traffic is now on net, and additionally we've done further reviews and see additional opportunities around network synergies going forward. All of this whilst launching unified communication products through an integrated sales force. TelstraClear is also ahead of expectations, where 87% of the cost and capex synergies have already been secured, and we have launched converged products to market, both for enterprise and for consumers. Finally, KDG integration started on 1 April this year. We already have completed our post acquisition review, confirmed our cost capex synergies, and have started to do joint commercial activities together.

Moving on to the second priority, which is Project Spring: it's fully underway, and it forms, obviously, a material part of the £19 billion investment we plan to make over the next two years. Project Spring really has four clear phases, as you see on the charts. For each of the phases, we're committed to report on a quarterly basis, so that you can track the KPIs on the slide. Obviously, to achieve phase 4, the financial returns, we have to deliver on the first three phases, and I look at my colleagues in the front row: firstly, Steve, executing the network build on time and on budget; secondly, Paolo delivering the propositions to leverage the differentiation built in our network; and thirdly, Philipp and Serpil driving the commercial momentum across the regions. And my job is to report back to you on the returns that we get.

Turning to slide 17, third priority of cost – as we've said, we delivered the European net cost reduction objective of £0.3 billion. I just want to look at cost in three phases that are overlapping. The first phase in our history of the company has been around the centralisation and driving central procurement and roaming. The second phase was around back-end services, utilising shared service centres, and now we're really trying to push aggressively on the third phase, which is the standardisation of the front-end processes. These will revolve around driving penetration of online use and mCare apps, which will allow us to give superior service experience, obviously, without the cost of expensive person support. We want to drive tariff and product rationalisation, and common IT architecture in each of our OpCos. This is a more complex area of execution, so it will need a lot of careful management.

On to guidance, on page 18, so, as Vittorio already said in his opening slide, we've met pro-forma guidance of AOP at £4.9 billion, and free cash flow at £4.8 billion. We reflected on what was appropriate profit measure post Verizon Wireless, and we concluded, and strongly felt, that EBITDA being the industry standard should be the metric on which we should quote our guidance going forward. And we established a range of £11.4 to £11.9 billion. Now, I thought it was pretty important to have, if you like, a waterfall to show how we get to that guidance. As you can see, we start at £12.8 billion for this year. We then restate that to guidance exchange rate, and it drops

£0.6 billion. We put in KDG for a full-year effect, so add in £0.4 billion. We adjust for JV accounting to get to a like-for-like £12.5 billion. Obviously, we said prior at the interims, we would be investing in Spring this year, and the estimate is around £0.5 billion. And then, of course, we had that drag factor of MVNOs that I mentioned earlier of between £150 and £200 million that will also be a hit to us in 14/15. So, that brings us down to the range of £11.4 to £11.9 billion. We also feel that once we've done the two-year investment programme of £19 billion, we will then have a leading operation in each of our markets, and therefore, can bring our capital intensity down to 13-14% on an ongoing basis, giving us plenty of headroom for our dividend, which we have the intention to grow from the 11 pence that we announced today.

So, in summary, financial performance this year has been mixed. Clearly, Europe has been challenging. AMAP continues to strongly grow. 14/15 is an important year to deliver some critical priorities, namely, successful integration of our acquisitions, driving the returns out of Project Spring and being relentless about cost reduction going forward. We have a healthy balance sheet, well positioned, for our £19 billion investment, and our inorganic programme. And finally, during the year, we delivered record returns to shareholders following the Verizon Wireless transaction, and while cash flows will be depressed during the organic investment phase, our intention is to grow dividends per share annually. And with that, I will hand back to Vittorio.

Operation Review

Vittorio Colao

So, let's now go to, first, the performance of the six large units, and let me start with probably the two more challenging situations.

The first one is clearly Germany. In Germany, we have got what we call a tough year, with some under-performance on our side. Marginal improvement, as you can see from the chart, in the last quarter, but quite frankly very marginal. The story in Germany, I think, is well known by now. We had some network issues in the previous years, both in voice and in data. We had also a little bit on an inconsistent commercial strategy, very focused on discounting, and while our main competitors were focused more on delivering commercial investment, quite frankly, also supported by what, in those days, was a network superiority. And in general, there was a reset of the prices that in Germany, historically had been high. We are now regaining momentum. First of all, as you can see in the bottom part of chart, we are again in positive territory for our contract net adds, and we are stabilising the ARPU decline. In the second half of the last year, we have improved network, and I have to say not in the eyes of the customers yet, but in the actual parameters and metrics, we have recovered quality of our network. We have an improved fixed line performance, not yet positive but going up, as I will show later. And of course KDG, which in the meantime, has come into the family, continues to do well. This general situation has created a contraction of our EBITDA margin, which is down 3.4 percentage points due to commercial spend we have increased in the second half.

So, what are our priorities for Germany? First of all, continue to improve the commercial performance. Second, clearly, leverage on the KDG integration, not only on the cost side, of course, but also on the offer side. And then continue to consolidate the network improvements on the 4G direction, on the voice direction, and also invest the Spring money into improved distribution for the consumer business. Overall, I would say we are improving in Germany. It will take some time. My expectation is that towards the second half of the year the signals will be visible and measurable of the successful turnaround.

The second challenging situation is Italy. Here, Italy is now 100% owned. It's a little bit of a different story, and I have to say Italy is still challenging. We had this massive price war last year. A couple of price increases that actually were successful, but still have brought the prices below where they were one year ago, so there is a continuing impact on the customer base. And I have to say that recently we also have seen, very recently, in the last quarter, we also have seen some resurgence of tactical promotions, or below the line promotions, which are coming a little bit on the fixed side, and a little bit on the mobile side, which are not completely signalling that the market has really repaired. On the positive, there's good 4G opportunity. 4G, as you know, in Italy, was launched a little bit later because of the release of spectrum, but the opportunity here is the same as in Germany, which is pretty good. Enterprise, bottom part of the chart, is doing very well. We have re-launched enterprise very successfully. Churn is down, the Red line, and activations are up. And also the fixed broadband phase is now growing, plus 4.5%. We now have 1.8 million customers, and I have to say, and I will make the same comment for Spain, we are very well placed here to reap and get the benefits of convergence. EBITDA margin down 4.7

percentage points. There is revenue effect, general revenue effect, we have reduced cost, but clearly this was not enough to compensate for the revenue impact.

Priorities: clearly drive ARPU recovery through Red, through our 4G services, and of course, the broadband plans; continue the good momentum in enterprise and in fixed line; continue to reduce cost, Italy has a good tradition of reducing cost; and continue the network differentiation services, especially on the fixed side, where we will have, at this point, working our resale offer from Telecom Italia, the possibility of using the Metroweb alliance in the places where Metroweb is present, and of course, our own FTTC plan, which has 6 million homes into the works. So, I would say, in Italy, we have a very strong focus on improvement, but I also want to say, we will have to respond to the tactical price moves of some of our competitors to discourage further deterioration of the structural pricing of the market.

Now, two good stories, after the two challenging ones. The first one is clearly India. India, we had another strong year. We have, as you can see in the top part of the chart, consistent double-digit revenue growth. We have margin improvement it says somewhere in the text, almost 32% EBITDA margin, and most importantly, very, very good accelerating data metrics. The bottom part of the chart indicates that in less than what is it, five quarters we have improved, we have increased our data volumes by two and a half times. Now, India is the biggest carrier of data in the Vodafone Group. Some of you might remember that a year and a half ago I said data is going to be the second biggest opportunity in Vodafone after India. Now, data is, in India, the second biggest opportunity after India. So, we are very pleased with the progress there. We also have achieved, in India, increase in the actual price per minute, which was quite an interesting exercise. Don't expect this to continue. At some point there will be a lapping effect with last year, but clearly again, another positive of the market. Traffic as I said, doubled; 3G rollout is good, but not only 3G rollout is good; we have got back, after the decision of TDSAT the possibility of doing intra-circle roaming, which at some point was suspended. This happens in a country where smartphone penetration, data penetration, is still relatively low. We have 50 million customers on data, but only 7 or 8 million on 3G. But also, in urban areas, where smartphone penetration is 30%, so – and actually the usage of smartphones in urban areas of India is exactly the same as in Europe. So, we have a very good continuing data story ahead of us, and we also launched M-pesa, which we'll cover a little bit later.

