

Vodafone Group plc

Analyst and Investor Conference Call

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Operational Review

Vittorio Colao

Chief Executive Officer, Vodafone Group plc

Good morning, everybody. Welcome to our Q3 update. I will take you through the financial highlights and update you on our strategic and commercial developments, then Nick will update you on our financial performance and the trends in our six key markets. I will then close and move to Q&A, for which Nick and I will be joined by Philipp and Serpil is in the field today.

So, starting with slide four, highlights for the quarter, Group organic service revenue was down 0.4% compared to minus 1.5 in the previous quarter. We continue to see strong growth in our emerging markets, driven by continued customer growth and data usage. Growth in AMAP was 5.9%. This growth rate was slightly down over the prior period, due to increased competition in South Africa.

In Europe, service revenue was down 2.7%, a further improvement in sequential trends, driven by the UK and Germany in particular. We are beginning to see encouraging signs of ARPU stabilisation due to our investment in the network and the more stable pricing environment in some markets. As a result, Europe service revenue improved 3.3 percentage points quarter over quarter. Data traffic growth accelerated again, to 67% year on year in Europe and 84% across the Group as we see increasing demand for rich content services from our customers.

Our Project Spring programme continues at speed. We are now 50% through our mobile build. Our European 4G coverage increased to 65%, doubling since September 2013. We have made further progress in our Unified Communications strategy across Europe. We added 233,000 net broadband customers and we completed the deal with Hellas Online in Greece, which adds just about less than 500,000 broadband customers to our 10.5 million broadband European base. Free cash outflow was 11 million in the quarter. This is 1.2 billion lower than last year as a result of Project Spring investment.

We are also reconfirming today our guidance for the full year: EBITDA in the range of 11.6 to 11.9 billion.

Now, Nick will be talking about the performance of each of the main countries in more detail later, while I want to give you an overview of the broader business first.

The chart on page five shows service revenue growth excluding termination rates, with AMAP countries in blue and Europe in red. Excluding the impact of regulation, the Group as a whole returned to growth in Q3. In AMAP, our high-quality network and customer service continues to attract customers, with the base up 8% in the year, driving usage. The number of data users increased by 24% to almost 109 million and data traffic more than doubled. Service revenue growth accelerated in India and remained healthy in Ghana, Turkey and Egypt. In Europe, we see an improving trend in almost all of our markets. This is driven by a growing mobile contract customer base, mobile ARPU stabilisation in some markets and strong fixed broadband growth.

I'd now like to turn to progress against three key initiatives: Spring, 4G and Unified Communications.

We have made good progress on our Project Spring programme and are around half the way through the mobile build element. You can see we are very well advanced on our single RAN and high-capacity backhaul sites, almost 60% complete, which is paving the foundations of our 4G rollout. Twenty-five percent of our European base stations are today connected to fibre and we are confident to reach 30% by March 2016. So what does this mean for improvement in actual customer experience? We have already improved dropped calls in Europe by a third, moving quickly towards a target of half a percentage point. We have already reached our March 2016 target for call setup success rate in both Europe and AMAP and within the 5,000 new 4G base stations 4,700 were in Europe in the period. This is very important. As a result of all of this, 87% of our data sessions in Europe are at HD video speed, just short now, already, of our March 2016 target and in AMAP we are close to achieving our March 2016 target already. So we are showing good progress in most of our metrics and we are just a little bit behind on our 4G rollout in the UK, but we are confident of catching up in the coming quarters.

So now I'll move on to slide seven, 4G. We have updated a number of our usual charts, showing clear evidence of good progress in this area as well. Starting from the top left, we have increased our 4G

customer base (the red bars) to almost 14 million, as I said earlier. These are active customers with both a 4G device and a 4G plan. The gap between customers and the 4G device but no 4G plan is closing, but clearly we still have a lot of opportunity to work on upselling.

Moving to the top right, we are delivering a better network experience. As I said before, our 4G network now covers 65% of the population in Europe. 4G is now live in 18 markets having launched in Lesotho, Hungary and Kenya in this quarter.

Bottom left, we see that the trend to do more data usage continues. Data usage in Europe continues to accelerate; the growth was 53% in Q1, 64 in Q2 and now 67 in Q3. Data usage is driven by smartphone penetration, which is now 50% of our European customer base and average smartphone usage has increased, now 700 MB in Europe, up 62% year on year. Also, 4G usage is still around twice the level of 3G and in some countries where we have attractive content, such as the UK, this ratio is over three times to around 2.6 GB per month. As a result of this strong demand, 4G now accounts for 26% of data traffic on our European network, up from 17 just one year ago.

Finally, if you look at the bottom right, this is why we are pushing on content combined with 4G. We have now launched content in 10 markets. During the quarter we have launched NOW TV in the UK, Netflix in Germany and Italy, Spotify in Australia and Deezer in South Africa. We are also well advanced on network enhancements, such as HD voice and 4G carrier aggregation, which gives higher speeds and more consistent coverage across the cell.

Moving to the third update strategy, Unified Communications, on page eight, this is an area with strong commercial and strategic momentum for Vodafone. Taking the left-hand side of our slide first, we continue our momentum on fixed broadband net adds, with some 240,000 across the Group of which 233 were in Europe. This represents the fourth consecutive quarter of strong growth. We now have 11.8 million fixed broadband users, including 2.5 KDG customers, 1.6 Ono customers and 05 Hellas Online customers.

Looking at the progress in deploying services on the right-hand of the slide now, in Spain we have reached 09 – 900,000 million homes with our joint fibre partnership with Orange. We are still on track to meet our two million homes target and we will discuss further optimisation with Orange once they complete the Jazztel deal.

Moving to Italy, our self-build fibre programme to the cabinet – fibre to the cabinet programme is progressing well and we have built 1,800 cabinets. We aim to reach 4,000 cabinets by the end of this financial year.

In Portugal, we are close to reaching our 1.5 million target with the Spring investment. Our own fibre deployment of 1.2 million gives us almost 30% population coverage; with an extra 200,000 homes through the PT fibre access we will get to 30% of coverage.

In the Netherlands we have unbundled 300,000 households whilst launching our broadband and TV proposition in October. We have already signed up 10,000 customers and we aim to have 40,000 by the end of the financial year.

Our recent acquisition of Hellas Online, which was completed at the end of December, gives us 78% population coverage with their ADSL assets, but also 38% coverage with BDSL.

Finally, in the UK we are on track to offer broadband services from the end of the spring of this year and TV will follow later.

With that, Nick, over to you for the markets.

Financial Review

Nick Read

Chief Financial Officer, Vodafone Group plc

Thank you, Vittorio, and good morning. Moving on to page 10, Vittorio has already taken you through the high-level picture for the Group, so let's move directly on to the individual markets, starting with Germany.

Service revenue declined 1%, which is a 2.4 percentage point improvement on Q2. This was driven by continued improvement in our commercial momentum underpinned by strong network performance. Taking

out commercial drivers, we continue to see good growth in the contract customer base, with 235,000 net additions in the quarter. Our contract churn is the best it's been for two years, improving 1.6 percentage points year over year to 15%. Fixed revenue excluding KDG has returned to growth after two years, up 0.5% in the quarter though this was helped by a healthy performance from carrier services. On our network, as seen in the Connect Test, we made significant further improvements to our voice, 3G and 4G networks to close the gap to our main competitor and, importantly, we significantly widened the quality gap versus the other operators in the market. We added 522 4G sites to increase coverage to 73%, whilst our dropped call rates are the best we've seen in three years, improving to .66%.

