

# Vodafone Group Plc

## Q1 Trading update for the quarter ended 30 June 2019

Friday 26 July 2019

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## **Commercial Performance and Strategic Progress**

**Nick Read**

**Chief Executive Officer, Vodafone**

Good morning, everyone, and welcome to our Q1 trading update call. I will summarise our commercial performance and discuss our strategy progress during the quarter before I hand over to Margherita, who will talk about the trading and financial performance of our key markets. Then we will both take your questions.

So turning to the quarterly highlights on page 3, this was a really important quarter for the business, with the biggest line-up of new pricing plans and product launches that I can remember for many years. Specifically, we launched 5G across our major European markets, introduced new speed tiered unlimited data plans in five markets, including Spain and the UK, and greatly simplified our pricing plans in Germany. I am confident that these launches will help to sustain the positive momentum in our service revenue, which started this quarter with our organic service revenue growth improving by 50 basis points sequentially to -0.2%.

Additionally, the new offers should contribute to deeper customer engagement, building on the new record low for mobile contract churn that was already achieved in Q1. Radically simpler pricing plans also help us to reduce IT complexity and lower costs. Together with good progress on digital, we are well on track to achieve our goal of another €400 million reduction in European OPEX during the year.

In November I highlighted the need to improve the returns we were earning on our infrastructure assets. Network sharing is a key lever to achieve this and we have now signed agreements in Spain with Orange and just this week in the UK with O2. As highlighted by the media, we're also in the final stages of concluding our agreement in Italy with TI and INWIT. I also said in November that we had started due diligence on our tower assets, with a view to evaluating monetisation options. Today we have announced the creation of a new European tower company, which we intend to monetise potentially via an IPO in order to unlock the significant value of our infrastructure assets at a time when tower multiples are clearly attractive.

Lastly but certainly not least, we secured regulatory approvals for our acquisition of Liberty's assets in Germany and CEE with minimal changes to the remedies that we originally proposed, completing Vodafone's transformation into Europe's leading converged operator. Both this deal and the sale of New Zealand will now close by the end of July. We have spent the past 14 months creating a highly detailed plan, enabling us to begin the integration immediately after closing, so that we can secure the €7.5 billion of synergies that are available.

Turning to slide 4 and our trading performance, for the third quarter in a row we have achieved a meaningful year over year improvement in mobile churn, as you can see in the chart on the left. Improvements were broad-based, with only South Africa seeing a pick-up in contract churn, albeit from mid-single digit levels. We still have a long runway of potential improvement to ultimately reach our ambition of single digit churn across our markets and I expect further improvements as the year progresses. One of the key levers to reduce churn is our progress on fixed broadband and convergence.

The chart on the right-hand side of the page shows our progress in Europe in recent quarters. You will notice that our momentum slowed in Q1. In addition to the normal seasonal effect, this also reflects our effort during the quarter to significantly reduce complex promotions as we introduced new simplified pricing plans. In some markets and notably in Spain, our competitors reacted to our new propositions by increasing promotions and we had to adapt accordingly during the quarter. Overall, I expect our commercial performance to recover in the

coming quarters and I remain convinced that we have a long-lasting opportunity for profitable market share gains in fixed.

Moving to slide 5, I'd like to spend a bit of time explaining how we are implementing our new radical, simpler unlimited data pricing plans. Unlimited data will not be the right solution for every market, but where it is implemented we strongly believe that a speed tiered approach is important, because it preserves a valuable ladder for ARPU accretion in the future. Our experience in Spain to date illustrates this.

Primarily we have targeted our existing customer base with the new offers, as we simultaneously withdrew promotions from the market. Although our competitors reacted initially with aggressive promotions, they've since recognised that this was a more for more move by Vodafone aimed at our own base and promotions have reduced significantly. We've now migrated about half a million lines to the new plans and achieved accretion of around €3 per month on average, in line with our plan. In the UK, we intend to target the base with our new Be Unlimited offers, which launched in July. However, we will also target new customers, as we are effectively a challenger in the UK consumer market. This is why we've priced 5G at zero premium, in contrast to Germany, where we are charging an addition €5 per month on our lower plans.

As we've closed the Liberty deal, it's worth taking a minute on slide 6 to reflect on the importance of this transaction for Vodafone. With the addition of 17 million cable homes in Germany and CEE we have become Europe's largest owner of gigabit-capable NGN infrastructure and, as you can see from the centre chart, we decisively shift the Group's mix in Europe towards growing fixed and converged services, which will represent almost half of our consumer service revenues going forwards. We will unlock cost and capex synergies worth over €6 billion after integration costs, as well as revenue synergies of at least €1.5 billion – a major value creation opportunity for the Group, which supports our outlook for double-digit free cash flow per share accretion from the third year post-closing before integration costs.

