

Vodafone Group Plc

FY 20 Results

Tuesday 12 May 2020

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Overview and Commercial Performance

Nick Read

Chief Executive Officer, Vodafone

Welcome everyone, and I hope you are all keeping safe, and thank you for taking the time to join us today. In these challenging times, we all need to adapt, which also includes the way we communicate our results. Margherita and I are speaking to you directly from our homes, enabled by Vodafone's communications services.

I'd like to start my presentation by sharing some of the actions our team have taken to support society during this period of crisis. We took early and rapid actions to ensure that our own business could operate at full strength and were able to swiftly move our focus onto supporting our customers and society in general. In early March, we set out a five-point plan to coordinate a comprehensive and consistent set of supporting actions throughout our markets.

Clearly, our mobile and fixed network infrastructure plays a critical role in keeping societies connected and enabling governments to deliver the response needed to fight the pandemic. I am very proud of the speed and reliability of our networks during the period in which we have seen such a dramatic rise in usage. Mobile data traffic has increased by 15% in Europe, voice traffic by as much as 40% and fixed data traffic by as much as 70% in some of our markets. To meet this demand, we have accelerated investment in a number of areas to boost network capacity, and we have seen minimal disruption to service across our markets as a result.

Secondly, we provided critical support to frontline health workers across Europe and Africa. Our teams have connected new field hospitals, donated equipment and services, and provided extra mobile packages so that they could always remain connected.

Third, access to information has been vital in limiting the outbreak and keeping the general public aware of what to do in an emergency. We enabled free data access to official health sites and in many markets supported dedicated apps.

Fourth, we wanted to help our customers through this difficult period. To support our consumer customers, we have also provided extra data allowances to help with remote working and free access to children's TV channels and educational content to support home-schooling. For small businesses, key to our supply chain, we have shortened our payment terms from 30 days to 15 to support their working capital.

Finally, we have worked with governments and health agencies across our footprint, providing data insights to help control the spread of the virus and support flattening the curve.

When we add up all of our measures executed, we have already donated a total of around €100 million across our markets, reaching 78 million customers. When we look back on this period of response and ultimately the recovery, I am certain Vodafone will be seen as having played a key role in supporting society through this crisis and that we cared about every local community we have the privilege to serve. Our key stakeholders, including government, customers, charities and shareholders, have given me so much positive feedback on the way we have supported them over this crisis period, and this

response to support society would not have been possible without the hard work and professionalism of the whole Vodafone team. On behalf of myself and all of our key stakeholders, I would like to say a massive thank you to the entire Vodafone team across all of our markets. We provide a critical service to society, and that criticality was brought into sharp contrast over the lockdown period. You kept everyone connected, with well over 90% of our team working from home. As the chart shows, this was not easy and required longer working days and a lot of communication. It is your commitment, dedication and hard work that makes Vodafone such a special company.

Whilst the battle against COVID-19 is at the forefront of everybody's minds, I would like to take a moment to reflect on what has been a big delivery year for Vodafone, resulting in an overall good financial performance. We grew our organic service revenue by 0.8% over the year and are particularly pleased with the higher consistency of execution we have established through Europe. This has led to improved, broad-based commercial momentum throughout Europe, with the Q4 exit rate significantly better than our entry into the fiscal year. We've also made a fast start to the integration of Liberty, with the rebranding already completed. This improvement in our commercial performance has been matched by the strong, ongoing delivery of our cost programme and as we drive the digital transformation of our operating model. As a result, we have grown EBITDA by 2.6% to €14.9 billion.

As Margherita will touch on later, we also have had a consistent track record of converting our profits into cash. We delivered €5.7 billion of free cashflow pre-spectrum and just under €5 billion of net free cashflow. This consistency of cash generation enables us to invest in the critical national infrastructure society relies upon, alongside enabling us to declare a dividend of nine cents per share for the year.

The good financial performance delivered during the year was a result of the strong delivery at pace of our strategic priorities. To strengthen our customer engagement, we have launched 5G in 97 cities across eight markets in Europe, have launched speed-tiered unlimited plans and established effective second brands in the value segments. These actions, along with many others, have delivered a sixth consecutive quarter of improvement in customer retention.

We have accelerated our digital transformation, contributing a further €400 million of net opex savings in Europe for a second year running and remain on track to delivery our three-year €1.2 billion target. The integration of the Liberty assets in Germany and central Europe is tracking slightly ahead of schedule, with synergies firmly on target.

Focusing on improved asset utilisation, we now have structural network sharing agreements in place in all major markets. In addition, we completed the merger of our passive tower infrastructure in Italy with INWIT and are progressing well with our plans to create Europe's largest tower company.

Finally, we've moved decisively on the optimisation of our portfolio, with the sale of our operations in New Zealand and Malta, the acquisition of ABCOM in Albania, the merger with TPG in Australia which has received competition approval, and an MoU agreed for the sale of Vodafone Egypt. We now have two scaled regional platforms in Europe and Africa.

As we look to the challenging economic period ahead, the board and my leadership team have been giving a great deal of thought to the role Vodafone plays in society in general and how we can support the next phase. We were there for the emergency response phase and we are committed to playing a key role in supporting the economic and social recovery. As we look forward, we see five key areas where Vodafone can clearly prioritise activity to support.

First, we will expand and future-proof our network infrastructure through 5G deployment and next generation fixed-line technologies, including DOCSIS 3.1, SD-WAN and Cloud. Secondly, we will further support governments as they seek to integrate e-health and e-education solutions into the new normal

public service frameworks. Thirdly, we will work hard to ensure those most vulnerable get the access they need and support in digital literacy. Fourth, we will also promote the widespread adoption of digital technologies for all businesses, with a particular emphasis on SMEs. Finally, we will support government exit strategies through targets deployment of digital technology.

However, in order to achieve our objectives, governments will need to support the vulnerable and small businesses, whilst working with regulators on an infrastructure deployment initiative covering administrative spectrum assignments at lower cost, facilitate cost-effective and quick network deployments, and promote more extensive network sharing. Through an extended social contract, where we work closely with governments and regulators, we will support the recovery whilst emerging a stronger business, playing a critical role in society.

