

Vodafone Group Plc

Analyst and Investor Conference Call

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Host

Hello and welcome to today's Vodafone Group analyst and investor conference call. And throughout this all participants will be in listen-only mode, and afterwards there will be a question and answer session. And just to remind you, this call is being recorded. And today I'm very pleased to pass you over to Vittorio Colao, Group CEO. Please begin.

Q3 Highlights and Commercial Developments**Vittorio Colao****Group Chief Executive, Vodafone Group plc**

Thank you very much, operator. Good morning everybody. Welcome to our trading statement for the third quarter 15/16. Before I start, you will be aware that we made a statement on Tuesday confirming that we are in talks with Liberty regarding the creation of a joint venture in the Netherlands that would incorporate both companies' local operating businesses. Today I have no further update for you on this, and therefore I hope that you will understand that we will not be taking any questions on this subject.

So today I will take you through the highlights and update you on our commercial developments, and then Nick will update you on our financial performance and the trends in our six key markets, and after that we will open, as usual, to Q&A.

So I will start with slide 4, the highlights for the quarter. Group organic service revenue was up 1.4%, which is the sixth consecutive quarter of improvement. This follows 1.2 in Q2. Excluding mobile termination rates, growth was up 2.1 in Q3. Growth in AMAP was 6.5% compared to 6.7 in the prior quarter. The main drivers continue to be customer growth and data usage. We added 6.3 million customers in the quarter to take the total to 339 million, with the number of data users up to 129 million.

In Europe, service revenue growth continues to improve. Revenue fell 0.6 in the quarter compared to minus 1 in Q2 and minus 1.5 in Q1. This improvement reflects a combination of our commercial performance and strong data usage again, as we will illustrate later. Our commercial momentum remains strong. In Europe we increased the mobile contract customer base by 0.5 million in the quarter, and across the group we achieved a record fixed broadband adds of 414,000. In Enterprise we delivered a service revenue growth of 2.6% - fourth consecutive quarter of improvement. This is supported by continued progress in the strategic areas of VGE, Machine to Machine and Cloud and Hosting.

Project Spring maintains its momentum. The mobile build programme is now 92% complete, and we remain on track to conclude by March of this year. Our European 4G coverage has increased as a result to 84%. This is up 19 percentage points over the year. In AMAP our mobile build targets have already been achieved, three months ahead of the target. Most importantly, all of our Spring targets for customer experience have also been met, including data sessions above three megabits per second, dropped call rate and call set up success rate.

And finally, in terms of fixed and converged services, we continue our good progress. In total, 69 million households can now subscribe to our branded high speed broadband services, of which 29 million are on-net or use our own infrastructure.

Let's go into the trends. Slide 5 shows service revenue service growth over the last seven quarters, with the group in Red, AMAP in purple and Europe in blue. As you can see, AMAP remains strong, with service revenue up 6.5%, which is just a little less than the prior quarter, as we faced increased competitive price pressures in India, which offset some of the improvements in our Vodacom businesses. In Europe you can see that we have now had six consecutive quarters of service revenue improvement. We now have eight markets out of 13 in growth.

Slide 6 shows the high level drivers, or what we call engines of growth. Top left, we added 5 million mobile contract customers over the year to move above 92 million. We also added 1.3 million customers to our high speed broadband service to reach 6 million on the top right. Bottom left, we have added nearly 18 million European 4G customers over the last 12 months, and in emerging markets we now have 68 million

3G customers. And finally, bottom right, our Enterprise business continues to deliver growth higher than the group average, with revenue up 2.6% year on year.

So let me now go into details. Slide 7. Usually here I show you charts of our Spring network build and coverage. However, as many of you ask if we are creating network leadership in the eyes of the customers, this time I want to focus on user experience, and for those of you who want you can find the usual charts by country in the appendix. So these charts now show how customers are increasingly benefiting from the significant investments that we have made over the last two years to improve network quality.

These independent tests measure data and voice quality in the most recent quarter in our big markets. As you can see from the charts, we have network leadership in Italy, Spain, South Africa, a de facto co-leadership in Germany, and in the UK we are not leader but we are first in the key area of London. In India there is not an independent benchmark, so we have shown the number of sites. This simply shows that the big three operators have a clear network lead over the smaller players. All in all, these strengths are reflected in customer promoters' ratings, the net promoter score, and higher data usage. In Europe the average smartphone data usage is now over 1 gig per month, and 0.7 in AMAP.

On the fourth area of our strategy, fixed and convergence, most of slide 8. As I said earlier, our NGN coverage is now 69 million homes, including wholesale lines. This represents 46% of the households in Europe. Within this, 29 million use our own infrastructure, which is up 1 million on the last quarter, reflecting builds in Spain, Italy and Portugal. The middle chart shows the commercial continued momentum on fixed broadband net additions. This quarter we had a record 414,000 added across the Group and 311,000 in Europe. And the quality of our fixed customer base continues to improve, as today nearly half, which is 6 million, use our NGN, high speed cable or fibre. As a result, Europe fixed revenue grew 3.7%, and fixed is now 21% of the Group revenue and 26% of the European revenue. Moving to the right chart, we already have 2.8 million converged customers, mainly in Spain with Vodafone One, and 9.5 million TV users, mostly in Germany and Spain.

Slide 9, our fixed and converged offers. Here we wanted to show a successful case and the most recent launch. That successful case is Spain. Vodafone One TV reached an impressive 1 million customers, with growth of almost 100,000 subscribers in the last three months. This positive trend has been boosted by strong content with the Champions League and domestic football, boosted by the additions also of Netflix in October.