So, what is the plan for India? Accelerate, thanks to Spring, 3G and 2G: 2G for coverage, and 3G for data and rollout. We are starting to include in India things that you are familiar with in Europe, so small cells and fibre, because the fibrisation of our Indian network is an important element of our future strategy; strengthen enterprise, continue to strengthen enterprise and fibre to the premises; and then continue to work on the optimisation of the commercial offer if there is an opportunity to increase price. So, India is a good story and continues to be a good story.

The other good story is Vodacom; in particular, here, I'm talking about South Africa. As you can see from the graph, we are, again, back into positive territory in terms of growth, 0.7%, 5% at group level, and I have to say, how they did it is really through, let me say, two things. One: the traditional network superiority that comes from investment and comes from a very big infrastructure that we always had there, but also through very smart pricing. The bottom part of the chart indicates that we have been proactive in reducing prices to face competition, but this, and this is the blue line, but this has actually been done through very dynamic, intelligent dynamic pricing, and that has brought up usage, which is the red line. And as a result, the green line, ARPU, has remained relatively flat. Now, add to that data, data is growing 22% in South Africa, add to that the fact that the penetration of data is only 21%, and you can see why we are very confident that the South African operation is a very, very solid one. There will be MTR cuts. We are planning to react to the MTR cut a little bit the same way, through dynamic pricing, trying to increase usage, and make sure that we can stimulate a much more for more type of strategy.

EBITDA margins are flat, despite the fact that we gained share and we are big. International, just one word, they're growing 15%. It's very good. We have M-pesa everywhere, and again, it's another area where, in the past there was a bit of doubt that it could really succeed outside of South Africa, and I think my South African colleagues are demonstrating that they are capable to work very well also in Africa. Priority, going forward: I would say for South Africa, keep doing what we are doing, essentially, continuing in network differentiation, 3G, 4G; integrate Neotel, which we announced yesterday, and if we can accelerate our 2G and 3G coverage in the non-South-African business, where we have of course the frequencies and the possibility, because we are very convinced that those stories will be good as well. And of course, M-pesa, as I said, even here, will be important element for the strategy.

Now, two stories which are instead. I would not define them challenging, but they're not yet where we'd like them to be: first one is UK. UK, you can see in the top chart, some improving of the trend, some improvement in the trend, but we are still in negative growth, which is not the right place to be. We now have 2.6 million Red customers in the UK. They make 42% of our contract base. We have over 600,000 4G customers, with almost 50% of them activating the higher-paying content package, which again, is ARPU accretive. And we have, bottom part of the

chart, improved our commercial performance from the 75,000 net adds per quarter of one year ago to the above 150,000 recently. And I have to say, we are now, I think, in terms of commercial performance, where we should be.

On the network side, we have improvements. I have now 99.2% availability of the network in the UK. It's not the 99.6% that I would like to have, and that we are working to have. We still have to improve some of the indoor coverage in London, and some of the major routes outside the country, but clearly this is going to come this year with Project Spring. We're not there yet, but we will be there. EBITDA margin is a little bit down. This clearly reflects the inclusion of Cable & Wireless and the Cable & Wireless dilution on the UK. Cable & Wireless integration is going well. We are on time. We are actually a little bit ahead on the financial case, and also includes the higher commercial investment that we have made.

Priority: continue to work on enterprise, Cable & Wireless integration and strengthening of our enterprise presence; fix and improve even further our network, really get into the best network position, including London, including indoor; get to 99% 4G outdoor coverage; strengthen distribution. We announced 150 new stores, 1,500 more people in retail to try to manage in a more effective way our commercial cost, which are big. And of course, continue to go through the cost reductions, with a joint venture with O2, and our own internal effort, because there are also some regulatory headwinds coming, roaming being one, and of course, premium rate numbers being the other one. So, more work to do, trending gently in the right direction, but not there yet.

Now, Spain is the other, again case of positive trend versus the recent past, with I have to say, still negative numbers, therefore not where we would like it to be, but again here, we see positive things. For sure, 4G which is going well: 800,000 customers, with 50% coverage of 4G in Spain. Our convergence propositions in Spain are doing fine. Now, this is an important point. You might remember, one year ago, more or less, one year and a half ago, with the launch of Fusion and the whole Telefonica, we were going to completely change the market. There was a sense that Vodafone doesn't have a strategy in Spain. Actually, we said we would have a strategy, and now the numbers start coming through. We have 6% growth in broadband. We have fixed line net additions going positive. We have 5 percentage points of churn improvement thanks to Red, and we have positive enterprise net additions in the fourth quarter. So, I would say even before talking about fibre, which is just launched, and you know that the programme is to go to three million homes together with Orange, plus the Ono thing that will clearly change again for better clearly, our position, I would say Spain is starting to turn around in a positive way.

Priorities: we go ahead with our converged market offers at this point, including also fibre; do more differentiation with 4G and retake more control over distribution, and continue to build fibre. Also, to compliment the Ono network, and again, those two investment will be very complimentary, and we will leverage on each other. And once it's completed, integrate Ono in a successful way. So, this is the situation of the large six: two challenging; two good; two improving, but not there yet. Let me now go to the broader topics.

Now, this is the chart I used last time to say: what is Vodafone after Verizon? And Vodafone, after Verizon, I said is a European consumer business, an emerging market consumer business, and an enterprise business. And the three of them, with clear objectives, will be accelerated, or I said would be accelerated through Project Spring, which is turbo charging the possibility of pushing each of the three business deeper and stronger into the new phase of Vodafone's history.

So, let's start from 4G. These are some interesting statistics. We have doubled our 4G base, the red bars on the left top in one quarter, to around five million customers. These are active, paying 4G customers. If you look at how many people have 4G phones in their hands, you get a number which is double that, and of course we are going to push that up. The 4G usage is around two times the 3G usage in data terms. These are two examples of UK and Spain, but the same applies to the other market. An important thing is, and this is an interesting point, that for the first time we raised, that all application get used more in a 4G environment, not just a matter of YouTube or BBC, or these things. As you can see, the use of everything goes up. We have to say, the interesting thing is that the propensity to use Wi-Fi goes down, because once you liberate a good experience, a really good experience, and a decent pricing package, people use Wi-Fi where Wi-Fi is really worth using, and not necessarily as a way to reduce their cost, which was exactly part of our strategy, and I have to say, anecdotally, no science, please don't quote me in your notes, but I hear more and more people saying, 'Once you have two or three GB, you don't need Wi-Fi anymore'. I don't think it's completely true, but I think it is a sign that our theory of integrating technologies was the right one.

An important element of this is content. In the UK, as you know, we have integrated packages, with Sky and Spotify. Again, this doubles the usage again, versus 3G. The question on how much net ARPU these offers take to us gets tentative answer on the right. It's, let me say, around £4, or the equivalent of £4 in other markets once you pay for content cost, which is, of course, an ARPU increasing action.

The other interesting stat is the one on the top, on the bottom left, which is what would customers on 3G choose in terms of data allowance versus 4G, and I don't pretend that this is 100% linked to the previous content point, because of course, there's no science behind this, but clearly there must be something there. Before, on 3G, customers, the majority of customers, 57% tend to get packages of 1 GB and below. On 4G, they tend to get packages of 2 GB and above. Part of it is our commercial push, but again, the picture that I'm giving you with these two slides is really that we are not just in an evolutionary moment. We are in a big discontinuity moment, where customers are really starting to look more American, if I can use that expression. The model seems to be moving in that direction, and customers who are on low bundles, the light blue lines actually tend to exceed and go over more than in the past, so they should eventually move to the higher bundles. All of these are encouraging signs for us that our strategy, which is Red 4G content in European consumer markets, is going in the right direction.