In Germany specifically, you can see on slide 7 that we will enjoy a huge network advantage over other players in the market. Following a fast upgrade of the Unity footprint in DOCSIS 3.1, the chart on the left shows that we will be able to market gigabit broadband speeds to 25 million homes by the end of FY2022 compared to national FTTH coverage, which we estimate will only be around 8 million, given DT's stated target to add just 2 million homes per year. This creates a multi-year opportunity for us to drive high margin on net penetration on the cable network, which, as you can see from the right-hand chart, lags far behind other leading cable peers. This means that Germany, which will represent around 30% of our service revenues, 35% of our EBITDA and 40% of our cash flow going forward, will be a structural engine of the Group's growth for many years to come.

Moving to slide 8, Germany's contribution to our EBITDA growth should be even greater, given the size of the synergies that are available and the speed at which we intend to capture them. The right-hand chart highlights our ambition following extensive planning over the past 15 months to move significantly faster than we did with the integration of KDG. We are confident that we have the capabilities to do so, given the learnings from the KDG and, importantly, the fact the KDG employees are now an integral part of our German team.

Specifically, we have already identified the first two layers of management who will be in position on day one post-closing. Integration of back office and supply chain functions will begin immediately and we aim to start joint commercial activities within 30 days, both in terms of cross-selling efforts and ULL avoidance and migrations. The external rebranding and the harmonisation of our portfolios will be completed in early 2020. As you may recall, at KDG we ended up significantly overachieving our initial synergy objective of €300 million, as we have done in all our cable deals, including the Netherlands. With Unity we have the same cable to mobile opportunity, which we will capture faster, along with the additional cable opportunities. We are confident that we can at a minimum realise the higher €425 million target that we have set for run rate savings for the fifth year post-closing.

Turning to slide 9, in addition to integrating Liberty Global and improving the consistency of our commercial performance, our other key priority over the next 18 months will be setting up our Europe towerco. As you can

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see on the slide, we will be creating Europe's largest tower company, owning approximately 61,700 towers across 10 countries, including our 50% share of Cornerstone in the UK. The primary focus of our efforts on towers has been to achieve industrial synergies through network sharing deals. It's critical to secure these savings before considering monetisation in order to minimise future lease costs. So the rapid progress we have made in Spain, the UK and Italy is good progress and post the auction discussions are now underway in Germany.

As we have been working through our due diligence and exploring a range of tower monetisation options, it has become clear there is high demand and attractive multiples north of 20 times EV to EBITDA. These valuations reflect the strong market positions we enjoy, the extensive historical investments we have made in our tower estates and our investment grade rating, all of which makes Vodafone a more attractive anchor tenant than the typical sub-investment grade tenants who have sold towers in the past. Based on market benchmarks for anchor tenant lease rates, our existing third party tower revenues and attributable cost base, we estimate that as a standalone entity our European towers could have proportionate revenues of approximately €1.7 billion, EBITDA of around €900 million and capex of up to €200 million. Note that the actual revenues and EBITDA of the European towerco will vary from these numbers, depending on the assets that are included, whether the assets are fully controlled and the anchor tenant lease rates that we conclude on.

Clearly given the potential valuation multiples, our towers are extremely valuable assets, which are not appropriately valued in the Group's sum of the parts today. Consequently, we have explored a number of monetisation options to unlock this value, as you can see on slide 10. Before discussing these options, I'd like to explain the important principles that we will follow in ensuring the strategy. First, we will prioritise industrial savings through network sharing wherever possible before monetisation, in order to maximise the benefits for Vodafone. Second, we will maintain our network differentiation and long-term strategic flexibility. There are many ways to achieve this, including maintaining majority control, leaving golden towers out of the agreements and through very well-structured MSAs. Third, we will seek to achieve the most attractive valuations. Finally, we will use the proceeds to repay Group debt, consistent with our focus on deleveraging.

In this context, we have three clear execution options for monetisation. First, we can pursue stake disposals by country. This has the advantage of allowing us to find a larger number of potential buyers for each asset as we talk to existing tower players who have industrial synergies and can pay more, as well as financial investors. In order to do this, we need to legally separate our towers from their operating companies, which we aim to do by May 2020. As a second step we could inject these local tower companies, as well as any remaining stakes we hold in other towercos, such as CTIL or INWIT, into a European holdco, which we can then IPO. Additionally or alternatively, we could sell a stake in this holdco to a third party. Now let me pass over to Margherita for the trading and financial summary in our key markets.