I will talk further about our strategic focus and areas of focus shortly, but before then I would like to hand over to Margherita to discuss our financial performance for the year and summarise our outlook for the year ahead.

Financial Performance

Margherita Della Valle

Chief Financial Officer, Vodafone

Good morning, everyone. As Nick has already highlighted, we delivered a good financial performance this year and met our FY20 guidance. We grew organic service revenue by 0.8% and our momentum accelerated throughout the year, with growth above 1% in the second half, driven by Europe. We grew EBITDA by 2.6% to 14.9 billion and our EBITDA margin improved to 33.1%. This is our fifth consecutive year of margin expansion. Adjusted earnings per share declined by around one euro-cent, principally driven by increased financing costs and a higher share count following the issuance of new mandatory convertible bonds. You will find the full summary of our statutory results in our appendices.

We increased free cashflow pre-spectrum to €5.7 billion and free cashflow after spectrum to just under €5 billion. Having largely reshaped the group around two scaled regional platforms, Europe and Africa, it is now the right time to start reporting on our return on capital. This is a new external metric, but it has been for many years a significant factor in our internal planning and capital allocation processes. We have included both pre and post-tax measures to better assist comparison and we will report on it regularly in the future. While the level of returns is still too low, the actions we have taken during the year to improve our commercial performance, transform our cost base and simplify our portfolio helped deliver an 80 BPS improvement in pre-tax returns to 6.1%. This is something we will continue to work on, and Nick will illustrate later the steps we are taking to improve our asset utilisation and strengthen our relationship with regulators.

Turning next to our trading performance, a key priority this year was to improve our commercial momentum across our markets. The two charts on this slide illustrate the significant progress that we have made, particularly in the fourth quarter, when we grew service revenue by 1.6%. As you can see, we have delivered a 130 BPS improvement in Europe service revenue growth between the first and fourth quarter. I would like to highlight in particular the performance of Spain and Italy. The actions we have taken to stabilise our customer base combined with a number of ARPU accretive measures has driven a marked improvement in our service revenue trends. But let us now review the performance of each of our major markets in turn, starting with Germany.

Following the acquisition of Unitymedia earlier this year, our German business now represents a third of group EBITDA and 40% of cashflow. As the leading nationwide Gigabit provider in Germany, we have a significant opportunity to increase fixed broadband penetration and cross-rate convergence across our combined mobile and fixed customer base. Our progress since the merger can be seen in the top right-hand chart. We delivered a strong acceleration in cable net adds in H2, reflecting the fast start in migrating the DSL customers onto the Unitymedia footprint, combined with successful new campaigns encouraging customers to upgrade to higher speeds at accretive ARPUs. This acceleration in fixed line momentum combined with good growth in our branded mobile base delivered over 800,000 net additions in FY20.

We also saw a further improvement in customer loyalty with Q4 mobile contract churn down 80 BPS year on year to 12.3%. Our TV customer base declined, mainly reflecting customer losses at Unitymedia and low ARPU basic TV disconnections in the KDG footprint. As shown on the bottom right-hand chart, although reported service revenue in Germany was flat, our good commercial momentum drove solid retail revenue growth of 1.7% in Q4, excluding regulation. This includes the pro-forma contribution from Unitymedia. Vodafone's standalone organic revenue growth is now increasingly distorted by inter-company flows.

The operational integration of Unitymedia has continued at pace. We have rebranded the business, completed the switch-off of analogue services and accelerated the rollout of DOCSIS3.1 with 18 million households now able to benefit from Gigabit speeds. We also exceeded our DSL migrations target for the year and all other cross-selling goals. To date, we have realised one-fifth of our cost and capex synergy targets and are well on track to achieve the plans we outlined at the time of the acquisition. Our focus on efficiencies drove a 2.5% increase in EBITDA in Germany for the full year and 80 business points of margin expansion. Overall, we are pleased to have increased our exposure to Germany, a market that has been relatively more resilient to the impact of COVID-19 to date.

Turning next to Italy, which in contrast has been heavily impacted by COVID-19, I will summarise all of the COVID effects across our markets and their implications later in the presentation. As the chart on the left illustrates, in Italy, mobile number portability volumes across the market dropped during the lockdown in March. Our own outbound portability reduced by over 70% and our main brand currently benefits from the lowest churn in the market, valuing the high-quality service we provide. During Q4, competition in the low end of the market remained intense. However, our second brand, Ho, continued to grow strongly, reaching 1.8 million active customers by the year-end. In fixed line, we maintained our good commercial momentum, adding 121,000 broadband customers in the year. Full-year EBITDA was 3.9% lower on an underlying basis as revenue declines were partly offset by a 7.6% reduction in net operating costs.

Moving now to the UK, on the right-hand side of the slide, we returned to service revenue growth this year, exiting Q4 at 1.2% or 1.8% excluding regulation. This growth was supported by 800,000 customer additions across both fixed and mobile in FY20. In mobile, we have benefitted from the success of unlimited data plans, our co-best network position and our prepaid brand VOXI, which now had 500,000 customers. Contract churn was stable year-on-year at 14.2%, despite the impact of the new text-to-switch regulation. In consumer fees, we have just achieved our highest ever quarterly customer growth, supported by our big British broadband switch campaign. I am particularly pleased with the broad-based nature of UK improvement, with growth across all of our customer segments in both fixed and mobile. Full-year EBITDA increased by 8.5% on an underlying basis. This was driven by top-line growth and a 10% reduction in net operating costs.

Turning now to Spain, which represents 7% of group EBITDA, the overall pricing environment remains highly competitive. However, as in Italy, mobile number portability volumes have slowed due to

COVID-19, following the suspension of all porting in March. Restrictions have now been partially lifted but volumes remain suppressed. As the chart on the left shows, we have kept both our mobile and fixed customer base stable for three quarters now, supported in part by the good performance of our second brand, Lowi.