Before moving to convergence and unified communication, there is Red. I want to give you the update on the Vodafone Red. Now Vodafone Red is 12 million customers. It is clearly something that we have done also to address the concerns of business intermediation, the WhatsApp, the Skype, the over-the-top risk. Vodafone Red has 12 million customers. These customers churn between 6 and 11 points less than the equivalent customers on non-Red plans, so they seem to be happier. They have a much higher satisfaction with the service. They use more data, but they also use more voice, and again, here we are a bit indifferent if they use our voice, or an over-the-top voice, because in any case, they are included in the plan. But it seems they are still using more also our voice, and as the result, bottom left chart, 61% of our revenues in Europe now are in-bundle, I'm not going to say guaranteed but protected from this list. This is a very important point, because Red is not simply a price plan. Red is a way that we've chosen, with some costs, I have to say, with some commercial cost, to immunise our revenue base for the future. And the more successful we are in Red, the more relaxed we are in the discussions with the over-the-top, and we can say to our shareholders that we have a more stable revenue base, with some cost in the short term.

Final point: on the bottom right chart, what is happening in the world of multi-device and family? Clearly we are starting to push multi-device and family plans, you see Italy and Spain in two different ways. In Spain, the family is more important; in Italy, the tablets seem to be more important, but they are going up nicely, and we will do it more everywhere. An interesting stat which left me surprised when I was preparing for this presentation: in Europe, there are 70 million tablets. Of these, 22 million have radio capability non-Wi-Fi, which means that two thirds actually don't. And of the 22 million, only 12 million actually are active today on a 3G or 4G network, and Vodafone has four of the 12 million, so 30%. Now, this tells you the opportunity of the market device. There is out there, today, there are already today, without any further penetration, there are 48 million tablets that can be connected now. This is clearly our attempt to move Europe into more of the American model, probably to not be at the same price level, but the opportunity is there.

Second pillar of our strategy sorry again, I forgot the roaming point. Roaming: again another area that I often hear as a concern is, 'Oh, roaming is going to be regulated in Europe'. Yes, it will, but then we say, first of all, roaming is 6% of our European revenues, and 60% of it is outside of Europe, so the exposed part is a small part. I am pleased to say that thanks to our Take Your Home Tariff Abroad tariff, which works in all the countries which are either red or purple, so Vodafone and France. Today we have 40 million customers using the Take Your Home Tariff Abroad and again, in different percentages, clearly, across the markets, it depends whether it's opt-in, opt-out, clearly in some markets, we have more difficulty; in other markets, it's easier. But the interesting thing is that once they get there, the usage of data goes up immensely, and this is very intuitive, I think you all experienced, you know, going abroad, going to Barcelona, going to places and turning off data roaming because you perceive that it costs too much. Now, for £3 per day, it is included in your package. Now, put this together with Vodafone Red, put this together with 2 GB, 3 GB, suddenly roaming data is another great opportunity to increase our usage and the customer's loyalty. So, I'm pleased that what was a threat is being turned proactively, and it will take some time to get to the big numbers, but it is turned proactively into an advantage for us.

Now, moving to unified communication, we have made great progress this year. If you look at the chart, in the enterprise segment in all major markets we have the possibility to offer an enterprise converged service, either through an NGN resale, or through our own fibre or cable. In the consumer market, in most markets, we have already activated our offers, and the results are positive, as you can see on the right part of the chart. All the trends on fixed lines are going up, including Germany, which is still negative, but still going up, and in most of them, we also have, where it makes sense, Italy being the exception, a TV offer, which is either an IPTV, or a cable TV offer. UK is the market where, from a consumer point of view, we are looking at, first of all, whether we need it and second, at our alternatives. But I have to say, clearly, this is another area where we have made good progress this year.

Emerging markets, I said already a lot. What is really striking is the growth of data in emerging markets, keep in mind that the emerging markets have 70, as Nick said, 70% of our customers and 28% of revenues, 40% of cash flow. With data, this can really actually increase significantly, and I have to say, the absence of fixed line, as we were saying a couple of years ago, is actually proving a great booster for broadband, both in the companies, and in the residential areas. So, data will be a great story.

The other great story is quite frankly M-Pesa. M-Pesa is not just a Kenya thing. For years we have been talking about M-Pesa and everybody used to say, 'Yes, but that's only for Kenya. It's kind of a strange thing happening in Kenya'. Now, it's active in eight or nine markets. We have 17 million active customers in countries like Tanzania it's 19% of their revenues. We have worldwide 200,000 active M-Pesa agents, and we process 2.8 billion transactions. Last year, it's becoming really meaningful in the economies where we work, and the clear, big opportunities is in India. In India, we are now nationwide. We have 56,000 agents. This means 65% coverage of rural areas. To give you an idea, the banks in India cover 5% of the rural areas. Now, this does not mean that we want to replace the banks. This means that we can actually be the fertilisers before them. We are the pre-banking facilities that are coming to India. 1.1 million registered customers, and clearly, P2P and bills and utilities to repayment is going to be the first area of growth. I'm very, very optimistic about the potential about M-Pesa in emerging markets.

Enterprise: enterprise, I want to be honest and transparent; what is not on this page is that overall, enterprise is still negative, and it is still negative because of southern Europe essentially, but we have a very good traction in the verticals that we run across the Group. First of all, Vodafone Global Enterprise service revenue plus 2.1%. The interesting number is the second one, plus 5% in the second half, so re-accelerating again. Of course, part of it is more positive economy around the world, but also, it is our view that as soon as the economy turns positive, actually it delivers more. Even more interesting in emerging markets, 3G is going up 15, 16% and again, the importance of places like India, South Africa, Turkey, to Vodafone also comes very evident when you look at this number. And interestingly enough, we have a pipeline of £6.5 billion which of course means nothing to you because there is a probability that you need to attach to it. But the interesting number is 60% of this pipeline is in total communication, is not a mobile only thing. So, in the high end of the market, in enterprise, as I showed you before, Vodafone is already a player into that converged space. Of course, now the job will be to come down into the smaller and medium enterprise, which we do through a number of offers, essentially under the One Net brand, which is our brand for converged services. It is now in 10 markets. We are going to add another 10 or 15 next year. Nick, right? 3.5 million customers, plus 20%.

Today, 23% of our enterprise services are already fixed line, so again, the transformation of Vodafone in enterprise is already more advanced. Good results from Machine to Machine 21% growth in revenue; 16 million connections; we've got Audi; we've got Volkswagen; we've got BMW. There are some verticals in which clearly we have established a leadership here, and small, but I have to say, for the first time, growing again – Cloud & Hosting, which we got out of our German and our Cable & Wireless business, and created a business unit. That, again, is starting to grow. So, positive signs in enterprise, and I have to say I am more optimistic because of also what I said about Italy, and what I said about Spain, where we start again, having positive numbers.

Before concluding, one word on Project Spring, as Steve doesn't have a presentation today: I have to say we started and we are happy we started, and we are now, I would say, 20% into the programme. Our objective is to really deliver a better experience. The first top chart indicates what will improve the experience today. The experience today is, and here be careful, because we use a more stringent requirement than most competitors, we measure 3MB per second downlink, which is what you need to have an HD video on a relatively bigger screen, not on a TV screen, but on the second biggest screen – not on the first, on the second, which is the tablet, or whatever, the PC, or the large desk screen. In three-quarters of the cases, we deliver already 3MB per second. Our goal is to get to 90%, which is where people would say it always works. So, our objective is 3MB per second, it always works with Vodafone. Of course, 'always' is not 'always always'; it is 90%.

Now, it's very important that it also works everywhere therefore our objective for coverage, which is the second one, is to go to 91% 4G coverage by March 16. You see that in some countries, like Germany, we are ahead, hence my more positive comments about Germany going forward. In other countries where we've got the frequencies later, we are a little bit more behind and Spain is an intermediate situation. Both countries have a 90%, again target in the next two years.

Where are we in the plan? You can see the first set of numbers to the left of the arrows are what we have done in six months. It's pretty impressive. They're all pretty good numbers leading into the year-end 16 target, which is the one on the right of the arrows. The clear big effort, and big challenge, I want to be again transparent, is the 4G sights, we have done 7,000, we need to do 77,000. So, there is another 70,000 to be done in two years. The good news is that what we always said, we are preparing our networks. We are doing single RAN, we are preparing a network for the future is now there. So, it is a lot of work, Steve Pusey, and the technology people,

they have a lot of work, but the base is there for delivery, and I have to say also the partners are helping a lot there.