## **Trading and Financial Summary**

**Margherita Della Valle**

**Chief Financial Officer, Vodafone**

Thank you, Nick and good morning, everyone. I will start by summarising our overall service revenue performance on slide 12 before the usual run through of the main markets. Please note that all of the growth rates presented here are on an IFRS 15 basis. Our reporting is now simpler, without the need to provide any underlying view. As the chart on the left shows, Q4 was indeed a low point for our growth, followed by a 50-basis-point improvement quarter on quarter. This was principally driven by Italy, as we had 28-day billing changes in the prior year, partially offset by tougher comparisons in Spain and a full quarter impact of out of bundle data regulation in South Africa. The chart on the right shows the sequential improvement in Europe, led

by Italy, while in the rest of the world the slowdown in South Africa was offset by Egypt and Turkey, which are now growing faster than inflation. Looking ahead, I expect a continued gradual recovery in Group service revenue growth, underpinning our guidance for FY20.

Turning to slide 13, Germany grew by 0.4% in Q1. As I highlighted at our full year results, we are facing increasing wholesale headwinds, which grew to 140 basis points in Q1 from 100 basis points in the prior quarter. However, I am pleased with the robust performance of our retail business, which grew by 1.8%, driven by customer base expansion in both fixed and mobile.

In April we announced a new range of mobile tariffs designed to simplify our product portfolio and deliver better value to customers, while also supporting or enhancing ARPU. In July we were then the first operator to launch 5G services at a €5 premium to 4G. In fixed line, the pace of our broadband net adds slowed in the quarter. This was the result of intense low-end DSL discounting by several players at a time when we were actually trying to lead the market towards lower promotions. However, our cable net adds performance was stable year on year.

Post the acquisition of Unitymedia, you will hear me talk increasingly about our TV performance. Here we are losing basic customers, but are growing in the premium pay TV segment, so overall revenues and gross profits continue to expand. Finally, during the quarter we won 90 MHz of 3.6 GHz spectrum and 40 MHz of 2.1 GHz spectrum in the German 5G auction for a total of €1.9 billion. While I am not happy about the price we have to pay, this secures our leading network position and we have now acquired 5G spectrum in all of our leading European networks.

Turning next to Italy on slide 14, service revenue decline improved quarter on quarter to -3.8% in Q1, as we benefitted from lapping the shift from 28 day to monthly billing in the prior year. This largely explains the sequential improvement in mobile service revenues to -7.4% from -11.1% in Q4. Competition in the prepaid market continues to cool down and it is good to see that main brand pricing for new customers improved further. As a result, mobile number portability volumes were 11% lower sequentially and 34% down year on year, as you can see in the chart. However, you should keep in mind that pricing in the low-value segment of the market remained unchanged in the quarter and we continued to see some ARPU pressure from customers spin down.

In fixed we maintained good momentum, growing service revenue by 9.2% in Q1 and adding 27,000 net broadband customers. We continued to acquire a strong share of market additions. However, the broadband market slowed as a result of price increases implemented by most operators in the quarter. Looking ahead, our fixed revenues will benefit from the €2.99 price increase on our consumer broadband base that takes effect in July.

Moving to the UK, we maintained our good commercial momentum, adding 66,000 net contract customers and 31,000 broadband net adds in the quarter, as you can see from the right-hand chart. Q1 was a very significant quarter for Vodafone in terms of new commercial launches, including unlimited mobile data, converged offers and 5G. In consumer we grew service revenues by 1.9%, supported by a higher contract customer base, RPI-linked price increases in mobile and further market share gains in fixed.

I'm also pleased with the performance of VOXI, our fully digital sub-brand, which we have now expanded beyond the youth segment. During Q1 we added 60,000 customers on VOXI. This is a prepaid plan, so these customers are incremental to the net additions you can see on the slide. In business mobile revenues were stable. However, wholesale revenues continue to decline and as a result overall service revenues were broadly stable in Q1 – a similar performance to Q4.

Moving to Spain on slide 15, service revenue trends deteriorated quarter-on-quarter, as price increases in April last year were not repeated this year. Additionally, as Nick has already highlighted, in April we launched new simplified tariffs that include split-tiered unlimited data bundles – a first for the Spanish market. We also removed all promotions, as we focused on migrating existing customers to the new plans in an accretive way. However, our competitors reacted aggressively to our launch, extending their 50% acquisition discounts to six

months from the usual three for most of the quarter. This heavily impacted our net adds performance in May. Once promotions normalised again in June, our consumer mobile ports turned positive, as you can see from the chart on the left.

As the new football season commences, our decision not to renew unprofitable football rights may result in some further football customer losses. However, most of the dedicated football fans left us last summer and the majority of our remaining 200,000 base have already re-contracted with us to benefit from enhanced offers. Meanwhile, new options are being made available in the market for football fans. A new over the top football streaming service has just been launched, offering full access to La Liga, Champions League and Europa League content. Looking ahead, we expect a gradual improvement in service revenue trends from Q2 onwards. As our commercial performance recovers, we benefit from unlimited ARPU accretion and we lap the effect of our pricing repositioning last year.