We also added 97,000 TV customers in H2, thanks to our strong movies and series line-up and despite our decision not to renew football contents rights last year. A steady customer base, combined with a number of successful ARPU initiatives, such as migrating customers to our speed-tiered unlimited data plans, have enabled us to improve our service revenue trends. In Q4, service revenue declined by 2.7%, a 380 BPS improvement compared to Q3. As expected, EBITDA returned to growth in H2 at +8%. This has been the first half year in which we didn't incur any football costs for our own customer base. We will see a further cost benefit from football in FY21, albeit smaller. Looking ahead to H1, we expect a significant impact from COVID-19 with lower roaming revenues in what is a big travel period, combined with the projected reduction in SME activity.

Moving to other Europe, on the right of the slide, which represents 12% of group EBITDA, service revenue growth remains healthy at 3% in FY20, with all major markets growing apart from Ireland. Customer growth remained robust across both mobile and fixed, and we exited the year with single-digit mobile contract churn in four out of seven markets. We are well on track with the integration of the UPC assets in Hungary, the Czech Republic and Romania, and, following the completion of the acquisition of cable operator ABCOM in Albania and the disposal of Malta, we are now fully converged in all our markets.

Turning to Vodacom, service revenue grew by 3.3% in the year, despite macro pressures, and EBITDA increased by just over 1% to €2.1 billion. In South Africa, mobile data volumes continued to grow strongly as customers benefitted from improved pricing. In March, we removed the regulatory uncertainty by proactively reaching an important agreement on data pricing with the Competition Commission. We have reduced monthly data bundle pricing by up to 40%, starting from April, building on the proactive steps we have already taken last year on data transformation, and now expect further traffic elasticity. We also continued to deliver strong growth in Vodacom's international operations, with revenues of 7.5% and more than 4 million customers acquired, despite the impact of new customer registration requirements in Tanzania.

In the Netherlands, our joint venture, VodafoneZiggo, is performing well and has reiterated its free cashflow guidance for the year. Our successful convergence strategy is driving significant customer loyalty and NPS benefits, with three quarters of our mobile consumer contract customers now converged. In February, we successfully shut down our 3G network and are progressing well on our DOCSIS 3.1 rollout, which is due to complete in 2021.

Now turning to the progress made on our cost programme. In FY19, I set out my target to generate at least €1.2 billion of net operating expense savings in Europe and common functions by FY21. We have delivered consistently against this target over the last two years, generating over €800 million savings. This progress has supported our return to EBITDA growth in Europe at +3% in H2. As a group, we delivered another 70 BPS of organic margin expansion, increasing the EBITDA margin to 33.1%.

As we accelerate our digital transformation, as anticipated, we continue to identify new areas of opportunity. I can now give visibility on the next three-year cycle. We will be targeting at least €1 billion of further net opex savings over the next three years in addition to a reduction of our acquisition and retention costs. By FY23, we will have reduced our opex base in Europe by one-fifth against our FY18 baseline, delivering total net savings of more than €1.8 billion. To give you a view on how we intend to achieve this, we have expanded our original customer care cost reduction target from 30% by

FY21 to 50% by FY23, our retail operations will now reduce by 40% against our previous 15% target, and the productivity of our shared services will almost double. We also see incremental cost opportunities outside of opex.

Today, total commissions have remained broadly flat at around €2.5 billion per year, and our channel distribution strategy continues to evolve towards digital, further accelerated as a result of COVID-19. We expect to reduce our total acquisition and retention costs over the next three years, supporting the transformation of our cost base.

Moving on to free cash flow, we delivered a slightly stronger year than expected with €5.7 billion of free cash flow pre-spectrum. Through EBITDA, we generated just over €13 billion of cashflow before investment. Similar to last year, this included a small positive contribution to working capital from handset receivables sales. Our capital expenditure for the year was 47.4 billion with a capital intensity of 16.5%. Spectrum was only €0.2 billion this year, significantly below our longer term average of €1.2 billion, principally because of the deferral of German 5G spectrum fees, which are now phased over 10 years. Despite the step up in restructuring from the Liberty integration, this allowed us to generate net free cashflow for the year of €4.9 billion. We also completed a number of significant portfolio simplification activities during the year, including the sale of Vodafone New Zealand, the sale of Vodafone Malta and the merger of our tower infrastructure in Italy with INWIT, generating over €4 billion of additional cash.

Let me now set out our key priorities for capital allocation for the year ahead. We have a consistent track record of converting profits into cash. Over the last two years, we have converted almost 40% of EBITDA into pre-spectrum free cash flow and still kept 30% of EBITDA into free cash flow post normalised spectrum and restructuring. Our consistent cashflow generation underpins our three capital allocation priorities.

First, we prioritise our investment in maintaining our critical infrastructure across both our fixed and mobile networks. Our rate of investment is expected to remain broadly equivalent to 17% of revenues. Second, we remain focused on maintaining the robust balance sheet and moving towards the lower end of our three to 2.5 times net debt to EBITDA leverage range in the medium term. Third, we will return €2.3 billion to shareholders, representing nine cents per share this year. Following the acquisition of the Liberty assets, our net debt increased by €18.5 billion to a pro-forma leveraged position of 2.9 times. As you know, we have worked during the year to simplify our asset portfolio, generating significant cash proceeds for the group. We ended the year with net debt of €42.2 billion and 2.8 times leverage. Pro-forma for the loss of EBITDA for INWIT and Malta transactions, which completed in March, leverage would have been 2.9 times.

Our current liquidity position is very strong, with over €12 billion in cash and liquid securities. We also have an additional €7.7 billion of committed but unused credit facilities. Overall, we have a solid balance sheet. We have long-tenured debt with an average maturity of 12 years and fixed interest rates, ensuring the predictability of our financing costs.