On the right you have Ireland. Just two weeks ago we launched our new TV service. This is part of a bundled proposition including high speed fibre broadband, which reaches the speed of 1 gigabit per second. Today we have 12 markets with mobile content offers and seven with full TV propositions.

And finally, Enterprise, on slide 10. Our Enterprise business has grown for the fourth consecutive quarter, achieving underlying growth of 2.6 in Q3. The growth in Enterprise is mainly in the strategic segments of VGE, Machine to Machine and Cloud and Hosting, which is supported by some key contracts which we have won in the period, and you see some names on the slide. Most of this growth comes from a higher customer base and higher data usage, both increasing by 7%. However, these positives are offset by competitive pressure across our markets on ARPU. This is particularly notable in Germany, where pricing pressure continues, and in the UK where BT is now becoming aggressive on pricing, given the finalisation of the deal with EE.

In Enterprise we are also investing in fixed and managed service propositions to increase our share of customers' wallets, as shown on the right hand side of the page. We now reach with our IP-VPN 65 countries, and we have expanded to 259 points of presence. And, as a result, 55% of the sales pipeline in Enterprise comes from fixed and converged offers, including security solutions which are now covering 180 countries, as more and more companies want a single provider of services. And in Enterprise overall fixed is already 28% of our revenue.

In conclusion, I can say that overall the quarter marks further progress in our group strategy, and I now turn to Nick for the details by country.

Financial Performance and Market Trends

Nick Read

Chief Financial Officer, Vodafone Group plc

Thank you, Vittorio, and good morning everybody.

So, turning to Germany, on page 12, the chart on the left in red shows service revenue trends, with KDG included in the last three quarters. Overall, service revenue showed a marked improvement to minus 0.4% for Q3, driven by both the consumer mobile and fixed business. Mobile service revenue declined 1.7%, which was an improvement on the 2.8% decline in Q2. This reflected improved trends in both consumer contract and prepaid. Fixed revenue moved strongly into growth, at 1.7% year over year, driven by our continued momentum in cable and improved performance in the DSL business. However, the Enterprise business remains under competitive pressure, with a broadly similar performance to Q2, declining 3.2% in Q3.

As you will be aware, our performance in Germany over the last couple of years has been negatively impacted by three factors: network issues, the need to rebalance our channel mix, and the repricing of the back book. The mobile network issues are behind us. Dropped call rates improved 26% year over year to under 0.5%, which is an all-time low. Our 4G coverage increased to 84%, with further speed enhancements to come later in the year as we start to utilise the additional 1800 MHz spectrum acquired in last year's auction. The channel mix for new customers is also improving, supporting the growth in the contract customer base, up 196,000 in the quarter. The back book repricing pressures are easing. As a result, consumer contract ARPU, although down 3.9% year over year, remains broadly stable quarter on quarter, though Enterprise ARPU continues to face competitive pressure.

On the fixed side, we achieved net broadband additions of 105,000, comprising 96,000 cable net adds, including migrations, and a return to customer growth in the DSL business. We remain confident of further improvement in Q4 given our commercial momentum, improved execution and new leadership.

In Italy, on page 13, the service revenue trend continues to make good progress. Service revenue declined 0.3% in Q3. The improving trend is the result of a series of commercial actions taken in prepaid, with the most recent proposition, Vodafone Exclusive, launched last September, delivering ahead of expectation. It is therefore particularly pleasing to see mobile service revenue return to growth. However, this positive has been slightly offset by the negative of fixed revenue, which declined 2.5%, reflecting heightened price competition in the acquisition market.

Looking at the mobile market in more detail, our market leading 4G network has reached a population coverage of 94%. As the middle chart shows, we continued to grow the number of 4G subscribers strongly and now have 5 million customers.

Moving now to the fixed business, the chart on the right highlights that we continue to increase the broadband customer base, up 38,000 to over 1.9 million. Our installed cabinets increased to 14,000, with our household coverage in Italy now standing at 3 million. As a result of our build, our fibre customer base grew 64,000 quarter over quarter to 211,000.

Turning to the UK, on slide 14, service revenue fell 0.7% in the period, broadly similar to Q2. Mobile revenue declined 1.0%, driven by two factors: firstly, ongoing reductions in consumer out of bundle revenue, following our policy change to give customers more control on their data consumption and spend; and secondly, the impact of 0800 regulation. Fixed service revenue returned to growth through an improved performance in Enterprise.

Turning to the mobile business, we have made significant progress on network enhancements. Our 4G coverage now stands at 86% nationally and 99.5% for London. So good momentum, but still further progress targeted over the next 12 months. As seen in the middle chart, contract net additions remained strong at 94,000 in Q3. This was supported by a strong Vodafone branded retail store performance, with customer gross adds up 8% year over year. We continued to achieve strong growth in 4G, adding 1 million new customers in the quarter, taking the base to 6.3 million.

Moving to the fixed business, the chart on the right shows the return to service revenue growth in Q3. This reflects better execution and delivery of our total communication contracts recently won. Our consumer

broadband service, launched last October, now covers 23 million premises, which is around 99% of the incumbent's footprint. We expect to launch TV later in calendar 2016.