Next to Spain we have Other Europe, which is actually now larger than Spain, as it represents in aggregate 13% of Group service revenue. Service revenue growth continues to be very healthy at 2.1% in the quarter, with Portugal, Czech and Hungary maintaining good momentum, while in Ireland growth in mobile was offset by pressure in fixed line. Customer growth remains robust across both fixed and mobile and we now have single digit mobile churn in five out of eight markets. We are currently ramping up our integration activities in preparation for the acquisition of Liberty Global CEE assets in Hungary, the Czech Republic and Romania. In total, these assets will provide us with substantial incremental NGN coverage, totalling 6.4 million households passed.

Finally, turning to Vodacom on slide 16, service revenue growth slowed in the quarter to 1.1% compared to 3.5% in Q4. The slowdown was principally driven by South Africa, which declined by 1.2% in Q1. This reflected the full quarter impact from out of bundle data regulation that came into effect at the beginning of March and accounted for a 250 basis point drag quarter-on-quarter. Despite this regulatory headwind, we are seeing encouraging usage trends, with total data traffic accelerating by over 50% year-on-year. Combined with the phasing of the telecom roaming agreement, which ramps up in Q2, this gives us confidence that South Africa will return to growth in the second half.

Looking ahead, the upcoming spectrum auction is very important for us. It will unlock significant additional capacity, allowing us to further reduce the unitary cost of data. The spectrum policy directive is due to be published by the government imminently, clearing the way for an auction to occur towards the end of FY20. Finally, our international markets, which now represent over a quarter of Vodacom's service revenues, continue to grow at a high single digit pace, supported by the ongoing success of M-Pesa and by strong data growth. With that, I will hand back to Nick for the summary.

## **Summary**

### **Nick Read**

Thank you, Margherita. So to summarise, Q1 demonstrated the start of an improving trend and we expect a gradual recovery in service revenue growth to continue, underpinning our unchanged guidance for the year. We are making good progress on our strategic priorities with the ambition to deliver sustained free cash growth by deepening customer engagement and bringing down churn, sharpening our commercial execution through radically simpler price plans and processes and reducing costs through digitisation, while driving better asset utilisation through network sharing. We're about to complete the major strategic acquisition of Liberty's assets, transforming the Group into a converged European leader with an increased exposure to growing fixed and

converged revenues and the opportunity to capture large cost synergies. We will create Europe's largest tower company with the goal of unlocking significant value for shareholders. Depending on market conditions, we aim to achieve this in the next 18 months. Operator, we will now take your questions.

## **Questions and Answers**

### **Georgios Ierodiasconou, Citi**

Thank you for taking my questions. I just wanted to ask about further initiatives you may choose to undertake in order to unlock value. You already started some initial initiatives as you mentioned earlier around network sharing. You had the announcement last week of two Brazilian companies setting a common 2G grid, so I just want to hear your views whether medium to long-term you envisage common grid on legacy technology, maybe even single network on legacy for all the operators in each of your markets. My second question is around fixed line monetisation. Some of your competitors in Spain and some of your peers in France have proceeded with monetising some of their fixed line assets. I just wanted to see whether it's something you may selectively choose to do or whether this is entirely different from tower monetisation options. I'd be interested to hear your views on that.

### **Nick Read**

Really good question. Let me start with the latter first. I would say at this point in time we're primarily focused on towers. Fixed line – we are seeing other people potentially monetise, but I can consider that a more complex area and clearly it has implications for our retail position in the marketplace, so at this point in time we are not pursuing those opportunities, but obviously we continue to review.

Going back to towers, you make a good point around 2G. In fact, you could argue 2G and then potentially 3G – rather than a common grid, could there be the option of one operator in a market effectively offering services to everyone else in the market, so that you can decommission 2G and 3G, because ultimately all operators want to move to 4G/5G. That would be a very efficient capital option for all the operators, including the one that stays providing the service, because obviously they would get wholesale revenues. So look, that's an area that we would remain open to and are in some discussions with some operators about the possibility, but very early days.

### **Georgios Ierodiasconou**

Thank you.

### **Nick Read**

It's ended up being the shortest Q1 call ever.

### **Akhil Dattani, JP Morgan Equity Research**

Hi. Good morning. Thanks for taking the questions. Can I start, first of all, on the tower side please? Just a few things I wanted to clarify based on comments you've made and things you've said in your release – you've talked about having received unsolicited offers for various parts of your tower portfolio. I guess I was just keen to understand to the extent you can if you could give us some colour around what that related to. Was it a strategic buyer? Was it industrial – price, assets they're looking at – that sort of thing? Also, you've talked about an 18

month timeline. Just to understand why the timeline is that long to realise any sort of end point here and then how you think about IPO versus selling to a strategic buyer. So that's really my questions around towers.

And then on service revenues, you've been quite clear on the call that you're expecting ongoing gradual improvements. I guess just keen to understand any colour you can give us on where those improvements come from. I guess this quarter is more emerging market. Is that likely to be the case going forward or is it more European related? Thanks a lot.