KDG, who reported yesterday, showed continued momentum with revenue growth of 6.5% compared to Q2 of 6% and net broadband additions of 136,000, including 25,000 migrations from Vodafone DSL. As you know, we are almost a year into the integration programme and we remain on track with our plans. We've already commenced the integration of KDG's national and regional backbone and are starting to use KDG's network for mobile backhaul.

Just a final point on the immediate outlook for Germany, while underlying performance continues to improve, the combination of volatility that is often experienced in carrier services and a one-off benefit in Q4 last year means that Q4 this year is likely to track back a little from Q3 minus 1%.

Turning to the UK on slide 11, the UK business has returned to growth, up .9%, a 3.9 percentage point improvement quarter on quarter. This improvement has been supported by stable mobile ARPU and growth in both mobile consumer and enterprise as well as a sharp recovery in fixed line including carrier services. Taking the mobile business first, contract service revenue grew 5.2%. Contract net additions of 98,000 have been supported this quarter by our first 'black Friday' sale and heightened demand for the iPhone 6 as well as their extended retail footprint. With continued good traction of 4G bundled with content packages we increased our 4G customers by .9 million in the quarter to a total of 2.2 million. We saw customer migrations from 3G to 4G and the increased take up of content drive the average data usage up 97% year on year, with the average 4G customer now using around 2.6 gig. The fixed line business improved 8.6 percentage points quarter on quarter, declining 2% year on year. This improvement is due to a strong carrier service performance and a higher delivery of project work as we convert our strong sales pipeline. Under Spring, our 4G network continues to be expanded, achieving 57% population coverage, up 22 percentage points from a year ago. 4G services are now available in 390 cities and towns across the UK. The acceleration of our direct distribution strategy is moving at pace, with all the acquired Phones 4U stores rebranded over quarter three.

Moving to Italy on page 12, our targeted prepaid price moves earlier in the year have enabled us to stabilise mobile ARPU and deliver a 2.3 percentage point improvement quarter on quarter. However, competitors are still discounting headline prices using below the line offers to win customers and, as a result, the customer base trend remains under pressure. The continued commercial momentum in the enterprise segment has turned service revenue positive year over year for the first time in three years, driven by a combination of our successful zero tariff and a base growth of 152,000 year on year. Fixed line revenue was up 5% year on year, though if we exclude carrier services it grew 1.4%. The broadband customer base increased by a further 38,000 to 1.8 million. Project Spring is progressing well, with 76% 4G outdoor coverage up from 18% a year ago and we now have over 1.2 million 4G customers. We've built fibre to the cabinet to 1,800 sites and anticipate reaching 4,000 by the end of this fiscal year.

Moving to India on page 13, service revenue growth improved again quarter on quarter to 15% year on year, driven by continued customer growth and higher data uptake. Mobile customers increased by 4.8 million during the quarter, giving a closing customer base of 179 million. We now have 59 million data customers representing 33% of the customer base, which includes 17 million 3G customers. Average data usage across 2G and 3G has increased by 40% year on year, with the average 3G usage in line with European levels. Data now accounts for 14% of service revenue, with mobile internet revenue up 70% year on year driven by 3G revenue, up 143%. Voice yields remain stable. However, our minutes of use per customer declined 6.6% as a result of increased competition driving greater dual SIM use in a smaller number of circles on top of the diluted impact of rural penetration. Our Spring programme for India saw the deployment of over 5,500 new 3G sites, which takes us up to 90% coverage in our targeted urban areas. Plus, we continue to expand our M-PESA service, where we now have 85,000 sales agents across India and 2.5 million registered users of which over 300,000 are active. It is worth noting that we anticipate the next spectrum auction to take place before the end of this fiscal year.

Moving to page 14, Vodacom's organic service revenue decreased 3.9% or 0.5% excluding MTRs. In South Africa, organic service revenue decreased 5.8% year on year. This was driven by a 50% cut in MTRs, which led to a 4.2 percentage point negative impact on growth. In addition, price competition in the prepaid segment in South Africa has intensified significantly, with effective prices down 21% year on year, though this has been partially offset by an increase in minutes of use, up 12% year on year due to our effective segmented offers. These segmented offers have helped stabilise our prepaid ARPU over the past two quarters, as demonstrated by the chart. Whilst the prepaid segment is under pressure, we performed well in the contract segment by adding 93,000 customers to the base, which is up 3% year on year benefiting from record low churn. We also continue to deliver strong growth in data revenues, up 19%, driven by the increased penetration of smartphones and tablets and the expansion of our coverage, with 4G to 34% and 3G to 98%. We are now waiting on INCASA and the Competition Commission for final approval for the Neotel acquisition, which we hope to reach a conclusion before the end of this fiscal year.

Vodacom's mobile operations outside South Africa experienced a marked slowdown in service revenue growth, up 1.9% in Q3, reflecting the ongoing price competition and regulatory pressures in key markets such as the DRC and Tanzania. M-PESA continued to perform well across all of the Vodacom international operations, with over five million customers actively using the service. In Tanzania alone, the service now accounts for 23.5% of revenue and around 55% of customers are active users.

Last but not least, Spain, on page 15. Ongoing convergent price pressures continue to impact our service revenue, which is only improving marginally quarter on quarter. However, many areas of our commercial performance continue to improve. We had a second quarter of positive net additions to mobile contract customers, adding 28,000, and we are seeing continued take up of 4G, with 2.2 million customers. In addition, we introduced a second brand in the quarter, called Lowi, to address the mobile entry-level segment. In contrast to mobile, our fixed business continues to show strong momentum, with revenue growth at 9.9% year on year, adding 40,000 new customers during the quarter. With our Spring investment we have now reached 69% 4G coverage and at the end of December we had .9 million homes covered by our joint fibre build.

Ono reported a decrease in service revenue of 1.3% excluding wholesale, which was consistent with the Q2 trend of flat year over year when you exclude the impact of fixed termination rates. The integration plan is on track and we have already migrated 25,000 DSL broadband customers to our own network. Our cross-sell programme is ahead of our original plans and we have now fully integrated the organisation with the Ono team having completed their move to the Vodafone offices.

So, overall, on the big six countries, generally good to steady improvement on most key metrics, with the clear exception of South Africa prepaid and clearly Italy and Spain remain under price pressure. Though carrier services had a very strong performance in Q3, it should be noted that it's prone to quarterly fluctuations. So, given these factors, when you at Q4 you should expect only a moderate improvement in Group service revenue quarter over quarter.

On that, I will now hand back to Vittorio to summarise.

Summary

Vittorio Colao

Yes, good, Nick. The last slide summarises the quarter.

We have made good progress in Europe with further signs of stabilisation. UK and we also need to mention the Netherlands have returned to growth.

AMAP continues to grow. Data is only just starting to take off in India. I am confident that Sunil Sood, who is Martin Pieters' successor, will continue the great work that Martin has done in India. And South Africa and its international businesses are under competitive pressure but we are taking the right actions.