Before we turn to our outlook from the year ahead, I want to highlight some of the key impacts we are seeing across our businesses from the COVID-19 pandemic. The most immediate and dire impact has been on the revenues we generate from roaming. We have seen a decrease in roaming revenues in Europe in March and April of 65% to 75%. Our total annual revenue from roaming is around €900 million, with just over half of this flowing to EBITDA. Therefore, the decline in European travel will have an impact in FY21, particularly in the first half. In contrast, we have seen a significant increase in data and voice usage, some of which is out of bundle. This has offset the roaming impact in March, but we would expect some of this benefit to subside as lockdown restrictions start to ease. We have also

experienced the sharp reduction in customer churn and growth additions across Europe, and retail footfall has reduced.

The digital engagement with our customers has played a key role. As Nick will explain later, our transformation of the distribution channels has become even more critical. Vodafone business has seen a surge in activity in Q4, with customers requiring our support to enable employees to work remotely. We have also started a number of critical transformation projects, including for the public administration. However, we have now received the first customer requests to delay payments or suspend service. These are coming predominantly from SMEs and we expect this trend to continue affecting our performance, although partially mitigating this there will be opportunities to help businesses make the switch to next generation technologies to deliver high quality, cost-efficient and reliable solutions for their communication needs.

Let me now lay out for you how we expect this to affect our FY21 results. Given the uncertainties this year due to COVID, we will not be giving an EBITDA guidance range. However, we are able to give you an indication of the main moving parts that will affect our performance. First, reflecting changes to our portfolio and movement in exchange rates, our rebased EBITDA for FY20 is €14.5 billion. As I mentioned on the previous slide, the total EBITDA from roaming is around €500 million. So this will be the maximum impact for the year if there was no travel whatsoever. On the downside, we expect to see further negative impacts from COVID-19, such as lower SME revenues and lower enterprise project revenues. Offsetting this, our underlying commercial momentum has been improving and we will reduce net opex by over €400 million this year, as well as target additional acquisition and retention cost efficiencies, as I previously outlined.

In a pre-COVID world and given our exit rate in Q4, we would have expected to see good growth this year. However, taking the current prevailing global economic outlook into account, our EBITDA is estimated to be flat to slightly down. We will provide further information on this alongside our first-half results in November. We are confident on the relative resilience of our free cash flow generation, supported by our strong focus on cost and capex discipline. Therefore, we are providing guidance of at least €5 billion free cashflow pre-spectrum in FY21.

And with that, I will hand back to Nick, who will provide an update on our strategy focus.

Strategic Review

Nick Read

Thank you, Margherita. I have always started our strategic review with our purpose, as it defines everything we do as a company. Our purpose is to connect for a better future, framed by three areas of focus: digital society, inclusion for all and planet. I will talk you through these in a moment.

Our strategy is to be a technology communications leader, enabling a digital society, more relevant than ever in a world that will be permanently changed by the impact of COVID-19. Our significant work to simplify our portfolio over the last 18 months will enable us to focus our attention on two attractive regions in which we have a scale advantage. In Europe, we aim to be the converged communications leader, now with a converged offer available in all of our markets. In Africa, we are focused on being the leading data and digital payments provider in all our markets. Our regional operations are underpinned by leading Gigabit networks and best-in-class shared service centres and global platforms, such as Vodafone TV, IoT and M-Pesa.

To deliver our strategy, we are focused on four priorities, all of which remain highly relevant in the years ahead. But I will take the opportunity to highlight the areas of heightened focus within them, to ensure Vodafone emerges stronger following this challenging period.

Many of you attended our open office event in November, where we expanded upon our purpose and our ambitious targets. Whilst our current focus is to support society during this phase of recovery, we don't want to lose sight of some of our longer-term targets. To demonstrate our commitment to these goals, both internally and externally, we felt it was important to include, for the first time, specific targets in our long-term incentive plans.

In digital society, we are playing a key role in enabling ever faster and ever higher-quality digital communications and access to information to an ever wider range of people.

In inclusion for all, we will connect more women to mobile services, provide greater employment opportunities to young people and continue to improve millions of lives through the Vodafone Foundation.

In planet, we will reduce our greenhouse gas emissions, buy power from only renewable sources, and ensure 100% of our redundant equipment is recycled.

Our purpose inspires us and I look forward to reporting on our progress and highlighting the wonderful stories that bring this work to life as our role in society becomes even more central in the years ahead.

This has been a period of reflection for all of us. Whilst we have delivered at pace and are pleased with our progress in the year, the current environment and the recovery to a new normal requires us to heighten our focus on key areas, managing the challenges and seeking out the opportunities to emerge stronger.

The quality of our networks and the relationships we have built with our customers have never been so important for our continued success. Both need to be protected as we support the recovery. Our digital transformation will experience a step change, as customers have embraced the behavioural

change in lockdown, allowing us to advance our plans at a quicker pace, especially sales and service channel mix. Our network sharing arrangements will allow us to improve asset utilisation and return on capital, whilst continuing to achieve improvements in speed cover and capacity. The last few months have really reinforced the value of quality communications and whilst we have executed a significant number of important strategic transactions over the last 18 months, with some still in flight, our top priority in FY21 is completing Europe's largest tower company and targeting an IPO in early 2021, subject to market conditions, which for tower assets remains robust.

So firstly, turning to deepening customer engagement in Europe, across our market we have a coordinated commercial plan to continue to enhance our networks, deliver clear and meaningful choice of price plans, provide best-in-class customer case and offer a truly converged experience.

Over 90% of all our mobile data traffic is now on 4G, allowing us to begin the 3G switch-off. Netherlands was the first market. This phased cost allows spectrum re-farming to more efficient 4G and 5G networks. On fixed, we can now market NGN broadband to over 136 million homes. We have seen a strong response in Germany to our higher-speed offers of up to one Gigabit per second. This has enabled clear differentiation of our offer on both speed and reliability, something we are focused on across our markets. We have also streamlined and simplified the range of plans available to customers, starting with second brands in the value segment through to speed-tiered unlimited plans. We now have more than 4 million unlimited mobile customers across six markets, with increasing demand in a world where everyone is relying on fixed and mobile communication. This year, mobile data per user was up to 5.7 Gigabits, which is 55% up year over year.