So, heading towards the conclusion, the wrap-up is we are investing massively organically, so a great moment of discontinuity for Vodafone. We are massively investing in organic. We are also investing commercially, at the same time while we do the organic investment, and we are trying and working hard to make the turnaround of a couple of situations that I mentioned quicker and deeper.

We didn't talk about other countries that actually are doing pretty well if you figure out the math. Clearly, the rest of Europe is doing better, but again, Turkey, whatever, Ireland and so on, in the scheme of things, they are smaller, but I'm pleased that they are going well.

We are very focused on the transformation of Vodafone, but of course, we are still prioritising shareholder returns as an importance element of what Vodafone is. I cannot promise that I will return another £57 billion in the near nor in the medium term, and I don't know about the long, never say never, but still £57 billion is a pretty challenging number. But for sure, our board is very focused in its intention to grow the dividend. As Nick has said, some of you, in your notes, you said the dividends will not be covered, and the answer is, technically, they will not be covered for a couple of years because we are in a massive investment transformation phase, which was financed by the Verizon transaction. Once the investment level returns to the normal level, which could be 13/14, potentially less, maybe not, but at least that is what we think is normal, again, we think that the intention to grow the dividend will be very clear, and the issue of two years of cover or not cover will be a temporary issue.

And of course, I also have to add, relative to the comments that Nick has made about our target leverage, the board has a very strong intention to remain very disciplined in capital allocation. So, our balance sheet structure will clearly take shareholders' interests as the most important metric for any evaluation of potential acquisitions, or other things that you might read about in the newspaper almost every day.

So, to conclude, we are in an important transformation phase. We are going from being a mobile company to a unified communication company, from Europe to Europe but more and more emerging markets, from consumer to consumer enterprise, and from metred old voice into data and new services. The year that just closed has been challenging from a regulatory and competitive position. I also have to say, we have underperformed in a couple of places. We are already addressing it. The result will come, I hope, more towards the second part of the year. We still have very strong engines in emerging markets, unified communications and enterprise, and despite all of this, we have met, anyhow, our full-year guidance for the year.

So, Nick talked about his priorities. Let me talk about my priorities now. My first priority is clearly the better performance in commercial, driven by both network and customer experience. That's a priority number one for my coming 10 months. The second is the operational integration of KDG and Ono. Nick will make sure that also the financial integration will be successful, but the operational integration is clearly one priority, because we have spent a lot of money for those two assets. Continue the progress is unified communication, enterprise, and emerging markets. I will have to dedicate some time to supporting a more favourable regulatory environment, I have to say, especially in Europe, in light of the net neutrality discussions. And then, finally, I want to make sure that the money that was spent on Project Spring has adequate returns in as short a timeframe as possible. I thank you very much for your attention, and I now ask my colleagues to join me for Q&A.

Questions & Answers

Maurice Patrick, Barclays

Question around the amount of commercial spend and SAC you're currently spending in Europe. Are we at a level where we're at, you've been more catching up some perhaps underspend previously? Shall we think about the current amount you're spending as a more normalised level, or perhaps you'll look at increasing SAC further in the March 15 year?

Vittorio Colao

Yeah, Maurice, I take this answer because if I give it to Philipp, he would say, 'It's not enough', but your question, at the same time, is easy to answer and difficult to answer. It is obvious that we have invested more in the second part of the year, and we have all supported Philipp in his turnaround effort. We were underspending in Germany,

clearly. We were a tad underspending in the UK. Now, it's not the case anymore for both these things. Are we going to say, we call it what it is? Well, we are making a lot of investment in retail. Also to take back into our hands more control over commercial spending. So, can I see a future where through online and retail we start reducing that investment? Yes, but of course, it depends on what competitors do. So, the first part my answer is easy. My answer is, yes, we have increased our commercial spending and we are now competitive – as competitive as the main players. Can we reduce it, or can we keep it there? It will depend a lot also on the market.

Maurice Patrick

And the guidance range you've given for the March 15 year, does that assume an increase in total SAC for the year?

Nick Read

I don't think we really want to be explaining component by component, but I think it's fair to say that we uplifted our spend, especially in the second half of the year, and that will have a degree of momentum into the first half as well, and then of course, you're annualising on the second half.

Vittorio Colao

Yes, let's go Akhil.

Akhil Datani J.P. Morgan

Firstly just continuing from Maurice's question on the commercial momentum, we have started to see, as you mentioned, improving contract net adds trends in a couple of markets. I guess what I'm trying to understand here, particularly in the context of the EBITDA guidance you've set: do you feel that we're at a point where excluding all the MTR drag and changes that we have, we're at a point where the underlying momentum, at a Group level, is starting to improve? Or do you think some of the other points you made around Italy, maybe some reprioritising in Germany, are there other issues that you need to contend with that we need to factor in here?

The second thing was just on your comments around net debt, and investments, and I guess the importance of dividends. Your leverage is going to be at around two times post Ono, and I guess one of the big initiatives of the last 12 months has been doubling up in key markets to strengthen your businesses. I just wondered if it made sense, in that context, to consider any sort of portfolio restructure, maybe reducing exposure to non-core markets, so you have ongoing flexibility in the main regions? And I'll leave it there.

Vittorio Colao

Well, let me give you the second answer, and a bit of the first, and then I will pass to Philipp for the rest. The answer to your second question is yes. Yes, of course it makes sense to consider non-core markets. It's obvious that when you decide to go deeper in the important situations where either you don't want, or you can't go deeper, you should consider alternatives. That does not mean that we have made any decision and so on, but of course, as I said many times, the board regularly looks at all the situations, and we will make whatever appropriate decision we have to make. So, there is no sacred cow, if this was your question, that we consider in our portfolio outside of the core areas as we have defined them.

The answer to the first question on momentum and these things, let me give you – there's one situation which is difficult for us to predict, and it's Italy, because three months ago, I would have told you it's going in the right direction: price raises, blah, blah, blah. Today, I have heard from Philipp and from the sea of the market that again, funny offers, below-the-line offers are, you know, being pushed into the market. Telecom Italia has priced their fibre at €29, which seems a little bit aggressive to me. And so we might have to respond. Now it's very difficult to see what happens to the response, after the response. Will this drag, again, the market into a chaos or not? But that is the only one that makes it a little bit difficult. For the rest, Philipp.

Philipp Humm, Regional CEO, Europe

I'll maybe just add to it, I mean, we see some strong improvement on net adds overall, and net add trends. That being said, we still have ARPU pressure, as ARPU re-pricing washes through the base, which is mainly in the first half of the year, you still notice that. And thereafter, it will really depend a bit as Vittorio was saying, how the market continues to react. We tried in Italy, and successfully did so through a re-pricing of our prepaid base. We

re-priced more than 3 million customers, and so we're trying to do whatever is possible to stay calm and work on ARPU improvements.

Akhil Datani

Can I just do a very quick follow-up to that? In Germany, do you think the initiatives that you have taken so far were sufficient to drive that H2 inflection, or do you think that there's anything more that you might feel is necessary in the market, given competitive pricing levels at the moment?

Phillip Humm

No, I think from, if you look at our rate plan portfolio overall, I think we have a very competitive rate plan portfolio right now in the market. If you look at our A&R, our levels were following very closely, competition, again, with the same objective, not to drive, but more to follow, so if there is a possibility to take out money, then we have done so in the past. So, we're very cautious there, but I think we have all the plans in place. We have now started, on May 2, with our first integration commercial offers, which started quite promising. It's obviously a little bit early to tell, but started very well, where we're focusing on cross-selling each other's bases, and we've really got the organisation, both organisations very excited to sell the respective products. So, I think we have all the necessary momentum and elements in place now in Germany, commercially.

Vittorio Colao

James? Again, raise your hand.

James Britton, Nomura

I've got two quick financial questions and a strategic one. Firstly, how much will Project Spring opex increase to in years 2 and 3 when the network is fully laid down.

Secondly, just a twist on Akhil's momentum question, perhaps directed to Nick: so, in terms of margin momentum for Vodafone, if you strip out the Project Spring breakevens, strip out synergies from the acquisitions, do you think the underlying business can actually improve margins in the medium term?