### **Nick Read**

Thanks a lot, Akhil. This is a fantastic opportunity for me to say that really we need to keep to one question, but this is a good question, so I'll take the towers one and Margherita can take the service revenue one. Just in terms of offers, I really can't go into much more colour, other than to say that when we came out with the strategy back in November clearly we've had a huge demand. Both tower companies and infra funds are very keen to engage with us, either on market cases, so very specific circumstances, or something bigger. This is where the offers over 20 times are coming from, because we have had consistent demand for these types of assets. I think it goes back to the point I was really making. I think Vodafone is obviously a very high quality anchor tenant and we've got very high quality assets and these opportunities don't come around very often, so people are very, very keen to pursue it with us.

I'd say the way we're structuring this has allowed us to do effectively a double monetisation. We're doing it at the local level and then we're doing it at the European towerco level, while maintaining strategic control of the assets. Why does it take 18 months? Well, the most important thing was to get the industrial synergies at the market level. I'm really pleased with the speed at which we've been going to reach agreement on these. We've done the UK. We've done Spain. Italy is imminent. We're now working very hard on Germany. We're also working on a number of other markets we just don't talk about because they're smaller.

Clearly, we have to separate out the assets in legal entities. Then we have to form a management team. So we're saying we can get that done by May 2020 and then, of course, we need financials and some history before we can IPO. IPO versus strategic – what's the best value creation for the company I think is the key answer? We just want to make sure that we give transparency and see-through value of our assets within the company.

### **Margherita Della Valle**

As far as revenue growth is concerned, I would start by just commenting quickly on the quarter we have just closed. I think this quarter we were particularly pleased with three areas. First, the moderating competitive intensity in Italy, where we have seen the continuation in the price increase trends which has started in Q4. Second, Germany, where retail growth is quite robust, and then finally, Egypt, Turkey, our emerging markets now growing faster than inflation.

You asked about the future and looking forward we do see continued gradual improvement quarter by quarter from now on, as we had anticipated in Q3. In terms of where this is going to come from, it's quite broad-based. It's supported by the significant commercial launches that we have now completed and also, as you know, by easier comparisons in Q2 we will be hitting the anniversary of our pricing repositioning in Spain and then in Q3 it will be the anniversary of the South African slowdown.

If you step a little bit back from the quarterly performance, I'd like to point out that growth as a Group should be our natural state. If you think about it, we have been growing for four consecutive years and all the way to Q4 2019, when we were negative, and as we look forward with the Liberty integration this should be increasingly enhanced by the fact that our mix of revenues is moving further towards the growth areas with, as Nick

mentioned earlier in the presentation, fixed and converged revenues in Europe being around 45%, so an upward trend from now.

**Akhil Dattani**

Thanks a lot.

**Nick Delfas, Redburn**

Yeah, thanks very much. Just one question on the tower sale again – how do you think about partial sale versus full sale, because I guess with a full sale capex for new towers moves off balance sheet; with a partial sale it doesn't? So can you just talk about why you're talking about a minority? Thanks very much.

**Nick Read**

Yeah, so I think we – I've expressed several times before the importance of strategic control of our key assets. I would say that on a partial versus full at a market level it comes down to whether there is good supply of towers in the marketplace. Do you feel that controlling the towers is a strategic imperative or actually there's lots of access to lots of towers, in which case, therefore, we may be open to a majority sale? Clearly another factor is going to be on a market-by-market basis the valuation difference between control and non-control. These are the factors we'll consider at the market level. At a European level we are just focused on a minority stake disposal via IPO or financial investors.

**Margherita Della Valle**

Just pointing to the starting point of your question, Nick, I would say we are not particularly interested in the accounting implications of this initiative that we are taking. What we are really focused on is overall value creation, starting from the industrial synergies, as Nick mentioned, to the single tower company with dedicated management and finally benefiting from the attractive point in fibre for the infrastructure investments.

**Nick Delfas**

Okay. Thanks very much indeed.

**Polo Tang, UBS**

Hi. I've got one question and one follow-up. In terms of the portfolio, you're obviously crystallising value in terms of towers, you've divested of New Zealand, but are there other assets in the portfolio you'd consider divesting and can you maybe talk about your criteria in terms of deciding whether something should be in or out of the portfolio? Then the quick follow-up was really just on Germany. Now that the spectrum auction is over, what are your thoughts on whether Drillisch will build the fourth mobile network and what do you think the impact will be on the market and also Vodafone? Thanks.