We are 50% complete in our Spring programme, with some of our targets such as single RAN and high capacity backhaul deployment already almost 60% complete and we have more than another year to go.

We continue to make good progress on our Unified Communications strategy, with new convergence launches in Germany and in the Netherlands in the quarter and the UK coming soon.

Finally, we confirm our full-year guidance outlook for '14/15.

On that note, now we open to Q&A and Philipp will join us for that.

Questions & Answers

Akhil Dattani, JP Morgan

Yeah, hi, good morning. Just a couple of quick questions, please. Firstly, as you've highlighted, a number of these markets are improving quite steadily, the two exceptions being South Africa and Spain. So I just wondered on those two specific markets if you could give us some comments in terms of how you think about the outlook. And, specifically, some of the things that we're picking up are that Cell C in South Africa does seem to have put through some price increases earlier this year and Telefonica maybe have done similar things as well in Spain. So just really trying to understand how you think about those price moves, whether they're enough to give you some confidence that those two markets have an opportunity to improve from here.

The second thing was just around pricing. We've seen your northern European markets in particular improving quite strongly this quarter. We've got the UK and Holland growing, Germany clearly quite improved. Anecdotally, we're seeing a couple of signs of some operators feeling confident enough to nudge up prices a little bit, notably EE in the UK talking about inflationary price increases from March. I just wondered if that's anything comparable to how you're thinking about what you could do.

And then, very finally, just in terms of wholesale content agreements, you obviously have a lot of agreements across Europe now. If you could just help us understand how you account for that. Do you book that gross in terms of the content contribution or is it just net of the pay away to the content provider?

Thanks a lot.

Vittorio Colao

Thank you, Akhil. Why don't we do this: I take Spain, Nick takes South Africa and the accounting question, if you don't mind, and, Philipp, maybe you give a broader comment on the pricing trends and what you're seeing across Europe in terms of nudging up prices.

So I'll start with Spain. Spain, I think you are correct in saying that there has been a sign from Telefonica. I think it's a move in the setup charge for the call. Nonetheless Spain is a market where we have a lot of pressure on ARPU. I think we are doing fine in Spain as Vodafone, both on mobile and particularly on fixed, as Nick has said, and clearly the Ono acquisition will help on that front. But the overall pricing of, let me say, Fusion and the bundling that Telefonica has triggered in the market is clearly a case of a non-accretive case of convergence, which is, I am very determined to say, not necessarily the case in every other market and it should not be necessarily the only recipe.

Having said that, with more consolidation in Spain, with more investment in 4G, with more homes reached by fibre from us and Orange, in theory, longer term even Spain could follow a more kind of healthy path.

Nick, South Africa, Cell C and accounting.

Nick Read

Yeah. So, Akhil, in terms of South Africa, yes, Cell C has just put up pricing both in prepay in the month of January, I think it was, and contract in February. I would say that the competitive pressure we have faced is largely MTN driven more than Cell C. You could argue that MTN were responding to Cell C, though, in themselves, I think they had a degree of underperformance in prepaid. I would say I've seen some healthy moves in terms of them starting to reposition away from pure price into broader proposition-driven to get elasticity moving, a little bit like our strategy has been over the last 18 months. So I see MTN slowly moving back more in line with our approach to the marketplace, so may be a bit healthier in quarters to come.

In terms of the accounting, I mean, there are a number of rules and I think it would be a bit boring to go through all the different rules. I'd say largely we are net in our accounting on most of the agreements.

Philipp Humm, Regional CEO Europe, Vodafone plc

It's Philipp, just to give a few comments on the price increases in the market or price moves in the market overall. I think we, as Vodafone, are taking a very disciplined and analytic approach to pricing. So we have carried out quite a lot of price increases in the last times, be it in KD, on fixed line, in Spain, also in Italy or in

the UK as well on the mobile side. So we're trying to be as disciplined, as analytic as we can here and further continue to work on the pricing side. I think most markets are now more disciplined. The issue is really more in Europe: still in Italy, we just had an announcement from Hutch of another unlimited, unlimited one-gig price point at €10, which has been advertised; and in Spain, as Vittorio mentioned, we still have the issue that the bundle price is very, very aggressive in the marketplace.

Akhil Dattani

Okay, thanks a lot.

Tim Boddy, Goldman Sachs

Yes, thanks for the question. I wanted to ask a little about Italy where it seems that, you know, after what looked like quite a strong sequential performance in Q2, obviously a little weaker in Q3 although the year on year trend improved. Do you think you're losing market share in Italy would be the first question and then, you know, what's your plan to deal with the customer base outflow? Typically, where we see, you know, negative KPI there's normally some sort of price response that has to follow.

Secondly, I wanted to talk a bit about the EC and clearly we've got UK consolidation on the table, whether that's done at the UK or EC level. Are you hearing from the new regulators, whether on the competition or the new Digital Commissioner, any sign of change in attitude towards the sector in these early months?

Thank you.

Vittorio Colao

Why don't I take the second question and I leave Italy to Philipp? I have to say, based on my meetings and based on our exchanges with the new Commission, we are, so far, positive, I would say, on two fronts. Positive on the fact that there is much more awareness than before that the industry needs return on investment and that fragmentation does not help that. I think it's clear, it's explicit and it's there at all levels. This is a positive indication for the future and especially for the possibility of creating a healthier environment across Europe and not just a few countries. Also, we sense that – and this is again important for Vodafone – that this will not come with a regulation that will favour incumbents or dominant positions. I think it was reiterated even recently and even publicly that competition and choice across the market should not be more limited as a result of competition. This is particularly important – of consolidation, sorry. This is particularly important on two issues: the access to NGA and the access to content, which of course see us very supportive of this position of the Commission.

Philipp Humm

Tim, let me address the question on market share. I mean, obviously we don't have the numbers of our competitors yet as it is not yet published. If you look at last quarter, last quarter we were able to increase our market share overall but also in the sub-segments mobile and fixed. And if you look at our commercial performance, we were now able to get enterprise back to growth. Prepaid ARPU is fairly stable; well, we're still losing customers there but on a stable ARPU. And fixed broadband and 1p, so voice, is growing at 1.4%. So I think overall we have good growth drivers, which make me feel confident that we should not lose market share, but maybe win a bit.

Tim Boddy

Thanks very much. Maybe just to follow up briefly on that, I guess the key question is what would have to happen to see Italy stabilise like the other markets in Europe?

Vittorio Colao

Let me then get back and also partially integrate what Philipp said. One, clearly there is one player too many in Italy or maybe two, but at least one and clearly the competition between Hutch and Wind is not healthy for the sector. We have no idea where they are in terms of potential discussions, probably not very close if I judge from the movements in the market, but clearly that would be the important thing.

Now, of course, getting back to your question before, of course if we stabilise our revenue market share we will be happy, but if we see that there is leakage because we are too disciplined, too smart, we will have inevitably to get back into the market more aggressively ourselves.

Tim Bobby

Thanks very much.

Nick Delfas, Redburn Partners

Thanks very much. I'm afraid I'm going to ask about the UK, just a few questions. If Three does by O2, what do you think will be the status of the Cornerstone joint venture? I know that Three has been reportedly saying they might keep both joint ventures, but is there any change of control? Is it likely that they would leave Cornerstone?