Over the last few weeks, we have all experienced differing levels of remote customer service from a range of providers. Digital and automated channels have never been so critical to providing an efficient yet effective customer relationship. We now have our AI assistant, TOBi, live in 15 markets, handling over 40% of all customer contacts.

In Africa, the current situation just further reinforces the criticality of both quality mobile connectivity and mobile digital payments. We are a leader in both. Mobile data usage per user is increasing at over 40% per annum. As you can see from the chart, 4G is only 22% penetrated. As customers make the transition from 2G to 3G to 4G, usage increase, as does ARPU. 4G smartphones will increasingly become critical for all customers. We are building our networks for these demands. We have now completed the M-Pesa JV between Vodacom and Safaricom, putting the platform and the product development closer to the customer. As the lower chart shows, we intend to build out the full functionality of services by market and drive M-Pesa's overall contribution to service revenue growth.

With remote working now so firmly established in our lives, businesses will be increasingly reliant on emerging technologies to deliver fast and reliable, but also low cost and easy to maintain, solutions. We have made a good start in our deployment of SD-WAN in the year and have built a strong sales pipeline, given the inconsistent and costly experience suffered by customers of traditional incumbent VPNs. We will work with larger enterprise customers to help them make the switch from legacy VPNs to fast, more reliable and cost-efficient SD-WAN-based solutions. We have seen the substantial benefits to migrating to the Cloud inside our own business, so we fully understand the speed and productivity advantages that are possible. In addition, we will leverage strategic partnerships to ensure we move quickly, with best-in-class solutions, as seen with IBM on Cloud solutions and AWS with edge Cloud services.

We are only at the beginning of fully understanding and deploying the potential of IoT across industry sectors. We already have a leading position in the automotive sector, in which over 30 million cars are connected by Vodafone, through our global leading platform that now has over 100 million

connections. We are now coupling our IoT expertise with 5G to offer mobile private networks. We are targeting 30 large-scale customer pilots across three industry verticals this year. We firmly believe that a greater focus on these emerging technologies will enable us to increase their share of the value chain in which we operate.

Over the past two years, we have delivered significant shifts in our cost base and productivity through targeted deployment of digital technology. At our open office event in September last year, we showcased a number of advancements we are making to be the industry leader in this area, emphasising at the time that this was a fundamental transformation of our operating model and not just cost-cutting. This provides an important platform to make a step change in our ambition, driven by behavioural changes experienced over the last few months. Within customer management, we have delivered a 20% reduction in a number of calls over the last two years, through initiatives including the deployment of our AI assistant, TOBi. We have also further optimised our branded retail store footprint, with a decrease of 9% so far. In digital operations, we are now processing 80% of our payments in a touchless way.

Through these activities and many more, we believe we will enhance the customer experience, improve customer loyalty, sell more services and ultimately deliver more cost savings. Our new cost target, which Margherita covered, means that we will be taking out over €1.8 billion from our FY18 starting point, a 20% structural reduction in our opex over five years.

Over the last 18 months, we have executed a series of agreements across our markets to enable a mix of active and passive sharing of mobile network infrastructure. You will see from the map this supports our strong 4G coverage already established across our markets. During the year, we reached agreements in Germany with BT, TI in Italy, with all MNOs in the UK for enhanced rural coverage, and extended the scope with Orange in Spain and O2 in the UK. Complementing our strong mobile coverage through a mix of direct cable and fibre ownership, alongside strategic wholesale deals and regulatory access, we can market NGN broadband services to over 136 million homes across our markets in Europe. In addition, we are rapidly rolling out DOCSIS 3.1 across our cable networks, serving 32 million households with Gigabit speeds on our own infrastructure, an increase from 24 million at H1. We are targeting to upgrade most of our 54 million NGN homes passed by 2023.

I'd like to take a moment to reflect on the pace and sheer breadth of portfolio activity we have executed in the last 12 months. One of the most important transactions we completed during the year was the merger of our towers in Italy in INWIT, as it allowed us to engage with the European Commission to establish the right principles for network sharing in Europe. As you see from the charts, there has been an range of models discussed, and we believe that a national passive share with active sharing outside of major cities remains the optimal target state, providing a quicker, more optimal way to improve coverage and speeds, whilst allowing us to drive industrial synergies.

In return for our towers, we received an initial €2.35 billion in cash and a 37.5% equity stake in the merged INWIT. After the end of the fiscal year in April, we completed a placing of 4% of equity for a further €400 million at a highly attractive multiple. We firmly believe network sharing is critical for European markets to maintain broader competitiveness with other regions, and I'm very pleased that we have established the right target model to accomplish the best outcome for society, customers, operators and shareholders. In addition to the INWIT transaction, you can see the list of transactions on the right-hand side, which I've already mentioned.

To conclude on India, the critical situation has been put under further financial strain by COVID-19. The Vodafone Idea team continue to work constructively with all relevant authorities to find a path forward. The business requires a government support package if India wants to maintain a three plus one player

telecoms market. Last month, we accelerated a payment of \$200 million to Vodafone Idea under the terms of a contingent liability mechanism within the original merger agreement, reducing our potential exposure to €0.8 billion. Vodafone Group's position remains unchanged. We will not inject new equity into our Indian joint ventures. We continue to work on the Indus-Bharti Infratel merger, which would provide cash proceeds for VIL at completion.

Turning to our European tower company, we now have the full management team in place, led by Vivek, and the operational separation is complete. In addition, the legal separation in Germany and Spain will complete this month. The diagram on the slide summarises the basis of separation of assets and forms the foundation of the MSAs. We are now focused on finalising the remaining legal separation and MSA documentation for each market. As a result, we are firmly on track to give relevant financial and operational information in November with our half-year results and are focused on executing monetisation options in early 2021.