Rounding off the major European countries, Spain, on page 15. The chart on the left shows the service revenue trend, which includes Ono in the most recent three quarters. The red bars represent reported organic service growth, and those in black eliminate the negative impact driven from handset financing, which was 3.8 percentage points in the period. Therefore, excluding handset financing, service revenue growth in the quarter was positive 0.7%, which was broadly similar to Q2.

If we turn to the mobile segment first, as Vittorio mentioned, we can now claim to be the best 4G network in Spain. Our 4G population coverage reached 86% by the end of Q3, and we have commenced the rollout of 800 MHz spectrum across our sites to further strengthen our 4G position. As the chart in the middle shows, we saw continued strong growth in contract net additions of 83,000. Our 4G customer base is now 4.8 million, up half a million in the quarter. The slowdown in mobile revenue growth was mainly the increased impact of higher handset financing. But in addition, the introduction in September of a cap on out of bundle data revenues to reduce bill shock, had a negative 0.7 percentage points quarter over quarter impact.

Turning to our fixed business on the right, this continues to show strong momentum. We delivered 79,000 net broadband additions, taking us to 3 million customers. Including our joint fibre network build with Orange, we now reach 8.2 million households with fibre.

Looking at Q4, you should expect a small quarter on quarter decline in headline performance, given a strong Q4 last year, before resuming a positive trend from Q1.

Moving on to page 16 and India, as you can see from the top left chart and the bars in red, our service revenue increase moderated to 2.3%, compared to 5.6% in the prior quarter. The bars in green exclude the impact of service revenue on purely MTR cuts. Excluding all regulatory factors – MTRs, roaming price caps, higher service tax – underlying service revenue grew by 7.6%. We experienced a quarter over quarter slowdown due to a number of factors: a significant increase in competitive promotional activity, impacting both voice and data prices; a reduction in 3G ICR revenues; and the additional pressure from the floods in Chennai.

I would describe this as a particularly intense quarter of promotional acquisition activity, which was not constructive for the industry as a whole, and, as a result, has already begun to unwind. However, as the chart in the middle shows, we had a good quarter of net additions at 5.4 million. While the customer base and total minutes are expanding, you can see the negative impact of voice prices, the blue line, down 10% year over year.

Moving now to data, on the right, data browsing revenue growth remained strong, up 38%, though somewhat moderated by the market increasing data allowances promotionally, which in turn drove data prices, the blue line, down 16% year over year. However, 3G data users, the red bars, continue to grow strongly, now at 26 million.

In terms of the network, our 3G coverage in targeted urban areas is now 94%. By the end of the quarter we launched 4G services in two key circles and remain on track to expand this to five circles by the end of this fiscal year, covering just under 50% of our current browsing data revenues.

In terms of the outlook, we expect future quarters to benefit from the removal of recent price promotions, the lapping of prior year MTR cuts in March, and the lapping of the other regulatory drags by May.

Moving to Vodacom, service revenue grew 7.2%, driven by strong commercial trends in both South Africa and our international businesses. In South Africa, service revenue grew 7.2%, up from 3.0% in Q2. This improved quarterly performance was driven by good customer growth, stabilising voice trends and strong data growth, despite a 20% MTR cut. Vodacom's international operations outside South Africa account for around a quarter of service revenue. Service revenue grew by 10.7%, driven by customer base growth, strong data take up and M-Pesa.

Looking at South Africa in more detail in the middle chart, we have made substantial progress on our pricing transformation programme, with 83% of our contract customers on the new plans. Contract ARPU has increased and prepaid ARPU has stabilised. Finally, in terms of data performance, data revenue grew 27% and now represents 35% of total service revenue. Data growth was underpinned by the significant growth in our 4G customer base, which now totals 2.5 million. We've maintained our clear network leadership, with 4G network coverage at 54% and 3G at 98%.

So to summarise, on slide 18, we have delivered the sixth consecutive quarter of service revenue improvement, driven by strong commercial execution and continued progress on Project Spring. Within our key markets we have produced a strong performance in South Africa and improving trends in Germany and Italy. Project Spring has already hit our targeted customer experience metrics and is near completion. We are particularly pleased to see clear evidence from independent audits that our customers are enjoying a high quality and differentiated network experience. And we are making good progress on our unified communications footprint, progressing our NGN build and delivering record broadband additions.

Looking forward, we expect further commercial improvement in Q4. We will continue to focus on actions to improve our margins whilst enhancing the customer experience we deliver. Our guidance for the full year 15/16 remains unchanged. And finally, as stated in my November presentation, I remain comfortable on our positioning for next fiscal year regarding our capex and the fact that our free cash flow before spectrum is expected to cover our dividend. So on that Vittorio and I will be happy to take questions.

Questions and Answers

Host

Thank you. Ladies and gentlemen, if you wish to ask a question could you please press 0 and then 1 on your phone keypad now to enter the queue, if you haven't already, and after I announce you simply ask that question. And if you find that question has been answered before it's your turn to speak just press 0 and then 2 to cancel, and there'll be a brief pause while questions are being registered. Our first question is over to the line of Akhil Dattani at JP Morgan. Please go ahead. Your line is open.

Akhil Dattani, JP Morgan

Yeah, hi, good morning. Just two quick questions please, if I may. Firstly on your credit situation, I noted back in January you took the decision to add a change of ownership clause to the standing prospectus for your European medium term note programme, which is quite unusual from Vodafone, if I understand rightly. Typically that's not the case, so I just wondered if you could comment on the rationale for that, how we should think about it.