Secondly, you seem to be outperforming EE in the UK. I wonder what you would like to say about that, if there's any particular reason for that.

And then just more generally on the UK, there's been a huge amount of movement, where do you think that leaves you?

Vittorio Colao

Let me, Nick, tell you a couple of things on this. First of all, on the Three-O2 merge, O2 have contractual obligations with us. If Three buys O2 and it becomes O3, O3 will have to respect the same contractual obligation as O2 and, you know, that's it. So I assume the law is still the law. And second, if, you know, the idea of keeping both, to me sounds – but this is an opinion of course – not very regulator-friendly, I would say, because it would create a concentration of power and traffic into BT-EE, who have already an agreement, an MBNO agreement with Virgin. So, in my view, between contractual obligations and regulatory consequences or remedies, I think sooner or later that we will receive a call from Canning.

Second, on outperforming EE, I don't know. You probably have more numbers or more insight than me. I hope you're right and I would be pleased if you're right. It would mean that our policy of pricing 4G as a content-oriented pricing or product and trying to create value into the packages is being rewarded. That's why we never went into this race of saying who has more 4G customers just because they have a 4G phone. It's the users that matters; it's the revenues that matters. But again, I don't know. I'm commenting on your question; I'm not commenting on facts and I hope facts will confirm my answer.

More in general on the movement in the UK, the fact is that today the creation of a big Goliath has been announced, so the UK is back to an operator with around 14 billion in domestic revenues, the others are all around. We are four Davids around one Goliath. It will be very important that the regulators take a look at the situation, that appropriate remedies are put also in relation to the other deal on spectrum, on access to NGNs and on access to content. So that's the only comment I make.

Now, having said that, the other four Goliaths, between us, Sky, O3 and Virgin, we are all between £4 and 5.5 billion of revenues each in the market, so we are not exactly Davids, but, you know, for sure we will have to dance around the bigger boy.

Nick Delfas

Brilliant, thanks very much.

Mandeep Singh, Redburn Partners

Hi, thanks very much for taking the question. It was really around Project Spring and the departure of Steve Pusey and just sort of putting that into context. I mean, versus your original plans, you know, how happy are you that Project Spring is going to deliver differentiation? It looks like Deutsche Telekom and Telecom Italia may ramp capex. Clearly, as Nick alluded to a minute ago, big changes in the UK. Do you feel you're on track with where Project Spring was versus original expectations and in the context of changes in the market place, potential capex hikes, how confident are you that Project Spring will deliver its original intentions?

Vittorio Colao

Let me pass this question to Nick after having quickly addressed the Steve Pusey reference. Steve is a great person, a great manager and he has achieved greatly with us. He's been with Vodafone more than eight years. He has done, with me, Europe, the centralisation of purchasing, the spreading of 3G, then we worked on convergence, all the new things, then 4G, then Project Spring. I think, you know, first of all, I'm grateful to him for the support and the commitment he gave to Vodafone which, by the way, he will continue

to give until July when Project Spring will be 75 or 80% done. I wouldn't put, you know – I wouldn't create a connection between Steve's personal choices and great achievements and Project Spring.

On the progress instead, Nick.

Nick Read

I think if you stand back, I think there were a lot of people that questioned whether we would have the capability and capacity to execute this programme and I think you have to sit back and look at the operational and commercial performance and say we are tracking ahead of expectation of where we had hoped to be. I mean, the voice quality, as we've explained in our slides, there's a dramatic improvement. I mean, dropped call rates down 30% in Europe since the start of this programme, call setup success rate now above the target we had set ourselves, 4G coverage at 65%. So, you know, we can point to a lot of things that say the quality of our network has dramatically improved and we show you the slides to back that. But I also say, just in terms of our commercial performance, European mobile contract net adds now plus half a million in the quarter, our fixed progress was very strong as well and, you know, at 240,000 net adds. So I think the progress on the network is starting to manifest itself in the commercial performance as well.

Mandeep Singh

Okay. Can I just quickly follow up, Nick, whilst I have you on the line? You know, in the first half you absorbed the Spring opex-related costs through cost-cutting. You've mentioned in a couple of meetings, including with us and in other forums, about being brutal on costs. Can you just give us an update on costs and the confidence in absorbing Spring opex through cost-cutting for the rest of the year, please?

Nick Read

Yes. If you remember, in those sessions I also said that I think we did a very strong execution in the first half, but I said that of course Spring opex is ramping up all of the time in the fiscal year and that we would not be able to offset the full effect in the second half. But of course we remain very diligent on our overall cost profile.

Mandeep Singh

Thank you.

James Britton, Nomura

Thanks very much. Just to follow up on the UK, do you think you can enter the UK broadband market in a disciplined manner which will not incite a negative response from the likes of TalkTalk and Sky stepping back into the mobile side? And can you confirm the story earlier this week that you'll opt for a cloud-based TV platform when you launch later in the year? Thanks.

Vittorio Colao

So the answer to the second question is yes. It's a simple answer. I think my colleagues in the UK already commented it.

And the answer to the first question is, at the end of the day, you know, everything depends on each others' behaviour. It seems to me that TalkTalk is already in the mobile space. It seems to me that Sky is more or less determined to get more into the mobile space. We get into the broadband and TV space and then the market trends will be determined by the collective behaviour. So Vodafone will be one of the players in that space, but of course it will depend also on what the others do. Clearly, like in Portugal or like in Spain, the more aggressive the non-mobile people are in mobile the more aggressive we will become on TV and on broadband. I mean, this is of course a normal situation. What the endpoint is will be determined by the dynamic forces of the market.

James Britton

And from your perspective, is it possible to predict whether competition in mobile steps up or reduces? Obviously, there's a lot of conflicting –

Vittorio Colao

I hope that the whole convergence bundling game turns out to be an accretive, positive, more usage, richer services type of environment, but of course it can also go the other way, which can be less ARPU, more competition and more push down. But if there is a push it will be across the piece, it will not be just on mobile. It will be on mobile, on fixed, on TV, on everything. So where we end up depends a lot on how all will behave, not just Vodafone.

James Britton

Sure. Okay, thank you.

Simon Weeden, Citigroup

Thank you. A couple of my questions have been asked, but it leaves one, which is: I just wondered if you could elaborate a bit more on how you're getting on with M-PESA in India. You mentioned having nationwide agent coverage with 85,000 agents, but you've got quite a few more than that in Kenya, so I wondered quite what you meant by 'nationwide coverage'. And I guess it would be useful to know what you think of taking a payments bank licence would give you over and above what you're able to do today. Thanks.

Nick Read

Hi, Simon, it's Nick. So, nationwide coverage really means that we have deployed in all circles within India. So, I mean, we have a footprint that goes through the country. Of course you constantly add agents all the time. I think it's very important, though, to concentrate on corridors of flow and one of the key elements on the current system is we've got something called a 'semi-closed system'. So, we can pay money in, we can transfer, but you have to basically go to a bank to take the cash out, so the agent is not allowed to do a cash out. That is a key constraint because, Simon, you know our executions in Africa well. That is obviously a key constraint in terms of the network effect. The new licence that we're applying for now allows us to do that cash out. So, to me, it is strategically important and will open up a more network effect and then we can start to focus on corridors and then expand from there.