I'd like to conclude by summarising four key points I hope you've heard throughout our presentation. Firstly, through the hard work, dedication and professionalism of the entire Vodafone team, we've delivered a rapid, comprehensive and coordinated response to the initial COVID-19 crisis in all our markets. We're also building on our social contract to support economic recovery in the years ahead. We've also delivered a good financial performance in the year through consistent execution and improved commercial momentum in Europe. Thirdly, our financial performance has been the result of strong progress made against the four strategic priorities I outlined this time last year. Lastly, through clear prioritisation of our strategic agenda, I am confident we will emerge stronger, creating sustainable value for all of our stakeholders.

Questions and Answers

The first question is going to Emmet from Morgan Stanley.

Emmet Kelly, Morgan Stanley

Hi. Good morning everybody. I hope you can hear me.

Margherita Della Valle

Hello.

Nick Read

Absolutely.

Emmet Kelly

Super. So very nice to see everybody's faces this morning. I've just got, yeah, the one question, as you mentioned, Nick. Obviously the lockdown has been very challenging for everybody across society, but, as I've seen, a lot of articles written, 'Could you imagine the lockdown without the internet and without being connected?' So clearly companies like Vodafone have played a very key role in keeping, we'd say, companies connected, keeping governments connected. I've got two kids at home that are doing e-schooling. I'm able to chat with you today. In the evening we all watch a lot of Netflix or BBC iPlayer.

Can you just maybe say a few words on what you think this means for the telco industry and for Vodafone maybe, going forward? What are the likely takeaways of the COVID crisis for the telco industry? What's really going to change? Rather than looking at 10 BPS or 20 BPS of service revenue growth every quarter, what does this mean? Is this going to accelerate the move towards unlimited? Could we finally maybe see some better regulation from national regulators, or maybe more consolidation from Ms Vestager in Brussels? What does it really mean for the industry going forward? Thank you.

Nick Read

Yeah. That's an excellent question. You're sort of reflecting, in a way, the whole conversation we were having at the board, because at the board we were talking about our strategy process and in what way would we do it differently this year. And one of the things that we were talking about – I think it's a moment where you step back and say, 'I think there will be behavioural changes, structural changes to society across the board over the next 10 years as a result of this. Therefore, what are the opportunities for us as a business to, if you like, get stronger through a recession?' Clearly, there is going to be a recession, maybe very deep, maybe very prolonged. We don't know. There are many different views.

If I park the recessionary impact to one side and sort of look at it from a structural perspective, I would say probably three points. Firstly is you've got a situation where there has definitely been an appreciation for quality. People are understanding the quality of networks now. They understand that they're critical to their lives. I think they're starting to say to themselves, 'For €2, €3 more, would I rather be on a quality network?' It's interesting to see touchpoint NPS and customer reaction to our

services. I mean, we've got – I've never been so overwhelmed personally from so many positive comments from governments, charities, companies, consumers about how we've helped them through this crisis and I think that's really positive for us as a brand. I'm sure that's happening to other quality telcos as well, but it won't be every telco in the sector. A really good data point is we monitor Facebook Analytics and in Italy we are now the lowest churning brand in Italy, and I think that's a flight to quality.

I'd say the second thing is I think there will be opportunities around products and services, breadth of products and services. So companies are now saying, 'Look, we are going to continue to blend office and working from home going forward and we need the infrastructure and the security to be able to do that, the resilience going through.' So we've had a lot of demand coming forward in terms of saying, 'How can we work with you on these type of things?' There's opportunities around new products. We were just talking about thermal camera imaging connected with IoT with a dashboard in offices, which is a product we've launched in the UK and we've got it trialling in a number of our locations. So I think there's a product demand aspect. You could do unlimited, convergence. Will people want servicing of their home environment at home, either remotely or physically?

And then I'd say the third component is the relationship with governments. I think governments have understood the criticality of telecoms infrastructure. They have really, I think, appreciated the resilience by sector, or lack of resilience by sector, and therefore they're looking to telecoms to say, 'Yeah, you did a great job', but we could be even more resilient, but we need support from government to do that, so the approach to spectrum, the approach to planning, consents that are very protracted and costly. I think there is an opportunity – I talked before about the social contract. How do we have a social contract in a new normal that I think is more positive for our sector?

I think I have to save time, so we'll now move onto the next question.

James Ratzer, New Street Research

Good morning, Nick and Margherita. Thank you also for being able to host the call today.

I had a question if possible.

I was going to say a question I imagine you were expecting on the UK market and the deal between – announced between Liberty and Telefónica. I would be interested in just hearing kind of your reactions to that, were you involved in negotiations in that asset, why you felt the deal went with Telefónica rather than yourself, and whether that you feel has a broader impact on your UK business in the medium term. Do you need to consider more M&A in the UK market yourself? Thank you.

Nick Read

Yeah, James, thanks. I think I would start off by saying we're very happy with our organic strategy. We have been happy with our organic strategy. I think you saw from the results the UK is really performing, and I think that the market conditions, if you like, strategically, for us are favourable. So let me just maybe talk to those.

I think from a performance perspective you've seen service revenue, 1.2% in Q4. You see that we're growing in both consumer and enterprise. We are taking share in both segments. We've had a record fixed broadband add performance, 64,000 net adds, so we know how to sell fixed in this marketplace, and you have seen EBITDA increasing by over 10% over the course of the year. So if I stand back, I mean, I'm really delighted with our performance in the UK. I think we have real momentum and the right formula going forward.

If I look at the market from an asset position and structural position, a couple of points I'd make. Clearly, you all know we bought Cable & Wireless. That gave us convergence for businesses. The business part of our operation is 50% of our business there in the UK, which is a lot higher than many of our other operations throughout Europe. Ourselves and BT combined are just under 80% of the market share of business and therefore I really think we are in a strong position as the challenger against BT.

You then take our mobile. We are sort of co-best, along with EE, in terms of quality of network. We have access to CTIL, the tower company, for scaled synergies and economics, so can compete on a unitary cost and coverage quality basis, and of course we have a strong spectrum holding, so I think we are fortified on the mobile side.