**Nick Read**

On the portfolio, look, I think we have demonstrated that we are active managers of the portfolio. We strengthen individual positions and at the same time we work on value realisation opportunities. We've always said that our core footprint is Europe, Africa and we obviously have our joint venture in India that's ring-fenced. Therefore, New Zealand was outside of that footprint. Obviously, Australia is another asset that we were trying to get a

consolidation and we still feel that through the courts that we'll get a good outcome. I would say – so we'll just continue to be active managers of the portfolio going forward, but essentially we're getting closer to our core footprint.

In terms of Drillisch, Drillisch is engaging with everyone in terms of national roaming, so that's a commercially led discussion that they will be having with lots of different players, including ourselves. Clearly there's only an obligation to engage on a commercial basis that's acceptable to us, so we will remain very disciplined on the economics there. Obviously, as they go through that cycle, you have to think about from their perspective they have bought high band spectrum, so I'd call it more capacity spectrum rather than coverage spectrum. That might be okay for a certain degree of quality of network. I don't think it particularly changes the dynamic of the two-tier nature in the German marketplace.

**Polo Tang**

Thanks.

**Andrew Lee, Goldman Sachs**

Good morning. I just had a question around your towers operational strategy, as opposed to the monetisation strategy. Do you think your operational strategy changes with your change in ownership structure? To be more maybe explicit, could we see some of the Vodafone towercos become more acquisitive of tower assets across Europe and how much of your tower sharing ambitions can you achieve prior to this spin out versus how much is left to go? If I just – anything you can give us to give us more colour on your targets and how these fundamental targets are better achieved through the spin out would be helpful. Thank you.

**Nick Read**

Sorry, Andrew, I just missed your second point. I heard the operational strategy and whether it would be – what was the second point?

**Andrew Lee**

Yeah, so the explicit questions around operational strategy. One was on could you ever be acquisitive of towers across Europe with the individual towercos and the second element of it was how much of your tower sharing ambitions can you achieve prior to the spin out? You say you want to achieve active and passive network sharing benefits first prior to the spin out, so how much can you do before spin out and how much more is actually left to go on that opportunity?

**Nick Read**

So let me take the last one first, which is that is the main priority. Doing the sharing agreements market by market is our priority. We've been working on all of the markets, with the exception of Germany, since I announced in November and that's why we're making very fast progress. So we don't talk about some of the smaller markets in Europe, but all of those are examining options on the table and progressing discussions. We want to really establish those, because it's important you reach agreement on the sharing and market level first, so that when you do the monetisation you're not locked into excessively high number of sites, that you have more of a target state that you are monetisation rather than the current. So making very good progress. You'll see more progress over the next 12 months around different markets.

Going to the operational side, look, if we're setting up a tower company it's an independent tower company with a focus to drive efficiencies. One of the things I really saw a lot when I was on the board of Indus for about five years was just the efficiency you get with that single-minded focus. That's the second benefit we get. We get this industrial benefit of bringing two networks into one. Then you get the additional operational efficiencies driven out through a dedicated focus and management team. And, of course, if we're IPO-ing a business – a European tower company – it needs to be independent with its own management team. So if they decide they want to do acquisitions, if they decide they want to do rationalisation and it creates value for investors, of course we will consider that.

**Andrew Lee**

Thanks. That was very helpful. Can I just ask one quick follow-up just on the concern – the concern on these deals that investors have in terms of the price escalator that you sign up to as an OpCo. Have you – is there anything you can give us on your views on whether you have an inflation linked escalator or an explicit percentage escalator, like the one Iliad struck?

**Nick Read**

Yeah, look, some people put escalators, some people put high anchor tenant rates because they want to realise a very high multiple and a high price. We're very much focused on making sure that our commercial business afterwards can compete effectively in the marketplace, so that's why we've said on the numbers we're quoting, 'These are market rates and we have to go through the MSA and we have to make sure that our commercial business is left in a very strong state post the tower deals'.

**Andrew Lee**

Thank you.

**Jakob Bluestone, Credit Suisse International**

Hi. I've got a question and a follow-up as well. Firstly, just in terms of thinking about the pace of recovery in Spain in particular, I guess it's the last of the European markets which is still showing a slightly more challenged performance. Can you maybe just talk a little bit about how you see the revenue recovery coming through, particularly in the second half, and then also what is the magnitude of EBITDA rebound you expect later in the year? Do you think you could even see EBITDA stabilising in the second half of the year or is that maybe a step too far?

And maybe just as a follow-up as well, Nick, I think you mentioned just India being ring-fenced. I was just hoping you could maybe expand a little bit on that. The equity value of Vodafone Idea is down about 40% I think in the last three months. You had some comments last week from Bharti saying that their main focus remains to – sorry, from Jio saying their main focus remains to grow subscribers. So you can maybe just remind us a little bit on how that ring-fencing works and what is the extent of your commitments to India. How much could you be on the hook for potentially there? Thank you.