And then secondly in terms of the Q4 growth outlook, Nick, you mentioned a lot of moving parts in terms of how you're thinking about Spain and also India into Q4. We've also got a cosmetic impact from the leap year effect. I guess I just wondered if we strip out distortions like leap year do you still expect underlying improvements as we go into Q4? Thanks a lot.

Nick Read

Okay, Akhil, thank you for those questions. So taking the first one, in terms of the change of control, yes, you're right to point out that was a change for us. In November we had a failed 30 year bond issuance, and we obviously went back to our bond investors to seek some feedback. And they had some clear concerns about exposure to M&A event risk and the potential impact to credit ratings, and obviously the subsequent bond values. You know, clearly in their minds the worst case could be a company, not necessarily ourselves, but a company going from investment grade to non-investment grade through a leveraged M&A transaction, which, you know, there have been a few examples.

By introducing this change of control clause into all future bonds issued we're making it clear that the board and senior management do not see a downgrade to below investment grade as a consequence of corporate action as an acceptable outcome. So we're essentially underpinning the fact we see ourselves as investment grade.

Going to your second question, in terms of the moving parts in growth I would say that when you look at quarter 3 obviously we had about 20 to 30 basis points of a drag in Q3 regarding carrier business and some other central adjustments. You have to look at that as a change of commercial policy for us in the carrier business. We decided to move away from some of the high volume low margin carrier business, so it's a

new baseline going forward. So if we take the 1.4% growth for the group as our new baseline you are correct to point out that there's a leap year effect in Q4. There's also an Easter effect, the timing of Easter. The net of those two things are about, I would say, 30 basis points. It's not an exact science, so 1.4% growth this quarter, about 30 basis points. I would say that there are underlying performance improvements in a number of markets projected, but at the same time we're reaching tougher comps in both Spain and South Africa in Q4 that will largely offset that underlying improvement.

Akhil Dattani

That's clear. Thank you.

Host

We're now over to the line of Nick Delfas at Redburn Partners. Please do go ahead.

Nick Delfas, Redburn Partners

Yeah, thanks very much. I've just got questions about the UK for Vittorio. First of all, from the outside it's hard for us to know what's going to happen with Three-O2. Could you make any comments on what your role is in the Cornerstone joint venture and what could happen, assuming that Three can't straddle both physical networks in the UK. And then secondly my question is on Openreach. What's your expectation currently from Ofcom on the question of Openreach regulation and separation? Thanks.

Vittorio Colao

Yeah. Thank you, Nick. Good morning. A very – I mean, assuming I'm on the inside and you are on the outside, the answers are, quite frankly, Vodafone's position. On the Cornerstone thing, for us our position is very simple. We are in favour of consolidation as long as this means strengthening the Cornerstone joint venture and this does not allow O3 to be sitting on two different networks, looking at two different strategic plans, looking at two different network plans, which I also think has some kind of anti-trust aspect, which is concerning to the regulator, and we read it in the letter that Sharon White wrote to the *FT*.

As long as those conditions are met, we are supportive, but if the result of the merge is that actually either BT and EE are strengthening or, you know, they sit on both tables and they play one against the other, of course we are not happy anymore. We are waiting, essentially, for the statement of objections.

On Openreach, it is clear and it was very obvious, even in BT's presentation, that Openreach is very profitable, that they've been loading Openreach with, you know, opportunities to improve the BT ownership of it. I'm not saying there's anything wrong with that, but clearly it's the classic incumbent's behaviour. Our position is of course that if Openreach were to be spun off we would be considering being an investor in it. If that does not happen we are expecting tougher pricing and access conditions and, most importantly, service obligations from – coming from this review.

Nick Delfas

Okay. Thanks very much indeed.

Host

We're now over to the line of Andrew Lee at Goldman Sachs. Please do go ahead.

Andrew Lee, Goldman Sachs

Good morning everyone. A couple of questions just around European fixed growth and the margin mix. Could you give us some more insight into your expectations on the fixed customer mix trends going forward? What does this mean in terms of Europe EBITDA headwinds or tailwinds for 2017 and beyond? And maybe you could help us understand how the overall European growth mix we're seeing is driving margins, absent the cost cutting etc, into 2017. Thanks.

Vittorio Colao

Yeah. Let me give you the high-level answer, and then Nick can comment a little bit more. First of all, we are very pleased with the growth. I know – I mean, I said it, but 411,000 fixed additions, 300,000 in Europe, is our record quarter, and it's clearly projecting Vodafone into the space as a strong player. So strategically

we are going in the right direction. We are pleased to see that the – at this point the majority of the new contracts in Enterprise, in large Enterprise, are coming with fixed components. And in many of our markets, including the small ones where we just launched, we have a quadruple play offer if a quadruple play offer is needed. Italy and Greece are following. So strategically we are a play – in countries like Portugal we are back to growth. Clearly we are back to growth, thanks to fixed line, because mobile is being more challenged. So I see this mixed evolution as a healthy one, because it immunises our revenues and actually puts us in one of the two top positions from a strategic point of view.

You said where are the margins going, absent cost reduction. I don't think absent cost reduction is an assumption that we would take. We are doing, and we have already done for part of the company, a very determined zero base budget exercise, and it is our intention to grow margins. Nick, you want to say a little bit more about the mix?