And then on the fixed, we have a very open opportunity, I believe, for several providers. We all know that BT need to do fibre build. You know that they will overbuild Virgin moving forward. The cost economics are there. Let's say CityFibre are saying 400 a home passed, so we know the economics are viable. What we also know is BT needs a really strong anchor tenant to make their returns work. I think, whether it's BT, whether it's CityFibre or others, we have access to wholesale so we can offer a converged product.

The final area I would say is around TV. UK is an OTT market. Netflix's penetration is around 45%. Compare that to Germany of more like 15%, maybe 20%. The ARPUs on TV are very high in the UK, which offers an opportunity around cord cutting.

So I stand back from all those structural facts and say, 'We're performing really well.' We know how to make this formula work and I think we just have to point to Italy as a really good example where we have a fantastic quality mobile network, we wholesale a great product from Open Fiber and we know how to sell convergence. I think we would be able to continue to successfully do that in the UK, whilst Liberty and O2 will be going through a very complex integration over many years, in the consumer space. So I'm positive about our outlook in the UK.

James Ratzer

So no plans there to counter bid at all.

Nick Read

I think by 'very pleased with organic strategy', you have your answer. Thanks, James.

James Ratzer

Yeah. Thank you.

Akhil Dattani, JP Morgan

Hi. Morning, Nick and Margherita. Thanks for taking the question. I've got a question on return on capital. I guess firstly an interesting addition to your reporting, so keen to understand what the rationale was for adding it at this point. There is one very small technical point, which is just is the net operating asset number adjusted for write downs, or is this an underlying number, so just to understand how you calculate it. But the broader question is that the 4% post-tax return is, as you said yourself, quite low. I'd just be interested to get some colour on how that varies by market, how you think about target returns, so what are you really aspiring to when you look at the group, and what do you think is

key to improving that return? You know, is it growth, is it cost cutting, or is it, as you talked about, Nick, trying to broaden your portfolio in this new environment to try and tackle new opportunities? Thanks a lot.

Nick Read

Well, maybe if Margherita goes through the six parts of your question, and then I'll do a finish.

Margherita Della Valle

Sure. Akhil, I think you asked about why now, how the numbers are calculated and also what we can do and what our targets are going forward. So if I start taking the first part, the 'why now' is very, very simple. As you know, we have worked very hard in the last about 18 months to simplify our group structure around two regional platforms, Europe and Africa. This process is now largely complete, so I felt it was really the right point in time and the right baseline to start disclosing return on capital and monitoring it over the next few years.

As you can imagine, internally we have not started looking at it now. Internally, the return on capital has been probably the beginning and the end of all our planning processes and all our capital allocation processes. Actually, three years ago we also changed our bonus schemes to make sure everyone had very, very clear our focus, by introducing EBIT instead of EBITDA. So it's always been really a protagonist in our planning, but now we have a stable base to also allow you to follow our progress going forward.

How is it calculated? It's a very simple calculation. I think there is an appendix that illustrates the moving parts, given it's the first time. It is not adjusted, to your question, because we want you to be able to reconcile every number to our balance sheet and P&L and therefore no underlying adjustments have been made. Clearly, you mentioned difference by markets and what we are targeting. We're not disclosing return on capital by market, but I think you can work out pretty easily the various ranges. What we do is we target each market to exceed its own cost [inaudible] planning period.

I can talk to what we are doing, if you want, organically inside the company to do that, which are the key levers you were mentioning. I would say clearly the numerator, in terms of return, it's our EBIT growth, and, for us, the two biggest levers of EBIT growth I could pick at this point in time is, on the revenue side, churn reduction, and then on the cost side clearly our cost transformation to digital and our shared services. But the denominator, so the capital employed, is equally very important, and there, in our new strategy, we have really focused to move at pace on network sharing, precisely in order to improve returns.

But beyond that you called out industry structure and I would maybe leave it to Nick to comment on how we are working on this at the moment.

Nick Read

Yeah. I mean, just to build on Margherita, on the industry side it goes back a bit to the social contract that we were talking about. In the end, there are too many competitors and it is too capital intense as a market throughout Europe. I think that regulators have focused on price more than quality. They have encouraged new entrants, done spectrum set-asides, favourable access terms, which, if you like, have undermined returns. And I think we have always shown them return on capital and highlighted this to them, but I think to visibly publish it I think is an important step in trying to make them understand that we need to improve this situation.

I have been talking about social contracts since I came into the role. I am encouraged because, put aside COVID-19 aside for all the reasons I said on the first question, we did the UK rural initiative, which I think was a good first step, the German government, in terms of subsidy and support on rural, staged payments on spectrum after the price came out higher than they expected. So I think we're starting to see – and probably the most significant, which I was highlighting in the presentation, was the EC's approval of the INWIT transaction, because it was really for – I was trying to establish a strategic model for approvals going forward for the industry.

So I'd say regulators and governments are starting to understand the need to support the industry and the criticality of our industry and that the returns are not where they need to be. Of course, proof is in the pudding and actions – I'd say we're starting to get – the breadcrumbs are starting to shape in the right direction and we're having a quality conversation with some good outcomes.

Akhil Dattani

Thank you.

Andrew Lee, Goldman Sachs

Good morning everyone, and thanks for taking the question. I actually wanted to follow up on Akhil's question on the returns. I think it's great that you're now disclosing return on capital. It's really helpful for us, and, while the absolute level is suppressed, the direction of travel has clearly been really positive. There were a couple of questions of Akhil's that maybe weren't answered and maybe that's because you don't want to or can't at this point in time, but I was just going to maybe re-ask them. One was: can you improve return on capital this year? And secondly, where do you think the return on capital should be on a medium-term outlook, maybe in the next three years, given the current regulatory environment?

If you can't answer those then an additional question would be on any incremental colour you could give on the commission or distribution costs, which you have also targeted to reduce over the next couple of years, and just wondered if you'd give some scale and timing of those cost reductions. Thank you.