**Margherita Della Valle**

Jakob, taking on Spain first, as far as we are concerned Spain remains a highly competitive market and I think the promotional intensity in this quarter proves it. However, for Vodafone Q1 will be the bottom in terms of growth rates. From now on we should expect to see gradual improvement on the back of essentially three reasons. First

of all, our commercial momentum is normalising. Second, we have seen underlying upward improvement in our base through the move to unlimited. Nick mentioned around €3 per customer.

And then finally, as we move forward through the year, we will lap last year's commercial actions and football losses. As I mentioned earlier, we may have some further losses from football, but the vast majority of our customers are now re-contracted in that segment and also we are pleased to have seen that now Spanish customers will have choice around football independent completely of telecom operator with the new over the top offer from Mediaset. So gradually through the year you should see revenue improvement and to your point on EBITDA, yes, this will also be accompanied by EBITDA improvement as the revenue growth – the revenue decrease slows and also, as you know, in the second half of the year we will exit football costs.

### **Nick Read**

Jakob, regarding India, I would really look at it as – I think about it as two separate assets. We obviously have Vodafone Idea and we have our tower asset in Indus that's going through a process of merging with Bharti Infratel. That approval process for that merger is imminent, so we would expect to see that at least by the end of August at the latest. At that point, you've got a tower business that we can monetise easily – the valuation over €2.5 billion.

On the commercial business, we obviously did the – India's largest rights issue, so we've got the funding and they're pursuing the \$10 billion of cost and capex synergies – \$10 billion NPV of cost and capex synergies. They're doing a very good job of accelerating the network integration. So originally we said we'd do that in four years. We're going to two years, so they're moving at pace in terms of really structuring the cost base of the company. How we look at it is we're going to monetise the towers – the \$2.5 billion plus. Initially, the \$1.4 billion that we get out we then repay our contribution to the rights issue and then the residual sits there as an asset, whether we hold it in the tower company in terms of shares or whether we've monetised to invest in the commercial business if needed. If it's not needed, it comes back to Group, but one way or the other India is ring-fenced to those two assets.

### **Jakob Bluestone**

That's very clear. Thank you.

### **James Ratzer, New Street Research**

Good morning. Thank you very much. I had some questions on Germany please. So firstly on towers there, would you in principle be interested in offering a tower deal to United Internet Drillisch for them to get access on your towers in Germany as a way of boosting the operational performance of that asset. Secondly, would you be willing to offer them a commercial wholesale access deal to your cable infrastructure? I know you've signed a regulated one with Telefonica Deutschland. Would you be interested in doing follow-on commercial ones? Finally, you put a slide up showing the gap between retail revenue growth in Germany that's nearly 2% compared to the reported service revenue growth of 0.4%. Can you help to give us some indication on the timeline for those two to close? How much more wholesale drag do you believe you have in Germany at the moment? Thank you.

### **Nick Read**

James, I consider that question of a complete abuse of the one question just because it stayed in Germany. Was that the...?

**James Ratzer**

That was it. Exactly. A one-country question.

**Nick Read**

Yeah, exactly. Exactly. I'll leave Margherita just to cover your last point. To the two first questions in terms of would we offer towers to Drillisch, look, at this point in time I would step back from Germany and look at it in the following way. I think that, first of all, there's what we call white spots, so I think that ends up being an industry solution that we all come together and find a way of covering the white spots in the most economically rational way possible. I think all operators are open to doing that. I'd say secondly, the conversation with Drillisch about roaming is a very specific conversation on commercial terms that we're in discussions. And then I think the third one is more how can we do something similar to what we're doing in our other countries, in terms of tower sharing?

On a tower sharing basis, I would think that DT would be more the automatic partner of choice, but obviously TEF is also engaged with us. Now, if there is a tower company formed, obviously then there are conditions about offering to the general market, but we're a little way from actually shaping what that could look like. Clearly, we won't want to do anything that strategically undermines our strategic position in a market that's going to be 40% of free cash flow of the Group.

I'd say in terms of the commercial wholesale, we're obviously in terms of mobile commercial wholesale open to conversations. As we move into 5G, we could be increasingly open to, say, what could be available in 4G, because ultimately we want to come off 3G longer term. In terms of cable, we only needed through the remedies to offer to one player and we have an agreement with TEF and we are not in discussions with anyone else.

**Margherita Della Valle**

In terms of wholesale revenues in Germany, we have about €400 million between fixed and mobile wholesale revenues with United Internet, €200 million on fixed, €200 million in mobile. The one you're really interested in is the mobile MVNO revenues – these have accelerated the pace of decrease, as we were expecting. We are now running them off at around a 30% decrease year-on-year and we expect this trend to continue throughout the year and more to come in the following year. Clearly, to your point, as the weight of wholesale revenue on the total service revenue of the company will decrease over time, then you will see a gradual closing of retail and wholesale, but there is more gap in the coming quarters.

**James Ratzer**

Very clear. Thank you very much.