Simon Weeden

Great, thank you.

Justin Funnell, Credit Suisse

Thank you. Two or three questions, please. We're seeing in the States obviously record-breaking payments made for spectrum, which seems to be the result of them having, you know, huge data growth and then starting to run into capacity issues. I'm just wondering where you feel you stand as an organisation on capacity. You know, how much can you keep growing at this sort of rate of data volume before you would hit a similar issue? And if you think about, you know, let's say Germany, the UK and then perhaps a market like India as well.

Secondly, on your 4G customers, just looking at the slide, slide seven, they grew by four million in Q3, by three million in Q2, so an acceleration in customers, but the underlying improvement in service revenues was a bit of a slowdown, obviously with quite a few noise factors here and there. Can you explain that? Are we looking at, perhaps, a pickup again in Q4 because a lot of those 4G customers added were essentially opening up their box at the end of the quarter or is it something else going on? You know, really can we see a correlation between service revenue growth and 4G customers?

And then, finally, the data usage in the UK, 2.5 or 2.8 gigabytes a month, which is a stellar number versus the rest of Vodafone but also against the rest of the industry. What's going on there and can that read across to your other operations over time?

Thank you.

Vittorio Colao

Let me take the last one while Nick keeps scribbling and thinking about the first one.

The usage UK, I really think it's very kind of 80% driven by content and a little bit driven by the fact that the UK is a more online and more advanced society from the digital infrastructure point of view, in the sense that

the Brits use more, you know, online and mobile for everything. But the real driver, let's face it, is content. We have been right, probably, in thinking that if we offered more content at a small ARPU increase customers would use it. And the other side of the story is 4G is pretty good. Our 4G in the UK is pretty good. While I am not completely happy with the performance of our older networks, the 4G one is proving to be pretty good and we are starting to have a clear edge in London, things have improved a lot and so that's the answer. Now, if that's an indicator for the rest of Europe, clearly we are trying to replicate the same strategy everywhere. We are doing content deals everywhere. It's interesting to see that Europe is still very different countries, so what works very well in the UK not necessarily works exactly the same way outside. We are doing more bundling of content and more generous data allowances everywhere. We will turn the same processes in the other market in the coming months exactly in the same way as the UK. So is it an exception? I think it is a leading case more than an exception.

Nick, did you figure out the accurate correlation?

Nick Read

Correlation of 4G to our service revenues. I mean, one thing I would just point out in terms of the chart on page seven, top left, which is where you were saying about four million incremental, so an acceleration. On a like for like smartphone basis that was three million. We included tablets in the quarter three number. So I think it's just, in terms of progression of trend, more similar performance. Of course, Lesotho really kicked in big time for us on 4G. But what I would say is just, if you remember, I said three months ago that we have two effects going on. We have the price table effect impacting in individual countries. So, for instance, the UK price table broadly stable, Spain price table still dropping. And then you have the positive effect of 4G and data monetisation of which when you have a flat price table, like in the UK, you start to see the positive effect, whereas that price table still dropping in Spain is overwhelming the positive effect of migrations to 4G. So what I'd say is you can't just naturally assume that because 4G goes up you can immediately see a correlation. It depends on what's happening on the overall pricing environment.

Vittorio Colao

Yes, so the excellent Peregrine reminds me that I have not answered the question on spectrum and it was not an attempt, it was simply that I forgot and I didn't write down the name.

First of all, I saw of course the US things. There's a couple of differences. Our average utilisation in Europe is gently going up. When I say 'gently' it means that year over year we were at 35% utilisation on December '13; we got 36%, which is basically flat, in '14. We have a little bit more second carriers and third carriers activated. We have two percentage points more sites, 3G sites at 90% utilisation, but in the meantime we are adding a lot of 4G sites. So my sense is that we are coming from a very different situation. While few customers use two, three gig each, the average is still at 700, so we have more room, much more room to go and much more capacity installed versus the American case.

Justin Funnell

Thanks very much.

Polo Tang, UBS

Hi, I just have two questions. The first one is just on Germany. Historically, it's been one of the least converged markets, but now you and DT are rolling out converged bundles, so I just wanted some colour in terms of what the take up has been like for your converged offering. Are you seeing any impact from DT's MagenaEINS bundles? And then if we look forward in Germany, do you expect the market to be heavily converged?

The second question was really just about the Netherlands, because the turnaround there was quite encouraging, so can you talk about what's been driving that, then what's the take up been like for your new fixed line offer? And then just a follow on, which is TeleQ Netherlands potentially they're going to be launching their 4G offer soon, so what do you think the impact of that will be?

Thanks.

Vittorio Colao

Philipp?

Philipp Humm

Yes, let me first address the question on Germany. So I think we – as you know, we launched, together with Deutsche, a converged offer in the market, which I would still consider, let's say, to be a fairly, let's say, moderate offer, so not anything comparable to discount levels you have in Spain or in Portugal. The uptake we see in the market overall is still fairly limited and we don't foresee that, let's say, convergence will have such a strong uptake as what we have seen in the southern European part of the market also going forward.

On the second question, on the Netherlands, I think on the Netherlands the key driver for our improvement is, in particular, our success in mobile, fixed still being fairly small overall. And there it's really mainly driven by having a very strong 4G proposition and a very segmented proposition on the enterprise side.

So, we have been very successful in driving up our data consumption in the Netherlands and continuing to grow net adds both on our Vodafone core brand and our hollandsnieuwe core brand, so that's probably a model also we will see in other markets as we are rolling that out.

Polo Tang

And then KPN – sorry, not KPN, Tele2, in terms of the impact from their launch?

Philipp Humm

We haven't noticed anything so far. I think you saw the relative performance we have had relative to KPN, which was encouraging, I think, for us. We don't expect Tele2 to be a major disruptor, really, in the marketplace, as it took them very, very long to get ready, and the proposition still has to be proven.

John Karidis, Oriel Securities

Good morning. Thanks for taking my questions. I'm sorry, I need to go back to the UK, please, Vittorio. Firstly, I'd really like some detail on what you mean by looking to the regulators to get access to content. Do you want access to BT Sport at a regulated price? Are you not happy with the access that you have to Sky Sports today? Some more detail there would be useful, please.

And then, secondly, if I look at the total mobile market in the UK, what would you say would be the split between the business mobile market and the residential mobile market? And how do the Vodafone UK market shares compare between the two?

Vittorio Colao

Yes, sure, John. Let me get the first while I'm pulling out my papers on UK enterprise and everything else. So, BT/EE is clearly creating a very big... in a way, it's recreating the old dominant player. You have a player who has – I don't know – 14 billion or something like that of revenues in the domestic market against people, as I said, who have 5 to 6. It is essential that the regulators have a look at what they do. Of course, a structural separation of Openreach would be optimal, in theory, and that would be clearly a way to ensure that there is no exploitation of an advantage over NGN. But if that's not going to be the case that the regulators decide, clearly strong provisions anti-margin squeeze and anti-obstruction or discrimination in accessing the NGN will be very important. So, first point, there is a network NGN access Openreach point that clearly regulators have to put an eye on.