Nick Read

Yeah. I mean, I think at a very high level I'd just look at our Q3 performance. We had a very strong performance in Germany, 105,000, very strong performance in Spain, 79,000 net adds. This is on our infrastructure so, I mean, this is good margin business because we own the infrastructure. Clearly we also had a very strong performance in Turkey. You saw 97,000 net adds. Clearly that's a wholesale product and comes at wholesale margins. So wholesale margins can be anything 10% to 20% depending on which market we're talking about. So obviously we work the regulatory agenda very hard to make that more competitive and improve the margins. So I think it's about the mix of where the net adds are coming from and the wholesale terms that we get.

Andrew Lee

And on that, given that mix, do you see that providing a tailwind or a headwind, or how much of a headwind into 2017?

Nick Read

Well, I wouldn't see it so much as a headwind, given that mix, I mean, given it's Germany and given it's Spain, and some degree Italy. Obviously if the UK was amazing that might end up being a bit of a headwind, but – given the rates we get from BT.

Andrew Lee

Thank you.

Host

We're now over to the line of Polo Tang at UBS. Please do go ahead.

Polo Tang, UBS

Oh yeah, hi. Just have a question in terms of Germany. You've talked about improvement going forward just as your mobile back book repricing ends, but can you maybe just talk about what you're seeing in the competitive environment generally, both in terms of mobile and fixed. Thanks.

Vittorio Colao

Yeah. The main – I would say, Polo, two main comments. The main repricing – the repricing effort or exercise that we've been talking about for, you know, several calls now, it's still there but it is easing off, so we are being more successful and better. We are seeing, on the consumer front, strength in our Otelo brand, which of course has been used more to counter the pressure from the low end of the market, so – and we are continuing to switch more into, kind of, direct controlled sales, which, again, over the long term, gives you a better economics. So on the consumer mobile front I would say we are fine.

If I have to say on the fixed front we are happy that DSL – we are regaining for the first time in many quarters. We are regaining positive adds on DSL, and, as Nick said, we are very strong on the owned infrastructure. So I would say the only area where we see a lot – some pressure now is Enterprise, and again not necessarily just because of fixed but also on the mobile front, because being very successful, as we have been recently in Enterprise, we see a strong reaction from our main competitor, Deutsche Telekom

on the ARPU and the pricing front. But this is – if your question was do you see disruptive pricing or things like that, it's like, you know, the usual competition between Vodafone and Deutsche Telecom.

Polo Tang

Thanks.

Host

We're now over to Robert Grindle at Deutsche Bank. Please do go ahead.

Robert Grindle, Deutsche Bank

Yeah. Good morning everyone. Unfortunately I'm in the 0.5% of London which doesn't have 4G yet, but I'm living in hope. That's Deutsche Bank offices, not my house. Just on an Enterprise question, and it's in the UK, you did mention just there that the incumbents are pushing back a little bit in Germany against your success in Enterprise. BT could push back against you, I suppose, in Enterprise now they have EE. Do you see that as much of a threat, and if they did start to push into business mobile a bit stronger what would you guys do about it? Thanks very much.

Vittorio Colao

Well, first of all I'm sorry that – you must be – they must give you a pretty bad office in the basement. I hope we will look at and make sure that even that has a good coverage.

On BT, yes, you're right in the end, Rob, they will be more competitive and they will clearly push back. At the end of the day, as I said a little bit with my answer on Germany, these markets, Vodafone is, you know, one of the two players, and we have been very aggressive and successfully aggressive on Enterprise with Cable & Wireless, and of course they will come back on the mobile front.

What are we going to do it? We're going basically to fight back, reduce cost and deliver good services. We are very strong in the unified communication segment, mid-end of the market. We will continue to leverage on the One Net strength and compete with them. Are we going to bring fight or a battle or mayhem in the consumer segment? If this was your question, our intention is to basically keep the two segments separate and do in consumer what is right to do in consumer, and to gently, gradually, slowly – we now added the fixed broadband product. We will add the TV product, and we want to have a healthy competition but not a destructive one in both segments. If things go wrong we have the weapons for doing what it takes, but, again, we are in a constructive mode.

Robert Grindle

Thank you.

Host

We are now over to the line of Simon Weeden at Citigroup. Please do go ahead.

Simon Weeden, Citigroup

Thank you very much. A quick and easy one, I think. Can you give us the growth of the group equivalent to what you've reported but excluding carrier services or the, sort of, block of central activity which has caused a bit of a drag this quarter versus last?

Nick Read

Simon, as I say, the – when I was doing the bridge, we have about a 20-30 basis points of drag as a result of carrier – if you remember this time last year, Q3, I called out a very strong performance in carrier, and this quarter we'd already made a commercial decision to moderate the activity we do in carrier. So we, sort of, got a slightly heavier drag in this Q3 because it was strong last year and it's on a new platform going forward. So 20-30 basis points, carrier plus some other central things.

Simon Weeden

Okay. So what I'm trying to get to is what the actual number would be without it, both last quarter – I mean, the – we tend to talk about how the drag is changing sequentially, but actually I don't recall knowing what the number actually is without it, if you see what I mean.

Nick Read

Well, Simon, we'll take it offline, yeah?

Simon Weeden

Okay, sure.

Host

We're now over to David Wright at Bank of America Merrill Lynch. Please do go ahead.

David Wright, Bank of America Merrill Lynch

Oh, hello guys, and thanks for the presentation, some very interesting data points in that. I just wanted to follow up a little on Spain, and we might be talking more like a late 2016 dynamic. Is it your understanding that – it's my understanding that Telefonica has exclusive rights on the new content agreement for football, or am I wrong on that? Is there any way that they can decide not to wholesale to you guys, and what would you do in that circumstance, given you've had some very strong momentum in your TV business in Spain?