**Jerry Dellis, Jefferies International**

Good morning. Thank you for taking my question. The question is really on towers again and I was interested in the asset perimeter that you have in mind implicit within your proportionate EBITDA figure of €900 million. Is there scope, for example, to include backhaul or other fibre related infrastructure within the perimeter and, if so, would that be incremental to the numbers that you've provided here? Finally, if I could just add a little add-on please, in respect of your slide on gigabit build-out in Germany would you imagine that that could be achieved within the perimeter of your current German capex Vodafone plus Unitymedia adjusted for the capex synergies that you've guided on please? Thank you.

**Margherita Della Valle**

On the tower company first, you mentioned the proportionate EBITDA perimeter. In reality, the EBITDA that we have quantified based on benchmarks to circa €900 million is not proportionate. It's the indicative value of 100% of our circa 62,000 towers in Europe. The way we have formed this number is on the back of three elements – anchor tenant leases, which at the moment are just an assumption as Nick highlighted earlier – we're taking a benchmark – and then thorough due diligence, real third party revenues today and operating costs. In terms of perimeter, this is just towers. It does not include tenancy improvement or other elements, such as the backhaul that you mentioned. I'm sorry; I missed the second part of the question on synergy, I think.

**Nick Read**

Gigabit Germany.

**Margherita Della Valle**

The gigabit plan.

**Nick Read**

Yes, so in other words the DOCSIS 3.1 rollout. Is it within the capex envelope of Us + Them?

**Margherita Della Valle**

Sure. As you know, we have already rolled out DOCSIS 3.1 to most of our KDG estate and we are now going to start as quickly possible rolling it out on to the Unitymedia estate and this was considered within our integration costs and expect to be completed by FY 21 across the whole of the footprint.

**Jerry Dellis**

Thank you very much.

**Stephen Howard, HSBC**

Good morning. Thanks for taking the call. So some encouraging operational trends, but I just wanted to ask about potential headwinds coming up and two spring to my mind. The first is I'd just be interested to know how you're preparing for the prospect of Sky pushing on broadband in Italy and secondly you've got announcements from Three UK today about 5G with no price premium and no speed caps either. Is that in line with what you had been planning on? Do you think you can maintain the positive ladder that you were discussing earlier? Thanks.

**Margherita Della Valle**

If I can take Italy first, Italy for us is a really differentiated two tier market with a top tier infrastructure in fixed and mobile for us and TI. We are growing fast at the moment in fixed and convergence. We see Sky as one of the competitors that may play in the second tier of the market. We're actually currently very, very happy with the competitive environment in fixed in Italy. All the players in the market have raised prices recently. The entry level is now €35 per month and our fixed line service revenue growth is over 9%, as I was mentioning earlier, so a very good evolution and we are taking share fast, as I said, in a two tier context.

**Nick Read**

One build, which is generally on the concept of speed tiering. We're putting in speed tiering because we think that this is a way of being accretive to ARPU over the longer term and it's an opportunity for high quality networks, so in other words ourselves and let's say the incumbents, going that forward. If the incumbents don't go that route, then, okay, maybe we would have to adjust our plans. I think it's less relevant. We would expect all value players to go unlimited on the quality of network that they can support. I think we're open to one last question.

**Maurice Patrick, Barclays Capital**

Thanks very much. Morning, guys. So I guess – sorry to ask another tower question, but it is a big deal. On the €900 million of EBITDA you're looking at more than 20 times half your market cap, but in terms of that €900 million number, can you help us understand a bit about what's in there? How much of that is internal, for example, versus third party external revenues? Should we expect that number to grow over the coming 12 months before you look to monetise it? I'm assuming INWIT is not in that number, so it's pre any Italy deal. Some more colour on those metrics would be super-helpful. Thank you.

**Margherita Della Valle**

Sure. Starting from your last point, Italy is included in the numbers. So as I was mentioning before, it's built out of the totality of our towers in Europe, clearly taking the UK as proportionate. In terms of potential evolution, this is indeed a world where numbers can change from also quarter to quarter as people continue to work through the infrastructure. As I was mentioning before, we have taken a picture as things are today with no increases, for example, in terms of the number of tenants.

You asked about the composition of the revenue and the majority is, indeed, I would say inter-company. It's based on this assumption on market anchor tenant rate. I think if you look at the revenue number of €1.7 billion you can assume that the third party component of that, which is what we are getting in actuals today, is around a quarter of that number. As I was mentioning before, from €1.7bn then to the EBITDA we also have our actual current running cost of the estate. I hope that helps.

**Maurice Patrick**

Thank you.

## Closing Remarks

**Nick Read**

Thanks to everyone for joining our Q1 trading update. I look forward to seeing many of you in person at our upcoming digital first open office event in central London – I say central London, because obviously it's clearly a shady part of London, but we're calling it central London – on 10 September. So see you then.