Second, my comments on the access of content is the more you see quadruple play taking up in Europe, the more, again, similar to the previous point, I think regulators will need to make sure that content is not used in conjunction with a strong customer base and a strong network to essentially reduce competition. So, again, avoidance of price-squeezing and margin-squeezing policies on content is very important. It's not a matter of 'Can I get BT Sport?' or 'Can I get Sky?'; the matter is, especially on the BT case – Sky is a bit of a different story – avoiding the temptation to use content or network to, de facto, reduce competition.

On the second point, share in Enterprise, there's clearly a different game in Enterprise versus Consumer or Residential. In Enterprise, the situation after the mergers doesn't really change too much. BT was already big; it becomes bigger, of course, with EE and, therefore, we'll have a more intense competition but, at the end of the day, I would say the hierarchy and the relative size of players doesn't change: BT is still the first; we are still the second; and O3 continues to inherit the O2 business in Enterprise. So, I don't see a big change there. The real change is more on Consumer, where, clearly – and I go back to my previous point – there is the creation of a big player, and that big player has to guarantee good, fair competition in the continuation of the market.

Philipp wants to add something, so...

Philipp Humm

To answer your more specific question on the split, we have roughly, let's say, 60% Consumer, 40% Enterprise in mobile, and our market share is a bit below 20 on the Consumer side and a bit above 30 on the Enterprise side, so we're averaging somewhere in the 24-25%.

John Karidis

Thank you. And if I may, is the relative size of the business, specifically, mobile market, is that comparable to the residential mobile market?

Vittorio Colao

I'm not sure what you really mean. What do you want to know – numbers or comments?

John Karidis

So, if the service revenues for the whole market are 15 billion per annum, how much of that is generated by residential customers and how much of that is generated by business customers?

Vittorio Colao

Mobile only?

John Karidis

Mobile only, yes.

Philipp Humm

Roughly 60/40: 60 Consumer or Residential market, and 40% is Enterprise market, roughly.

John Karidis

Perfect. Thank you.

Andrew Beale, Arete Research

I'm just wondering if you could develop some of your earlier comments on how content is driving data usage, but this time looking outside of the UK. I guess I'm looking for some thoughts on what's working where and what's not working. And perhaps you can give us a bit of colour on Germany in particular, since the stats I've seen certainly seem to suggest that smartphone data usage is still lagging the network-speed improvements there.

Secondly, I'm just wondering if you can give us some colour on your bonded LTE DSL service in Germany and the trials that you're running in Italy, and what you've learned from those in terms of applicability to other markets and, more generally, the attitude to using LTE to boost a DSL consumer fixed-broadband proposition versus what might be a better return on capital on smartphone ARPU.

Vittorio Colao

Andrew, I'll give a generic answer to the first question, and maybe, Philipp, you can integrate. I'm not sure anybody has much more on DSL LTE bonding, other than we are trialling.

Philipp Humm

It works.

Vittorio Colao

It works – it's good. We are trialling it and we will use it, but I don't know. Guys, if you have anything more, please jump in.

On the data content, as always you have immediately identified the two extremes. You have the UK, which is a clear case of content consumption and enthusiasm in subscribing to content packages, even if they are a little bit more expensive than the normal ones but, of course, they give access to much more. And Germany, where, instead, the take-up of content packages and, in general, the usage of smartphone is lower even than even Italy or other markets which are more intermediate. Clearly, we are trialling. We're trialling with different types of content and not necessarily the internationally successful one, which is part of it. My sense is that there is simply an issue of timing. Germany has always been a lower consumption of minutes, consumption of SMS market in anything. There is more traditional kind of fixed-telephony usage and there's more traditional in-house usage. Other markets are more aggressive there, but I don't know. Philipp, do you have more colour there?

Philipp Humm

Maybe commenting a bit on Germany more, I think on the positive side, we added a significant amount of 4G customers now also in Germany, so nearly 800,000, so we are really making it a core of our commercial approach to do that. As Vittorio said, in Germany content is received less enthusiastically as in the UK, and we have seen that for quite some time, so we still have a hard time to find the exact commercial approach here to really drive strong content usership. In Germany also, we still run on two rate plans. We have a 3G rate plan, which is our smart, and we have a 4G rate plan, which is basically our normal Vodafone Red plan. So, we are still on two legs here, which is a bit different from the UK, where we really focus now on 4G pretty much exclusively.

In the other markets, if you look at Italy, which is mainly a prepaid market, we see a very, very strong uptake of 4G and a very strong also usage of 4G, and we also start to see that materialising in ARPU uptakes of customers opting in for 4G add-ons. In Spain, which is the fourth and a bit different market, overall the market is a 4G market, so there is no more a possibility to differentiate between the different players and between the different offers, but everybody is in 4G and, there, we are using right now converged, quite successfully, to drive our post-paid customers up in richer red plans by including here content, and that works quite well.

Andrew Beale

Thanks, that's very helpful. Can I just come back to the bonded LTE DSL? Where you don't have cable and you don't have fibre, is it something that you're willing to push over regular DSL to improve the consumer broadband experience, or do you worry about that from a return on capital perspective?

Philipp Humm

No, it is something we would push, in particular in footprint, where we do not have an own-cable network, so there it can make sense simply to offload some of the capacity, if needed, and achieve then higher average speed.

David Wright, Bank of America Merrill Lynch

Thank you for taking the questions. A couple of questions on M&A from me, please. Obviously, Italy, you've commented that it is a little over-competes, with the two smaller guys, and perhaps there is a little bit more disruption on the horizon. One of the obvious approaches to protect your customer base and, indeed, attract the higher-value customers is to pursue the convergent theme that has been a little slow to develop in Italy. Could you comment on whether you might consider accelerating that with any kind of inorganic means; for instance, the Metroweb stories and even Fastweb stories?

Just on the whole stories theme, if I may, this is the first time, I think, we've had you commenting on results since we had some quite strong rumours about a Liberty... approach is probably the wrong word but you were considering a Liberty deal back in December. I think you did deny that at the time, but could you just give us your thoughts on Liberty: whether you think it makes strategic sense if not necessarily financial sense right now? Thanks.

Vittorio Colao

Yes, David. Thank you for the questions. On Italy, I think it's one of the worst-kept secrets that we, yes, are interested in extending also inorganically, if necessary, our converged capability. Things happen when they happen and at the pace at which they happen. The Metroweb saga is continuously in the press in Italy. I've perhaps not followed the latest things but, if and when, of course, we are willing to put our own piece of

investment into that part of the equation. Fastweb, I cannot comment. It depends on their intentions for Italy. It depends on Swisscom, so it's a question more for them.

But in the mean time, we continue our organic plan. We will go to 400,000 cabinets ready by the end of this year and, if you put together the whole coverage that we have in Italy between the FTTH, the FTTC, the VULA offer that we have from Telecom Italia, we will get to in excess of 4 million homes – 4.2 million homes – reachable, putting all together – so, FTTH, FTTC and VULA – of NGN access for our company. So, yes, we are following M&A and the inorganic, but we are also working on organic and we don't depend exclusively on inorganic to reach the best part of the Italian market.