Vittorio Colao

Yeah. The answer is very simple. They do not have that right. There is a regulation which says that they have to resale the rights to third parties. Even if we don't like the formula, I have to be clear – and we are challenging the formula for the cost reallocation – but there is that regulation and, you know, that's the essence of it. They might try to use an argument that they're not buying rights but they're buying channels, but this is a little bit of a trick and it's unlikely that it would be successful.

David Wright

Okay. Super clear, thanks.

Host

Okay. We're over to Justin Funnell at Credit Suisse. Please go ahead. Your line is open.

Justin Funnell, Credit Suisse

Thank you. It's just a, sort of, broad question about growth next year. There's obviously the risk of rising competition in India from Jio entering, and we've already discussed BT and their interest in Enterprise mobile. So just a general question, if we're, sort of, exiting Q4, exiting the year in the high ones or thereabouts, do you think that we can sustain that growth rate next year?

Nick Read

Justin, I mean, what I'd say is I think you can see through our quarterly performance good commercial momentum around customer growth, whether it's mobile growth, whether it's fixed growth. You know, you've seen in most European markets pricing relatively stable over the course of the year, so becoming less of a drag. I think there've been pockets of exception. I'd say Enterprise, for instance, in Germany. You know, clearly you're calling out a fairly big unknown, which is in India. Yes, we get the benefit of annualising five percentage points of regulatory drag, whether it's MTRs etc, roaming, by the time we get to the end of May, but then we've got Jio entering the market. So we've yet to see pricing, we've yet to see the performance of their network, how much distribution they've got, so – you know, and then of course you've got the macro situations.

So I'd say fundamentals of us delivering through commercially off the back of Project Spring is good. Markets seem to be relatively stable on pricing if you aggregate across the footprint. India's probably the one to call out and Germany Enterprise, but of course, you know, macro situation could deteriorate, a number of things. So, you know, I'd say we still feel that we've got momentum.

Justin Funnell

Okay. Thank you.

Host

We're now over to the line of Adam Fox-Rumley at HSBC. Please do go ahead.

Adam Fox-Rumley, HSBC

Thanks very much. Another question on Enterprise, please. I was just trying to think about the growth drivers, and I wondered if it made sense to talk about average revenue per account as well as on a per user basis. Is that a metric you follow, and can you comment on it if you do for Germany where you're currently seeing ARPU pressure? Thank you.

Vittorio Colao

Adam, it's a good question and we've been struggling ourselves. The size of the accounts is so different and the breadth of services in Enterprise is becoming so wide that you would get a number that actually doesn't make a lot of sense. We do it more by type, so you look at, you know, large and international Enterprise, large Enterprise, medium Enterprise, but at the end of the day it's a customer by customer type of number. So even if I gave you that it would be difficult to draw any conclusion.

Adam Fox-Rumley

Okay. Thank you.

Host

We're now over to the line of James Ratzler at New Street Research. Please do go ahead.

James Ratzler, New Street Research

Yes, good morning. Thank you very much. I had one question on the topic of capacity on your network please. I mean, now we're coming to the end of Project Spring I was wondering if you could give us some commentary on to what extent you've been able to grow capacity on your network in Europe over the past two years. And, looking out over the next two years, what technological advancements do you see coming? What kind of growth and capacity can come over the following two years? Thank you.

Vittorio Colao

Yeah, I can give you, James, a few numbers more than comments. First of all, we feel pretty confident that despite the great growth in data usage, the 70% – 60-70% growth in data usage, we do have capacity. The European networks continue to be fully utilised, and the peak time at 35%. We are using today two thirds of our second carriers and only one third of our third carriers, so that's quite a bit that we can add. And on – this is the 3G network, and on the 4G network it's used at 10%, so – despite the fact that half of our data is on 4G. So with the investments that we have made, both in spectrum and in equipment, on the mobile side it's pretty good.

On the – often I get questions on fixed backhaul. We have 32-33% of fibre now, but we have almost 90% of high speed connections between our sites, including the 32% of course. So, again, there will be more investment. We will put more fibre into the network by definition, and of course we will have to continue to invest, at the rate we discussed many times, to go into specific areas where clearly the concentration of users would require more sites. But we feel good that there is a good capacity installed and that we should not run into crunches in the foreseeable future. Now, of course this implies continue to invest, not at the Spring levels but still at a pretty solid level.

Nick Read

And, James, just to add, our long range plan was always modelled at levels of between 60% and 80% per annum for the next five years.

James Ratzler

Okay. That's very helpful. Thank you.

Host

We are now over to the line of Sam Dhillon of RBC. Please do go ahead.

Sam Dhillon, RBC

Hi guys, one quick question. Your new overage policy in Spain, is that now consistent across Europe or would there be another market where we could see a slight decrease in service revenues from a new policy being applied?

Vittorio Colao

I wouldn't call it consistent. Let me say the philosophy is consistent, the application is not. The philosophy is we don't want to give bill shocks and we don't want to create an – how do you call it? – unexpected bad experiences. How to do that can change market by market, and of course the use of mobile apps and notifications will be a very important part of it. Spain was a little bit of a special case because – Nick may want to say something about it or not, you know. It was really another consequence let me say also of price movement in the market and the dynamics, the fast changing dynamics between us, Telefonica and Orange, and therefore we had to put a cap.