And then the strategic one is really around price increases, which have been pretty rare in mobile, I would say, but the Project Spring guidance does imply a return to pricing power as you make a return on these investments. So, how do you envisage these price increases being presented to the consumer? Is it going to be part of an annual cycle, like we've seen in UK broadband?

Vittorio Colao

Okay, this is the easy one. If everything I showed in terms of usage of data, higher packages, possibly reducing the association of the handset to the price plan and putting more emphasis on the value of the price plan, and also more competition among handset manufacturers and device, tablet manufacturers and so on keeps going at this pace, I would call about ARPU increase, not price increase; as a customer, I'm getting much more. So, and this is what is happening in the UK. This is what is happening in the Netherlands. Now, will it work everywhere? I cannot promise you, James, but this is where we are going. There are some interesting signs. I mean, India is another interesting one. Nick, the other two questions, and then we go to Stephen, and then Tim.

Nick Read

Yeah, I mean, just in terms of Project Spring, year 2 and 3, if you remember when we came out with the original programme, those metrics, we still stand behind. So, we're saying that this year, 14/15, we're at £0.5 billion, then we said by year 3 it would be EBITDA neutral going forward. So, I mean, you can bridge between the two points.

I think in terms of margin momentum, I just pick on the point that Philipp's making, so you look at the second half, what we've done is we've suffered from Italy price erosion, and also Germany re-pricing, and to some degree, enterprise in the UK. So, these are the three re-pricings going through. So, obviously, they feed through to the first half of next year as well. So, it's only when you get to the point of the second half that you start to have a little bit more stabilisation, as long as pricing stays at the current level, and then of course, A&R spend will have stabilised year over year as well. So, I would look to the second half showing more positive signs in terms of the trajectory on margin.

Stephen Howard, HSBC

So, I've got a question about German consolidation and guidance. DT has been pretty vocal recently in criticising some of the remedies that have been tabled in Germany, and questioning the impact of the concessions that are being offered to the MVNOs. Now, given the MVNOs are the one thing that you have particularly called out in that waterfall chart of the EBITDA guidance, what is the risk that the remedies necessitate your making that negative impact larger?

And a tandem question, if you will: plainly you are doing a lot in terms of investing in Project Spring. It seems only fair that you be given credit for that by the regulators in Brussels. How are you communicating the fact to them that you are putting your money where your mouth is, because after all, this is an industry that, in the past, has often been criticised for under-investing and leaving Europeans short? Thanks.

Vittorio Colao

Yeah, it's a kind of a, it's a multi-dimensional question, Stephen. So, first of all, Tim Hottges and his position, Tim is very vocal on this. I think he is right. He is right in saying, this is more for the previous meeting with the journalists, in saying that there is no point in allowing consolidation if you then mitigate away the benefits of it, which does not make sense. So, I think he is right. I think our choice to, it's not to cut out MVNOs, but not to keep MVNOs who are not willing to pay the full price of the services is the right one, because you avoid the direct comparison and direct disintermediation. If others make different choices and they want to give away their 4G, 2GB, 4GB, for whatever, €5, then that's their choice, but eventually I can guarantee to you, they will be cannibalised by their own MVNOs, which is fine if it's part of their strategy. We are not willing to do that. On the other hand, good MVNOs who are willing to pay, who say, 'You know what? I have a channel. I have something. I pay, you know, a decent discount and I contribute to actually amortising the infrastructure', those, we are perfectly fine with them. So, we have to qualify what we have done. We have not continued the relationship with those who are not willing to pay. And that, I think is the best commercial response.

Brussels, Brussels is in a transition, as you know. I think they give us credit for the investment. They don't fully yet understand this point on consolidations. They don't understand completely that consolidation will actually lead to more concentrated investments and therefore to more ability to reinvest in the business, and therefore, in the end, in better services for the customers. And the comparison we always make is the US, and they need some convincing. It's going to be very crucial to see the new commission. It's not by coincidence that my second last priority for the year that I shared with you is: work on regulatory, I will have to spend more of my personal time on that.

Tim Boddy, Goldman Sachs

My question was around your conviction that this is the trough. You've clearly laid out a scenario where it was a numbers of levers the Group were working on to drive the return to growth. But I guess the question I have is: how long will that take? How fast can you turn around customer perception? Have you got any case studies you could share with us?

And then, I guess, related to your point now about MVNOs, are there any signs that the signals you're making are being picked up? Because I think, typically, if the other leading mobile player in the market follows your lead, we would say, 'Yes, this is working. There is going to be a clear differentiation between the leaders and the laggards in quality'. So, again, any anecdotes you could share there would be reassuring.

Vittorio Colao

I'm looking at our legal counsel sitting here. I am not so sure how much you want me to go into the second question, right? You have to be very careful. I mean, this is a territory where public comments have to be really only about facts that are known, and so I cannot, what I can tell you is that there are different positions and different players. Some players, some important, more long-term-oriented players, they have taken a similar position to ours, I think, from what I see in the market. Others, clearly not. This is part of what is called free market. What I said before in my earlier answer, I think, is the real point. In the short term, you always get a benefit from MVNOs because it's money that flows directly to your bottom line. So, if you have a one, two, maybe three-year horizon, then you will take all the MVNOs of this earth, because it adds and it fills your capacity, and you look good. After two, three, four years, customers start staying, 'You know what? I'm better off if I take, I don't know, I speak about mine, not about the others – Poste Italiane instead of Vodafone, because it is the same service as Vodafone for half the price', and then it's where you start losing traction with your own customers.

Now, I don't have two, three years short-term orientation. I think companies should be run for shareholders forever; therefore, we made this decision. But I cannot comment on what others will do or case studies or things like that, because it's not a territory where I've been told I should go.

The first point is how fast; Nick, you want to have a comment on that? We don't give long-term guidance, so we don't want to be specific in the numbers. I think you're seeing the numbers. We are gaining 1.5, 2 percentage points quarter over quarter, which should be a good indication. Now, some situations, as I said, in Italy, could take longer. We will see. In theory, Italy was one of the places where, in theory, you could have come back earlier, rather than later, but it depends a lot on the competition also.

Nick Read

I think, Tim, you were also saying how committed are you to Spring, and whether differentiation will start to show and come through in the metrics, and, you know, I was given an example this morning of India, where we made a sustained investment for two years in a market that had 14 players. And you look at the market now, and the top three players are taking 95% of the incremental revenue market share, and I would argue that we have created a two-tier market with ourselves and Bharti, and to some extent Idea, separated from the rest of the market. So, I think you can build network differentiation, because we certainly didn't have it when we bought the business, and we distanced from the rest. And you're seeing the results and the returns from it now. But you know, we're a big infrastructure company, and we said Project Spring was a seven year payback, so you have to be a long-term investor to get those returns.

Justin Funnell, Credit Suisse

Thank you. Could you, and maybe this has been answered already in a roundabout way, could you quantify what your revenue EBITDA is from MVNO in Europe, in the year to March 14? Or give us just a ballpark? And how far are we through this decision whether to cut MVNO contracts? Have you done it, basically, or is there more to go?

Vittorio Colao

Nick has indicated £150 to £200 million impact next year. I am not sure we disclose, you know, also for competitive reasons, exactly the amount, by country and by partner.

Justin Funnell

Is it done, pretty much?

Nick Read

It's a reasonable percentage at £150 to £200 million.

Justin Funnell

Okay, thank you. Secondly, margins in growth in AMAP, you've got M-Pesa, you've got data growth, not too much risk from SMS cannibalisation. Now, can this surprise us over the next 12 months? Could you see revenues accelerating, margin expansion? What does M-Pesa do to margins, for example? What does the data growth do to margins? And against that, you're saying you are lapping a price increase in India? How much is that a headwind over the next 12 months?

Vittorio Colao

Why don't we pass the question to Serpil with a clear instruction of not giving guidance, so answer qualitatively, please?

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

Well, first of all, during the fiscal year, we have seen AMAP significantly increasing its profit contribution, as well as cash contribution. Now, AMAP represents about 40% of the total Group's cash, so that's very encouraging to see, and already the total AMAP portfolio is yielding a margin of 31%, which is 16% growth.