On the Liberty things, honestly there's not much to say. I think your question is a bit difficult to answer because you say, 'Does it make strategic sense to consider cable assets?' You're asking it to a company who has bought two cable assets recently, so it would be strange for me to say, 'No, it's completely illogical' and, on the other hand, there's nothing I can comment about and, therefore, I don't think I have ever been reluctant to say, strategically, of course, cable assets make sense. Financially, each country and each asset must have its own merit.

David Wright

If I could just follow up, if it does make strategic sense – and I think your comment is clearly leading us to think that – is this purely a case of price right now, that Liberty is just too expensive?

Vittorio Colao

I think I said many, many times that companies have strategies and trajectories, and that Liberty comes from the cable angle and they have an MVNO approach to mobile. We come from the mobile angle and we are becoming, organically and inorganically, more converged. I almost see two lines that tend to go to the same point in the future, so they're not parallel, but when will these lines cross, it depends on the evolution of the company and the corporate strategies of two different entities. So, I cannot say when and what will determine the crossing.

Ottavio Adoriso, Société Générale

Good morning, gentlemen. I have a couple of questions and a follow-up from a previous one. The first is on the India auctions. I was just wondering how important it is for you to buy back the current legacy spectrum, and what will be the plan B in case, in some regions, you don't?

The second is to Philipp: assume Ono, as of the nine months, would only be 7.4% down, I was wondering, you were guiding for a stabilisation for this year. Now, you comment a lot about what's happened in the mobile market. If you can just tell what's happened also on the Ono side.

And third is a follow-up on the UK, and this is to Vittorio. You comment about the take-up of mobile data for UK customers, and the emphasis on a different sort of habit, but when you look at the pricing it looks that the UK is between 35 and 45 percent below for 2.5 to 3 GB, when I compare to price in Spain, Germany and in Italy. So, I was wondering: do we have to see a similar sort of decrease in pricing for SIM-only packages [on the return to the red?] in this market to see the same take-up, or there will be a different sort of driver?

Vittorio Colao

So, why don't I give the India question to the best specialist of India auctions that we have in the company, Nick Read, who has been living through them in his previous role? Ono, Philipp, and then I will take the UK question with some help from Philipp.

Nick Read, Chief Financial Officer, Vodafone Group plc

To be honest, I think we need to be quite sure on the India auction, because it's coming up in March. We're well prepared. I think we have demonstrated in the past two or three auctions, a great deal of targeting and discipline in the way we approach the auction. Clearly, we have good contingency plans in place circle by circle, so we don't take a broad approach; we take a very targeted approach by circle to develop our strategy. So, at this point, I think that's about all we should be saying about an auction that's about to start.

Philipp Humm

On Ono, so I think Ono, overall, from a service revenue ex wholesale, we were at -1.7%, which is another stabilisation. The drivers, let's say, on the commercial side, which were quite positive, is we had another 54,000 net adds on broadband, which you need to add to the 16,000 we had on the Vodafone side. So, I think, overall, that was good.

We had another 50,000 net adds on mobile, which you have to add to the 28 on the mobile side Vodafone as well. So, also, that is a very strong improvement year over year. Last year, we were at -38; this year, at +78.

Third, we confirmed the synergies, so the teams went through a very, very detailed work, and confirmed, basically, the synergies as we had laid out originally in our acquisition case.

And lastly, we were able to pull forward the integration, so we now have an integrated company from an organisation point of view, and we are preparing some integrated offers – fully integrated offers now – for early in this year, but customers – both Ono customers and Vodafone customers – today get already a harmonised offer at a discount on both sides.

So, I think, from that point of view, I am very pleased the way the integration has gone forward, and I'm pleased with the commercial side of Ono. I'm not so pleased at this point in time with the ARPU performance. On the ARPU side, there was a comment Vittorio had mentioned earlier. We are still faced with a very aggressive price in bundle proposition in Spain, and as long as this is the case it's very hard for us to raise prices, as TV has been right now given for free in the big bundles from Telefónica. So, if these things maybe change over time, we should be able to increase prices, and then we are then in a very good position again here with Ono.

Vittorio Colao

On the last question – the differential of ARPU and behaviour – broadly speaking I'm not so sure that what you say is right. If you compare the Netherlands and the UK, we are more or less the same price points, once you take into account the exchange rate. Italy and Germany are a little bit higher in terms of SIM-only price, but they have very different behaviours. So, Italy, you have more usage than Germany, and a substantial matter, so there could be a little bit of price effect but my sense is the most important thing is habits and the attitude towards content, and quite frankly also the availability of good, over-the-top content. So, it's not just the content we put ourselves on the phone but it's also the ability to reach other over-the-top content. So, there could be a little bit of price but most importantly there is a behaviour and a consumer-attitude thing.

Ottavio Adorisio

And if I may, just a very quick follow-up on the Spanish, because my question was on your comment on revenues during the presentation, but you did leave the EBITDA out, because Ono's disclosed EBITDA is the one only subsidiary within your group. It's close to a 7.4% decline. Less than nine months ago, Philipp clearly said that he was aiming for stabilisation. I was aiming from Philipp if he can explain what's happened there. It's basically for the moment for the nine months, but I believe that it would be pretty difficult to see a full quarter to actually get back to stabilisation. It's all down to ARPU or if there also significant aggression also on subsidies?

Philipp Humm

No, it has nothing to do, if you want, on additional aggression on the subsidies side. We have, on the one hand, an effect, obviously, from the revenue side, but then don't forget we have integration costs and other things you need to factor into the Ono EBITDA, so it's quite a lot of integration and one-offs which are coming into it in this quarter.

James Ratzer, New Street Research

Thank you very much. I had two questions, please. The first one's just going back to Germany – the very strong number on contract net adds. I assume there are probably three drivers for that: maybe higher A&R spending, some of the benefits from Project Spring, and also potentially reduced competition from E+. Firstly, would you agree with that statement and, secondly, if you did, what would be the mix between those drivers as it is helping to boost performance? In particular, how much do you think comes from reduced competition coming from the new Telefónica Deutschland?

And the second question I had was regarding India, going back to a question on the upcoming auction. I don't know if you can comment on this but, in the past, you have had some very strong words when the reserve prices, you've felt, have been set at too high a level. What do you feel about the current reserve prices; in particular at the 2100 MHz band, where the reserve prices do seem to be very high?

Vittorio Colao

Let me take the India one and then I'll pass to Philipp on the Germany question. I don't know if you follow the Indian press. I was reported everywhere, including pictures and videos, sitting with government and discussing this topic. And as you can imagine, our opinion is, of course, that this price is set too high and, of course, that the quantity of spectrum that is made available is also too limited, and the two things together are not what I would consider a good policy for a government that wants to digitise the whole country. Having said that, we are where we are. I think other operators have expressed the same concerns but the government has decided to go ahead at this level, so we will handle the way Nick described before. But we have not been inactive, neither us nor other operators who feel the same.

Nick Read

Just to build on Vittorio's comment, I think it just demonstrates that we were right to secure 3G spectrum over the major circles that represented just under 70% of our revenue.