Nick Read

Yeah. I think it's fair to say that where we see companies or operating companies, where their out of bundle data revenues start to move up, the question is is that good revenue from a customer perspective. And so, to Vittorio's point, we've got a very specific programme in terms of making sure we don't have bill shocks. So we're recording revenue and then customers are getting unhappy about the experience. We'd much rather drive what we call good revenues, which is in bundle revenues. And if you look for the quarter as a group, you know, that's accelerating. So quarter 1 was 1.7% growth, up to 2.4% growth, up to 2.9%. So it's all about a good customer experience and driving that in bundle, and there would always be a degree of out of bundle and we just need to keep that in check.

Sam Dillon

Cheers guys.

Host

Okay. We're now over to the line of Andrew Beale at Arete Research. Please do go ahead.

Andrew Beale, Arete Research

Morning. You've used very different approaches in the integration of cable in Spain, where you did a full fast integration, and Germany, where I think you've left Kabel Deutschland much more alone. Just wondering if you can compare and contrast those. Obviously there's been a significant acceleration in Spanish fixed line revenues, but in Germany you're still only switching a fairly small number of DSL subs to higher margin cable, and in fact growing DSL. Just wondering if you're thinking of following a, sort of, fuller integration path in Germany or whether the minority or other things are obstacles there.

Vittorio Colao

Andrew, let me say you have a couple of definitions that I want to change. First of all, the leaving Kabel Deutschland alone is not the right expression. It was a deliberate decision to do a fast integration in Spain and to do an orderly, slower one in Germany. So it was not that they were left alone. They were actually integrated, but the decision was still to go at a different pace. The decision was driven essentially by market dynamics, by the different growth profiles of the two companies, and by also the different geographic spread. Don't forget that KDG is in half of the country and the other half, you know, we are, you know, basically with resale products from Deutsche.

We are clearly integrating. We are, you know, on track, I think, with the integration synergies. It's just the commercial visibility and the way we deal with it which is different. The DSL thing, honestly I think we have been undermanaging the DSL part. The focus of the new CEO immediately as soon as he came was, 'Guys, you know, we have half of the country where we have to resale, so we'd better resale, we'd better, you know, push in those – in that part of the country as well.' So I would call it more of a function of different

situations than, you know, a difficulty. Forget about the minorities. Forget about, you know, impossibilities of doing things. That is not the case.

Andrew Beale

Okay. Thanks. Can I just come back to the out of bundle question? Just asking about the UK, because as far as I can see the out of bundle revenues in the UK are quite big compared with in some of your other markets. Why is that and do you need to do anything about it?

Nick Read

Yeah, just bear in mind the UK has a fairly unique profile in our group because of Enterprise being 50% of the business. So therefore by definition Enterprise tend to have a higher degree of out of bundle within their contract, but it falls within a, sort of, contract structure that the large corporate had wanted. So it's less of a, if you like, concern. It's more of a construct that the Enterprise customer wants.

Vittorio Colao

Yeah, and if I can add on the consumer front in the UK we are seeing exactly the same phenomenon of pushing bigger bundles into consumer plans, and the demand is for bigger bundles. So I think that there is a mix effect, yeah.

Andrew Beale

Okay. Thank you.

Host

Okay. We now go to the line of James Britton at Nomura. Please do go ahead.

James Britton, Nomura

Thanks very much. Good morning everyone. I've got a question on profitability. I've heard some feedback that Vodafone's targeting 300bps of margin expansion, so I just wondered if Nick could, sort of, clarify over what timeframe that can be achieved. And perhaps just to link that, on – just on roaming, some operators are starting to flag up the headwind from roaming coming in April this year and next year. Can you give us any sort of quantification of the likely impact?

Vittorio Colao

I will take the roaming one and leave the hard work on margins for – to Nick. First of all, let's put it in context. For us you're talking about a 5% thing, which – of which two thirds are anyhow outside of Europe. And a lot of it is all Enterprise, so the absolute size of the roaming exposure or vulnerability is not huge. We have pushed – I have to say very successfully – the take your home tariff abroad options, which are now available in, I don't know, 15 markets maybe. We have now seven markets, six or seven markets who are bundling roaming into their Red tariff, so they are part of, you know, the price plan that you take, and you just don't pay anything different when you're in Europe than when you are in your home country.

So I would say a combination of, you know, we don't think it's a huge exposure, we have already worked very hard on a large part of the – the part which – of people who are more interested in roaming and, I have to say, continuing campaigns or these things make us a little bit less worried than some of our competitors about roaming. But of course you need to proactively manage these things, which we started two years ago.

Nick Read

And what – and just to build, James, just in terms of financially, I had previously quoted that roaming next fiscal year would be around €300 million on our revenue for next fiscal year, at a, sort of – let's call it a 70% type margin, and that was incorporated into our long range plan views etc.

I mean, just on the 300 basis points of margin improvement, you know, I've seen that comment in a number of analysts' notes. It wasn't a quote from me. I think when we get down to the group level it's always difficult to talk specifically about margin expansion opportunity because, let's face it, we have lots of different businesses with lots of different margins, so the composition, depending on which country is growing faster

within our portfolio, can be distorting, whether we get a lot of growth from fixed, in DSL areas versus on footprint etc, etc.

So I can give you a lot of reasons why it becomes tricky. What we did say was that we are looking to expand EBITDA at a faster rate than service revenue, and we are looking to do that next year, that we do see the opportunity to expand margins on a multi-year basis through our fit for growth programme, that we would be wanting to expand margins by country. We see opportunities across the board. Now, could a 300 basis points be achievable in a three to five year timeframe? You know, let's see, depending on the composition.