So, we can already see that there is a very encouraging trend already, and this is coming on the back of a couple of things. One of them is there's continued customer growth still in AMAP, which is the first point, so we have seen a 9% net customer growth in the year. Second, we have also effectively increased pricing, especially in the bigger markets. One example is definitely India, where we have increased the revenue price per minute by 6% across the

year, and we're also seeing the ARPU effect on it. Thirdly, there is the mix of the customer, so we have really opted for a better quality of the mix, so we have seen activity ratios increasing, and the data is also picking up. So, data growth is 40% growth year on year in India. So, all of this is going to continue, so I would say, the data contribution is still in its early phases, so we should even see a further pick up in the next year ahead.

M-Pesa, I think we need to look at this business differently than the core mobile business, and here what's very important is the loyalty contribution of M-Pesa to the customer base. So, we're seeing the stickiness effect of M-Pesa, and that's a big learning already from Kenya, and in Tanzania right now, M-Pesa is about 20% of our revenue already. In India, it is very early days, but we've already hit 1 million customers. But we need to look at M-Pesa in a different, with a different view, because it is really generating a commission out of the big transaction, and it's hitting, it's yielding immediately to the bottom line, but you need to look at this as a different business, I would say, but look at the incremental loyalty effect M-Pesa is bringing.

Justin Funnell

And just finally, you talk about asset disposals; I guess you think about things like Australia and Fiji, I suppose. But could we talk about something bigger? I mean, some people argue you should spin off AMAP. Is it crazy to think about spinning off M-Pesa at some point? Are there actually bigger things you could do?

Vittorio Colao

If you listen to what Serpil said, the answer is no, because she said M-Pesa is great, delivers to the bottom line, requires big volumes of transaction and is great for the loyalty of the customer, so it requires the support of a vast dealership, or dealers network, and it requires, and it gives back also in loyalty terms. So, why would you spin it off? Why would you not get the benefits on one that allows the funding of the other? So, the answer is no to M-Pesa, and to AMAP, quite frankly, it's another no, as a whole, because it's an engine for growth. As I said, in enterprise, not being in India is a disadvantage. In the relationship with the over-the-top, the Googles, the Facebooks of this world, Turkey, India, South Africa are becoming more and more of the topic that Paolo has to deal with, and quite frankly, we have more and more of a greater contribution to the Group profile. I don't perceive that the multiple argument really works very well, to be honest. Every time we do the math with the board, we go back always to the same conclusion, that the sum of the part applies different multiples, but in the end, you get the weighted average. And so, the answer is no. That does not mean that we think in the portfolio of Europe, or emerging markets, there could not be assets that we are not willing to, kind of, dispose if there is somebody who believes there is higher value in their hands.

Andrew Beale, Arete Research

Hi, can I ask you about your view on the split of equipment instalment plans from service plans, the accounting that relates to it, and all of that? I guess some of your competitors are doing it in Europe. It's being pushed very, very hard in the US at the moment. The consumer seems to have some attractions to the ability to upgrade a bit faster, to have no notional contract, to have zero down, in some cases, particularly in the US, and a lower headline service price. There's also a financial presentational benefit in terms of earnings and EBITDA drag when you push harder for gross adds, and that's obviously something that you're doing and planning to do even more as you go through Spring. So, what I really wanted to understand is: what's your view on the consumer attractions to that offer, or that proposition, and also, whether you think there's anything in the financial presentational side as well?

Vittorio Colao

Yeah, perfect question for Paolo. I would just pick one thing that you said: I and the board are not keen to do things because of the financial representation of things. So, I don't think we are willing to do things for the sake of presenting, or embellishing, or doing cosmetic stuff to our numbers. So, if there is a genuine customer advantage, we like to do things, but if my internal cost of financing, for example, is lower than the external cost of financing, why on earth should I take a higher cost just to look better? So, and, you know, there are very good notes that have been written on this topic, and so yes, we are looking into it, and we are doing it in some markets, but it must be following the customer, not following the cosmetics of it. Paolo?

Paolo Bertoluzzo, Chief Commercial and Operations Officer

I think it is really the way we are approaching it, because normally, you take it from the accounting point of view, which is really wrong., We are doing a lot of work in this space, and we are really starting from the customer perception of what they're buying, and where they are locating the value in between the device and the traffic. The reality is that there is not one answer which fits all the markets, because it very much depends, also, on your

competitive dynamics. In some markets, we are convinced that by splitting, we may be perceived that, even if at a higher price, if our quality is much higher, more competitive than what we can be perceived if we still bundle, because obviously the total bill is higher. In some markets, we still believe that by bundling, you can call a higher premium, which is really the nature of the discussion, which is, based on what the customer perceives, how we can capture more value independently from the accounting.

We believe that there is a clear advantage if you split, if you can separate the duration of the contracts, of the device from the contract of the traffic, because sometimes we realise that we force customers to renegotiate traffic pricing simply because they want to have a new device. And the reason why more and more in different markets for example, Germany recently, for example, Spain, last year, this is where we are starting to launch device options and device solutions, which are already going in that direction, where basically you have an ongoing plan, traffic plan, and then you can renew the device on top of it, separately. So, not one solution but over time, I think we will see more of this coming on a market-by-market basis.

Philipp Humm

Maybe just to add a few elements to it, if you look at the different countries, already today, if you take Germany, we do more than 40% SIM only, which is, if you want a formal split contract, because it's really a SIM only based rate and then you get the device separately; we do instalments in Italy, already today; we do the combination in Czech Republic today. We do a leasing model in Spain, so we have different, based on the market needs, different models in the markets today already.

John Karidis, Oriel

Thank you, Vittorio. First of all, just to clarify, when you showed the ARPU between 3G and 4G in the UK, was that net, or gross of the pair weight – the likes of Sky and Spotify?

Vittorio Colao

Net.

John Karidis, Oriel

Okay, thank you, and then I know that you have models and you don't basically spend money unless you can see the revenue some time in the future, but given what you said about 4G ARPU in the UK, given that BT's plans seem to be a bit more credible, let's say, than their previous attempt at this, and given also that Ofcom, as of this morning, has made it much easier for you, if you wish to wholesale broadband, why wouldn't you pre-emptively, pre-emptively; I stress and underline that, get into fixed broadband before BT comes out with its own quad play, or equivalent tariff please? Or offering.

Vittorio Colao

You ask me why I would not consider that. The answer is, I would.

John Karidis

Right, can you enlarge upon this please?

Vittorio Colao

No.

John Karidis

Thanks very much.

Vittorio Colao

No, the answer is very simple. Of course, it is exactly what I said in my comment. I said we have a variety of alternatives. We have proven, in a number of European markets, that a combination of your own build, rent and eventually buy if you need to buy, can be actually effective and, from a capital point of view, better. Don't forget that in this country, we are already in 1,000 central offices/ exchanges thanks to Cable & Wireless. So, again, it's, we'll consider all possibilities, but I would not like to elaborate at this stage. I don't believe too much in the pre-emptive/non-pre-emptive thing, because we really need to play the strategic game to its hand. If you do

something, somebody else will do something else, so you need to think very carefully about all of your moves, but clearly, we are contemplating all possible moves.

Polo Tang, UBS

Just two questions. The first one is on Spain. If you look at Telefonica, they've obviously moved to acquire Digital Plus, or Prisa TV, so I was just wondering in terms of what are your thoughts in terms of how this changes the dynamics in terms of the Spanish market. So, for example, would you believe Ono will still get wholesale access to Digital Plus' content, and the second question is really just about what you've done in the UK already. You've mentioned that, things like Sky and Spotify, that content has significantly driven data usage, but can you remind us in terms of where you are with content deals across the rest of Europe? Thanks.

Vittorio Colao

Isn't this a good question for, I don't know, Paolo, or Phillip, whatever. Paolo?