Philipp Humm

James, commenting Germany, I think less competition would be a too optimistic a statement. I would simply say intense competition continues, which is why we're also not in a position to really take out A&R in that quarter. We're obviously trying whatever we can also going forward to be able to take out a bit more A&R in the market. The drivers for our strong performance overall was, on the one hand, obviously, the Enterprise side, which has continued now to perform well. As you know, we have re-launched, in the beginning of the year, our second brand, otelo, as a counter-brand to Congstar, which is doing quite well. And we have also been, this time, quite successful on the branded side and, on branded, one of the drivers was we were very successful also in cross-selling data plans into our customer base, so that was another very positive driver here. And we continued to be strong with service providers in the German market as well.

Robert Grindle, Deutsche Bank

Good morning. Two questions. Please could you provide some colour as to why Carrier Services had such a good quarter in the UK and Germany in Q3? Is this low-margin transit traffic-type business or is it something higher-quality and more sustainable in nature, which will continue into future quarters?

And then separately, back to the UK, why do you think Sky went with O2 for its MVNO? You guys have had a pretty relationship in the past. Is it just a case of another infrastructure operator keener to give away value than yourselves? Thanks.

Vittorio Colao

Let me get the second one, which has an easier answer, and the answer is probably 'yes', so... We are disciplined in our MVNO deals. As I said many times, MVNO per se is not bad. MVNO becomes bad when you give bulk quantities and when you are not smart in setting up a positive relationship for both, creating value on both sides. And the reasons why O2 decided to go with somebody else, you should ask them but I can guarantee to you that our offers are good in most parts of the world, they create value for both parties and they are healthy for the industry. Whether my competitors are offering something which is less in that direction or not, I don't know. You should ask them.

Nick Read

Just in terms of Carrier Services, so obviously, when we bought Cable & Wireless, we bought an international fibre network and, obviously, that was very complementary to our very large footprint. So, it gave us the opportunity to actually establish a global Carrier Services business, utilising the spare capacity within our overall network. So, Carrier Services does not drive our capex in any way; it's just the surplus capacity.

It has three aspects to it: one is international voice, which is high-volume, low-margin and can be volatile; the second is access circuits, which tends to be contracted and good margins; and the third is long-term

fibre-lease contracts, sort of IRUs, which is probably stable and return on capital-type targets. So, overall I think it's having that dedicated focus that they are able to drive the business, and it had a positive impact on Germany of about 50 basis points quarter over quarter – the 2.4-percentage-point improvement quarter over quarter – and the UK, 120 basis points of the 3.9% quarter improvement.

Robert Grindle

If I could come back, is it any particular part of those revenue streams you just described that provided the boost, and are they... If you've got spare capacity, is it sustainable or is just a bump in the quarter?

Nick Read

So, what I would say is that this is still good business; it's just low-margin business. So, it was predominantly international voice, which is pretty low-margin business. So, therefore, we will sustain this in terms of going forward. It's a business unit of our company utilising our core capacity.

Maurice Patrick, Barclays Capital

So, just a quick one on India. You've shown strong revenue growth in the marketplace, driven by data, but MoU I think was down 6-7%. You cited the dual SIM impact and said it was in some circles. So, perhaps a few comments on that: to what extent is it just emerging now, this trend? Is it accelerating? Do you see it as structural or temporary? And why only some circles? And is it also happening in other AMAP markets? Thank you very much.

Nick Read

So, this is very much an India phenomenon. So, over the last 18 months, we've been constantly referring to the fact that, of the incremental revenue in the market, about 90% of that incremental revenue was flowing to the top three players, and we are taking our fair share of that increment, so we've had good momentum off the back of it. However, and obviously, a number of the smaller players have been exiting circles. What I would say is some of the players – Uninor, Aircel – have now stabilised the position in a small number of circles and, therefore, are reasonable competition at the value end of the marketplace. And they, depending on promotions, take, if you like, incremental minutes away from us, depending on the promotion of the day, and we've just seen a little bit more intensity in a few circles.

Jerry Dellis, Jefferies

Good morning. Thank you for taking my questions. I have a couple of questions on the UK, please. Just in terms of your fixed-broadband intentions in the UK, in November you talked in quite aggressive terms; now it seems to be a little more wait and see. Sky, TalkTalk and BT have all, basically, indicated an intent to push mobile aggressively. So, is there a way in which you could respond to that in a way that wouldn't involve discounting fixed broadband and line rental? I suppose, in a nutshell, will the mobile network be sufficiently differentiated by 2016 to allow that to be a sticky enough product on its own?

And then a second question just around the UK, just to clarify: at launch in the spring, you'll have VDSL coverage which will be comparable to what Openreach has, such that, going forward, leveraging the Cable & Wireless network will be a sufficient platform for you. So, M&A in the UK might not be on the agenda at present.

Then, just finally, if I may, the nature of the quad-play trials that you were doing with Sky in the autumn: should we assume that that's not going to lead to any form of commercial launch?

Vittorio Colao

Yes, a little bit of a long set of questions. Let me try to answer with a single speech. First, the aggressiveness/the non-aggressiveness. I don't know where you get that from. We are exactly in that space – in the same space. We are going to be in the market. We'll be competitive in the market. If the market turns, as I said in my earlier answer, turns to be irrational, accretive market, good; if the market sees players discounting mobile aggressively, we will discount fixed aggressively, which is exactly what happens in every other place.

So, as I said before, now the players are fewer, so it will be easier to detect who does what, and we will have to respond, but it's not just Vodafone – it's everybody else. The answer is exactly the same this time

as last time: we will do what it takes, and we will do whatever it takes to be competitive in a quad-play market. And every market has its own dynamics.

On the launch, we will launch with a combination of access to the Openreach fibre and our own 60%, around, coverage through the Cable & Wireless old exchanges, and we will follow the development of Openreach. So, from that point of view, we'll not have a gap or a disadvantage versus the BT footprint. And here I have to reiterate my earlier point: of course, assuming Openreach plays a decent and open game, and assuming that the regulator watches them and checks that we are not margin-squeeze out of the market, in which case then aggressive remedies should be contemplated.

On M&A, I will not comment, because I never comment on M&A unless there is something material to comment about.

And on Sky, I'm not sure what you're referring to. We clearly are still interested in having NOW TV as an important component of our package, but we will offer our own service differentiation on our own network. And again, if anything, also with reference to the previous answer, if anything, having other players on other mobile networks is a better guarantee that we can differentiate a Vodafone proposition than having MVNOs on our own.

Philipp, do you want to add something?

Philipp Humm

Yes, you referred specifically to the quad-play trials. I think they were interesting trials and interesting learning on both sides. We get a bit of the sense for the market. They will, obviously, not be continued in the current constellation of the MVNO deal, but we continue to have a very strong and good relationship on the content side with Sky, as we are now more and more offering content to our customers on mobile, and we plan to do so on fixed as well.

Closing Comments

Vittorio Colao

Thank you very much. Thank you all for the excellent set of questions that has covered really everything. I will not go through a long summary. I will just remind the key three or four titles. One is steady recovery in Europe with not just the UK but also the Netherlands back to growth; good momentum in AMAP and some voice pressures in Africa, which we are handling; good continuation of Spring – we are already between 50 and 60, 70% complete, depending on the type of equipment you're talking about; good coverage of 4G – 65% in Europe and take-up of data very good, both on the mobile front with content and on the fixed side with positive trends in connections; and finally, of course, confirmed the guidance for the year. Thank you very much and I look forward to meeting you individually soon.

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