James Britton

Great. Thank you.

Host

We're now over to the line of Jerry Dellis at Jefferies. Please do go ahead. Your line is open.

Jerry Dellis, Jefferies

Yes. Good morning. I've got two questions please. Firstly, in Spain your organic margin has obviously benefitted to a fair degree recently from the handset financing adoption. As we move forward into next year I suppose whatever happens between Telefonica and Mediapro, Telefonica will no longer have a product disadvantage in the world of football. So I wondered what your thoughts are regarding whether the Spanish margin can continue to expand once the handset financing tailwind comes out, and whether it remains appropriate to continue discounting content quite so aggressively when you'll no longer have a product advantage vis-a-vis Telefonica.

And then my second question is really around India and dividend cover. You reiterated the commentary from November that you expect the dividend to be covered by free cash flow next year. Obviously you also talked about Jio being somewhat of an unknown in India, so I just wondered what you have baked into that assumption of dividend coverage in respect of capex in India next year please. Thanks.

Nick Read

Yeah. So obviously we've done Project Spring and – across our footprint, so, you know, India's been part of that. Capital intensity will come down in India, though of course we are rolling out in 3G circles a further six circles. We're rolling out 4G as well, so that is factored into our capital intensity for India. We're not quoting the capital intensity at the moment because clearly we're going through those plans now and finalising. But yes, within our guidance overall, and our language for the Group, we have taken that into account for India.

Vittorio Colao

On Spain, I can say that I don't think that, quite frankly, we had a massive advantage today. What really matters is La Liga and the national football. I believe that everybody will have everything, both us, Orange and of course Telefónica. The issue, quite frankly, for everybody – but this is not just a Spanish comment – is if football rights keep escalating in their price will it be possible to turn to the customers and ask them to pay for the increased cost of football rights, or would this be a drag for the whole industry. But I don't think this is a Vodafone-specific question. I think this is more the topic that we have not touched for one time in this call of: do content rights allow to expand ARPU, or at the end of the day they become almost an acquisition cost? Or a part of them will become an acquisition cost. Which I think is not just a Spanish question; it's a broader question.

For the time being we are happy with the results. Our TV products have done well; our fixed line has done well. And as I said in my earlier answer, we are clearly looking forward to getting access also to the football rights for the next season and the other two.

Jerry Dellis

Thank you.

Host

Okay, I'm afraid we only have time for one more question, and that is over to John Karidis at Haitong

Securities. John, please go ahead. Your line is open.

John Karidis, Haitong Securities

That's very kind. Thank you. I just wanted to ask questions around handset financing, please. You've been exceedingly kind to call out the impact of handset financing on service revenue. Is it possible to call out the impact of handset financing on EBITDA? You told us that in the second half of last year the benefit was about £120 million. What was it in the first half of this year? What's it likely to be in the full year, please? And then secondly, just to judge for ourselves as to whether this thing will annualise and disappear as an issue, can you tell us roughly what the take up is amongst your gross adds, in key markets like Germany, the UK and Spain, of handset financing? Very simply because in places like the US handset financing has been around and has been impacting financials for two or three years, not just one.

Nick Read

John, I sort of feel like we're drifting from a trading call into sort of going into full results. So in terms of EBITDA and impacts on EBITDA I think it's best that we cover that in May when we can be more specific by any particular market.

But essentially, when you stand back from handset financing – the reason why we call it out in Spain is because it was a material change not driven by us. We followed the rest of the market. So basically Telefónica and Orange had already moved to handset financing, and we felt we needed to do the same model as them, so we responded. We don't have that situation in other markets. So there's a small amount that we do – residual amount – in Germany. It tends to be around tablets, because that's the way the market works. It's not our policy to be driving handset financing. Clearly, if customers want separation of service contract from handset, and there's customer pull and demand for that, then clearly we'll respond. So the reason we don't call it out on a Group basis is because really it is just a material impact in Spain at the moment.

Vittorio Colao

But I think on Spain in May we can give you the details. I think it's a fair request. Very good. I think we're done with the questions. Before summarising, there's a small thing that I want to do. This is Peregrine Riviere's last call after many, many years. I think it's a great opportunity for me to thank – in front of the whole community, who has enjoyed dealing with him, to thank Peregrine for not only a very profession job and work across the years, but also for a very friendly, personable, human attitude to everything, which intrinsically is very analytical and a little bit cold. So Peregrine, it's been a pleasure to work with you. Peregrine is not leaving; he's actually promoted and he's going to go into the real world of the UK. And I'm sure we – we will not miss you, because we'll continue to work with you. But I'm sure that the people on this call have been very appreciative of everything you have done, Peregrine. So thank you very much. Pleasure to continue working with you in a different role.

Closing Remarks

Vittorio Colao

To summarise the call, first, I think we are happy that we are demonstrating continued strong execution in mobile, and I am happy that the strategy in fixed and in TV is working and is giving us record additions. Second, Spring, the network investment beginning to be recognised by customers, and also, of course, delivering actual good speed. And third, despite on-going regulatory and competitive challenges we are confident that we are well positioned for future growth. As Nick has said, we expect further improvement in the coming quarters. And fourth, of course, many of you have talked about margins. We are determined to deliver better margins and better customer service together, and of course cost will be part of it. We will talk more about all of these things in May.

Thank you very much for your questions. I look forward to seeing you in May, and thank you, operator, for orchestrating this.