Paolo Bertoluzzo

Yeah, if you want I can comment more in general. I think the UK experience is probably our flagship experience, also because we are here in the UK, and it's one of the most visible ones, but actually, in fact, we already have content partnerships of a similar type in most of our European countries. And by the way, we are extending this to some of the emerging markets, the most advanced parts of the emerging markets. Music is, if you like, the easiest one, and the most visible one with Spotify in most of the places where we can, and then also Napster, or video is the other one that we are extending, with local solutions obviously, as you can imagine. We are also in conversation in other spaces, but what you are seeing here in the UK is an experience that we are replicating everywhere else, because we really believe that the content, video music in particular, are going to be a big driver. On Spain, I think the situation is very specific in the sense that today we have access and the consolidation offer, content offer, Telefonica, that will probably create again a risk of monopoly, and therefore, I think, from the regulatory point of view. There is a discussion to be had.

Vittorio Colao

Yes, but let me be a bit blunt. We will not, clearly, allow Telefonica to buy what they want to buy and not be obliged to wholesale content, because that would be a completely unacceptable position from a European legislation point of view. I don't know about the Spanish one, because Spain, they interpret things their own way, but for sure, in Europe, that would not go through.

Guy Peddy, Macquarie

Just a question really for Nick. I just want to get a picture of this guidance profile, because essentially, if I look at your range, you're either signalling very small down EBITDA, or down 5%, so can you talk about what are the drivers for the differences and variances, and how much of the range is dependent upon what happens in the second half of your financial year as you start to annualise the reinvestment levels and you start to talk about a little bit better, hopefully revenue trends. Can you just give us a sense of what you're looking at to see whether you'll come out towards the top, or the bottom?

Nick Read

Well, I would say that there's a number of levers that I think are quite clear, whether it's opex, A&R, etc. Of course, competitors can increase the level of A&R intensity, but I'd say it's at a reasonable level of intensity now, but I mean, I think it goes back to pricing in the marketplace. If re-pricing goes annualised, and then pricing drops again in a number of markets, if price wars break out again in a number of markets, it's very difficult for us to, sort of, mitigate all of the downside of a re-pricing in the marketplace, regardless of, we have to be competitive. So, the bottom line is we see a number of positives, whether it's the net add performance, whether it's our churn coming down, whether it's data growth, whether it's enterprise traction with macroeconomics, you see all of these positives, but it can get overwhelmed by re-pricing in markets if the base drops again. So, that would be the delta.

Robert Grindle, Espirito Santo

Just that EC have made some proposals. Some are more helpful than others, but on the spectrum side, they seem to be talking about 25 year lives. Do you think that's an opportunity for a scale operator like yourselves? Maybe other operators can't afford to pay as much for those extended durations, or is it just more cash out when those spectrum renewals come up in Germany and Italy in a year or so?

Just going back to the UK, I wonder, were you invited to join the Sky/TalkTalk trials up in York on the fibre? Thanks.

Vittorio Colao

Second question for Philipp, because I follow in detail the Group, but I don't get to York. It's a level of detail which goes a bit beyond.

25 years is good. I'm not sure I would really bank on the fact that others cannot afford, but it's good because the longer is the life of the spectrum, the more inclined you are to invest, to venture, anticipate investment, to have a long-term view, and you take away the sense, if I have success in the last three years, then I will pay more at the renewal. Now, of course, I was for eternity, my position with Vice President Kroes was forever they should be ours, I prefer to pay more and then have them forever, rather than having to pay, but anything which is longer is better, because it stabilises the long-term view of the industry. Phillip, York.

Philipp Humm

I haven't been in York either. I was just looking at Rosemary, whether she knows if we have been there, but I would assume, that's an assumption, so not a fact, I would assume that we have not gone because we don't really have a business yet to represent there, but we are very active observers of what has happened, and are supportive if needed. But I don't think we went to York. But we can check.

Robert Grindle

It's lovely. Very nice city apparently. I haven't been either.

John Davies, Santander

Just on roaming outside of the EU, it's obviously a still fairly unpleasant experience if you go outside the EU and make a data connection. Clearly you have many assets outside of the area. Is there anything technical stopping you from providing sort of, on-net roaming at a more sensible, but still quite high rate? Or are you obliged, when a customer leaves the country, that they're resident in to offer into roaming across all the host networks?

Vittorio Colao

Paolo.

Paolo Bertoluzzo

I think for us it was very important to learn from the experience on the European side, which is what we launched last summer, and I think Vittorio has shown you the results, which are very positive for what we had in mind, even if we're not satisfied at all in seeing that we are still at 19%, because that type of proposition would be taken by 100% of our roamers in Europe and that's actually our real ambition.

Based on that experience, we would like to extend, very rapidly, to outside the footprint, European footprint, more or less with the same logic, not necessarily, as you can imagine, the same price bands, and again, as you expand beyond Europe, you have to be obviously conscious of where your own customers go, because people from Portugal are roaming very different places from where Germans roam or Italians roam. And based on that, the market by market we will segment the market and will have different areas and zones, and obviously our own footprint, the Vodafone brand and footprint, which is more important for certain nationalities than the others is going to be a part of this initiative.

Vittorio Colao

So, something is coming.

James Ratzer, New Street Research

I have two questions please. The first one was just regarding your cost structure. So, I suppose the revenue trends that you see are something we hear also from a lot of your other peers, but all of your other peers talk more publically about being very aggressive at trying to reduce the cost base to offset some of the revenue pressures. Last year, you set a £300 million cost reduction target in Europe that you hit, but you don't seem to have quantified a target for this year. I was wondering if you could help us in the thinking around that. Why haven't you quantified

it? Is that something you can exceed this year? Just any kind of discussion around what you can do on cost to support margins would be helpful?

And then the second question I had was regarding your fixed line strategy in Italy. So, you've reiterated the FTTC build to 6.4 million homes. Telecom Italia, on a conference call, suggested you had signed a contingent fibre deal with them, and in conversations I had with them, indicated they were now no longer expecting you, as a result, to build out this FTTC network. So, maybe the truth lies somewhere halfway in between. So, it would be helpful to understand what's going on there. Thank you.

Vittorio Colao

So, let me pass the second question to the specialist of Italy, Philipp, and I will give you the answer to the first one. We do have a quantification of our cost reduction target, but we have decided not to communicate externally. To be honest, it's a very practical reason. There are many moving parts. There's Spring, there's change of perimeter, there's incoming companies, like KDG for the full year, like Ono for a part of the year. We felt it would have been incredibly complicated to give a target and then present all the explanations, and Nick and I made the decision that, at the end of the day, what really matters is EBITDA and cash flow. And so, we have internal programmes, and from time to time, in countries, you see the impact sometimes, because of poor price reduction, or sometimes because of agreements of things, but we prefer not to complicate too much our reporting in a year, where the year-on-year would be very complicated to manage. So, we will talk about it as an actual, not as a separate target. Phillip, Italy.

Philipp Humm

Yeah, maybe before that, to underline how serious we are about cost, you might have read in the press, for example, in Germany we made a major redundancy, voluntary redundancy programme. We had more than 807 FTE reduction in a very short period of time. That tells you how serious we are in adopting our cost structure in the different markets, visibly reflecting European realities. Now, on the *Kontingentmodell* in Italy, which is a German word actually, applied now to Italy, yeah, no – we have some limited agreement there with Telecom Italia to some extent, but it's limited in scope overall, so that we are not changing our plan to basically connect 6.4 million homes with FTTC. Yeah, through our own fibre built to FTTC.

James Ratzer

So, what is your *Kontingentmodell* actually covering?

Philipp Humm

It will be a sub quantity of the 6.4.

Vittorio Colao

The areas where, essentially, we don't go.

Philipp Humm

Yeah, so it's still limited in scope. If it becomes more one day, we can substitute more, but it's pure, it's a cost calculation.

Vittorio Colao

Exactly. At the end of the day, it's a matter if anybody, not Telecom Italia, anybody gives fantastic conditions, you just say, 'I don't build'. If they give you, you know, medium conditions, you say, 'You know what? I build where I can have a very good case and a good market share for me, and I use that, which is not great, but still better than building', and if they give you bad conditions, you just build yourself. So, it's a continuous reassessment of the make-versus-buy thing. What I think sometimes the incumbents do is to try to slow down your decision-making by offering a little bit, and hoping that the little bit is enough. But that's part of a very well known game in our industry.

Philipp Humm

But the way you should think of it is really it's a cost versus capex trade off, not more, right?

Emmett Kelly, Morgan Stanley

Just one broadbrush question please. We saw a very interesting deal announced in the US a couple of days ago, with AT&T making a move for DirecTV. I guess it's interesting at a number of levels. Firstly, the size of the ticket involved, being nearly US\$50 billion. Secondly, I think a few people were surprised by how much paper AT&T used in the acquisition as well, and then thirdly, if you listen to the conference call, there's an awful lot of chat about video on mobile devices, and the need to own content. Just wondering if you could just give us a few just broadbrush comments on whether you see any read across from that deal to Europe. Do you think you need to own your own content, or are you happy having content agreements, mutual distribution? And lastly, on the paper issue, if you were to find any very attractive acquisition opportunities, given your net debt to EBITDA is now two times, would you be happy to look at issuing shares for any acquisitions as well that you might look at?

Vittorio Colao

Listen, on the AT&T question is very, and the DirecTV question is a very interesting one. Of course, we've been thinking about it, and of course, there is one element that we fully understand, and it's the importance of video for the future. The time horizon could be different, by country, or could be very different if you own fixed line and if you don't own fixed line. It could be very different if you have strong competition from a cable guy, or somebody who comes from the TV world. It's very interesting for us that we are learning from Ono, from KDG, and then we will learn from Ono, how important this relationship with the content guys is when you are in that business.

So, my prediction is, yes, it will be a very important relationship. For us, it is, you know, we still need to be there, whether in every environment you will need to own or not, I don't know. I think it depends so much, I mean, the US is very vast. There are areas where they will never get with U-verse, or with FiOS. There are areas where maybe satellite plus LTE will work. Again, there will be a multitude of technical solutions to deliver video, and I understand very well why, for a company like AT&T, there could be an appeal there. But don't ask me to comment on the detail of it, because I don't understand enough of the market to say if it's a brilliant move, or not. I understand intuitively that content will be important, but whether you really need to own, or not, I think we'll have very different answers. Also, depending on your history a little bit, you know? If you are Rogers in Canada, you come from that, and you consider, just to mention an example of where a former colleague of ours is now, for him, now content is much more important. But in our trajectory, we are still probably in a little bit of a different space. Having said that, these things can actually accelerate a lot. So, we watch, we analyse with a lot of intention.

On the second question, quite frankly, it's a theoretical question, so I strongly believe that if you find a good acquisition, you first have to be very, very convinced of the synergies, and starting from the cost synergies and going to the revenue synergies, and the merit of the acquisition on its own content. Then you look at the financing and if it is very good, you do what you need to do. But it's a bit of a theoretical question, at this stage at least.

Jerry Dellis, Jefferies

Two questions please, one on the Project Spring budget: is it certain that you will spend the whole budget, and how do the Project Spring milestones have to turn out for you decide not to spend the whole lot? On what sort of timescale would you make that sort of decision?

And then just a question on pricing: you've referred quite a lot to competitor pricing action. My understanding of Project Spring was that it was intended, to at least some extent, to separate you from pricing action in the market, and to give you a bit of at least relative pricing power. So, at what point do you think you will get to the stage where Project Spring is sufficiently complete, so you don't have to respond to every single competitor pricing move?

Vittorio Colao

It's really two different questions. One, the first one is, we're going to spend the Spring money under current conditions, but let me go back to the earlier question. If tomorrow, Telecom Italia, or Telefonica, or somebody, they completely change their position, and they say, 'You know what? Indeed, there is no need to build this. You actually can get access to my own thing', I make the investment, we would clearly re-evaluate as Philipp said, and we will evaluate the case, and we could transform some of the money from capex to opex, or from so the intention is to spend it under the current information and the current conditions. But we have to retain the flexibility.

If Steve, who has done some brilliant negotiation and is still concluding some on Project Spring, gets a better price as he is partially getting, then what we thought – we will have the choice to decide whether we put the saving into more, I don't know from 70 to 80,000 4G stations, or maybe we'll just say, 'We just stay at 70 and we just pocket the money'. So, I don't want to lock myself into something. If conditions change, I have to be flexible.

On the price move single price movements, my comment was specifically on Italy, and was specifically on the fact that not one competitor, but there seems to be again, the €10 price point being mentioned in Italy, €6 I saw a €6 2GB private offer, which really, after VAT is a €4.50, or €4.60, which doesn't make any sense. Now, those things, you have to respond to, because otherwise they can take the market down very quickly. But it's a different thing to talk about tactical. That is why I used the word 'tactical', as opposed to 'structural'.

Ottavio Adorisio, Societe Generale

The first is for Nick. It's on cash flow. A third of your cash flow this year looks to be underpinned by working capital. Going forward, with Project Spring in full fashion, how are we to think about working capital? How much of the cash flow will be available going forward?

The second one is for you, Vittorio. It's about dividends. You acknowledge that for the next couple of years, because of the Project Spring, you're not going to cover the dividend, but in three years' time, hopefully things will get better. So, if you can just give us, you talk about adequate cover. So, if you can just put a number, what is an adequate cover for dividends going forward?

And the third is for Philipp. It's about Germany. You've been investing earlier than DT on LTE; you have the same spectrum holding. You actually have been a higher number of base stations. What explains the fact they've been performing typically better than you in that country? That's something that would be interesting to hear, and how you can basically fix it, because you said, up to now, the gap has been fixed?

And the fourth, if I may, it's on CGT, the capital gains tax. You changed that assumption from US\$5 billion down to US\$3.6 billion, and I was wondering if that, basically, change is triggered by the discussion with IRS, or signifies a different assumption you used for the CGT. Thanks.

Nick Read

Can I suggest, because mine are both relatively straightforward. So, in terms of working capital, I think we have done a good job over the last, I'd say, three years actually, in terms of really improving our working capital. I would expect that, going forward, the amount of contribution we can make for working capital will diminish, because we have really been systematic at how we have made the working capital really work for us as a Group. And secondly, that capital gain, I was very specific on saying that it's tax due to the re-organisation. So, it wasn't capital gains tax, yeah, due? We had to re-organise our Group ahead of the disposal, so there was an element of tax due in the US as corporation tax, and there was an element of tax due in Netherlands, which was withholding tax. So, why was it lower? Was just we had an estimate before, and we were able to go through it and it's a very complex process, many steps, and throughout the process, we've refined it.

I said, the vast majority owed to the US, and a small amount to levels...

Vittorio Colao

Philipp, do you want to answer about Germany?

Philipp Humm

Yes, I think on Germany, the relative to phones really in our eyes, two things: one, I think on the network side, for quite some time, we over-invested in rural LTE and not enough on the voice side, and neglected voice, and we have fixed that in the meantime, so we're getting called 'best in voice'. So, we are, again, at par here, and we get the feedback from our enterprise customers that this topic is, it's fixed.

The second one is more on the commercial side where we were trying to, let's say, improve our overall margin in Germany. As we've said, the market needs to cool down. DT really ramped up in our A&R investment quite significantly, which was somewhere in June 12/13, and so we did not follow straightaway, but we first waited because we thought this would be over after a certain period of time, or temporary nature; it was not. We followed, but obviously, we followed then relatively speaking, late, which is, you know, is in this year's numbers.

Now, in the meantime, the good news is quarter by quarter, our service revenue is improving again, so we are 0.3% better. As I said, the network voice is recovered, our net adds are positive, even our fixed line is trending in the right direction, and our ARPU base is levelling out, right? So, we are basically seeing that these things are working.

Vittorio Colao

On dividend cover, we don't disclose numbers, but since we gave you all the elements, I don't think it's very difficult to work out that, with the 13-14% normal, or normalised, or usual recurrent capex level, with a more or less, £3 billion dividend intention, with a recurrent cash flow performance of this year you know, we have in mind something which is north of £4.5 billion. It's something that gives a margin, which is enough to preserve the dividend, and still have room for the other things that are non re-current.

Any more questions?

Then I thank you very much. Thank you for your questions, and thank you for your time, and I look forward to meeting you in the coming days in other settings and other meetings.