Nick Read

I think Margherita can do all of those ones.

Margherita Della Valle

All mine. So I'll cover both aspects, Andrew. On return on capital, can we improve it? We are coming out with very good momentum from FY20. I think you have seen the numbers. We were growing revenues, growing EBITDA, growing cashflow and we were on an acceleration path. So what I was looking forward to guide you towards was an ordinary year of further acceleration on all this growth. Now we have COVID and we had to review our position, and you have heard that we expect, with the information we have now, to see EBITDA being stable to slightly negative in the year. It may be a prudent view, but a view we felt was appropriate in the circumstances. So can returns still grow this year? I think it still is a possibility, but we felt it was more appropriate to guide towards this type of EBITDA and therefore EBIT performance in the year.

Your second part on returns was how far can it go, and I think our target, as I mentioned earlier, is obviously to exceed cost of capital, and that's what we planned for. The levers are the ones we mentioned earlier and I think a lot of the speed of improvement will also depend on the potential overall industry improvement. If I –

Nick Read

Can I just –

Margherita Della Valle

Sorry.

Nick Read

Sorry, can I just build on Margherita's point there? When she says we planned for it, we review the three-year, five-year long-range plans of all the markets, the strategies, the commercial actions etc. We start with return on capital. So they have to demonstrate to us that they are going past their market cost of capital. If they don't, we often ask that company to come back with more radical structural changes to achieve the goal, so it is very much at the forefront of how we shape the strategic long-range plans.

Margherita Della Valle

Indeed. I was thinking our CEOs on the call will recognise this very clearly.

Nick Read

Yes.

Margherita Della Valle

We start the process with return targets and we close the process with return targets, because it's iterative to make sure we achieve this cost of capital threshold. I think there was a second part to James. Nick, am I allowed to cover the second part?

Nick Read

Sure.

Margherita Della Valle

From Andrew. Where do we think cost reduction can come I think was the angle, and particularly around commission. As you know, we were embarked in a distribution transformation through digital and we think that this will continue and actually accelerate in the current environment. I always said in the past when we were talking about cost that I was seeing further opportunities, but the mix of the opportunities may change over time. As you can see, we have more ground to cover on opex with another billion, but on top of that we are now adding the commission opportunity.

Think about commission as €2.5 billion that we spend every year in our markets, and we do this today with just above 20% of our sales being digital. So of course, as this will continue to increase over time, and as we will progress on our distribution transformation, you can expect for the first time the commission pot to start actually reducing in absolute, and this is the big difference. The €2.5 billion in the past have always been either flat or increasing year on year. We are now confident that, together with opex, this P&L line will deliver a net reduction over time.

Andrew Lee

Thank you.

Georgios Ierodionou, Citi

Good morning and thank you for taking my question. I was wondering if you can give us a bit more detail on COVID-19 impact across the different countries, and I appreciate it's mainly three pieces. It's roaming, it's cost savings you may achieve and it is also bad debt provisions. If you can give us some indication, I believe in the slide it suggests that Spain would be hit hard because of SME. Germany could be resilient. If you could walk us through the top four markets, that would be great. And just based on the COVID-19 impact on the cost savings, you mentioned the €2.5 billion of commissions. Can we get an indication how much of that is variable, so if churn was to benefit we can give you some credit, even if that's delayed? Thank you.

Nick Read

Margherita, do you want to cover it?

Margherita Della Valle

Sure. First of all, COVID – I will maybe start by painting the bigger picture, Georgios, if you allow me, and then just call out the different markets position, because I think that can be useful. As you've heard in our presentation, we are, as an industry, more resilient to COVID impacts, but we are certainly not immune. So we have seen strong demand for our services, but equally we have seen three things, and you called them out: first of all, roaming, with the travel reduction. Second, we are starting to see some signals of tension in our B2B business, and there I would call out particularly SMEs, but also on the larger end, on big corporates, there are some delays in project spend from the big corporates. And then as I – as we go through the year I think it is possible that we may see then impacts from a deeper and broader recession.

Now, on a market-by-market basis, to your point, I think there are – all these trends are common to all areas. Maybe I would call out two extremes, if you want, in the range of our four markets. I think southern Europe is going to be hit by the travel. So keep in mind we're getting into the peak season of tourism. Roaming revenues are more geared towards the first half of the year, in total, and this clearly will hit a receiving country like Spain. Just keep in mind that this is not reflected one-to-one into total European performance for Vodafone, because clearly some of the roamers in Spain are coming from the UK, and therefore we have a number of inter-company eliminations in between that makes the impact less strong. But I think considering both roaming and SMEs, clearly Spain will be impacted.

At the other end of the spectrum, you have Germany, and you're seeing that COVID has had relatively low impact in Germany so far. I think it's fair to say that, as a group, we are pleased to be relatively more exposed to Germany in the current circumstances.

Now, this is all if you want the revenue perspective. I would just like to call out also the cost perspective for a second, because you've heard us confidently guiding to over €5 billion of free cashflow generation in the year, and this is because, of course, between revenues and cashflow, there are a number of costs. Clearly roaming costs again reduce the impact, but also the cost transformation we've just talked about is having an impact, and therefore at cashflow levels we are less impacted.

You were on the cost front with the second part of your question, around flexibility of commissions and how we could see this in a COVID environment. I think that there are two sides to this. One is our own transformation, arguably accelerated by COVID, which brings more activity on direct online channels, and this will be an efficiency improvement. And then in the early part of the year – and I think that's what maybe you were referring to – we are seeing churn reductions, because simply retail was slowed down by the lockdown. I think this will also have an impact, because clearly commissions are variable, but it very much depends on the balance of the year, around what is going to happen next. We had not planned in our numbers for a really big, stable reduction in volumes throughout the year. We are expecting, at the moment, as we planned, that there will be a recovery of commercial activity.

Maybe, if I may, just one maybe technical point, but I think very relevant this year, given the discontinuity on volume that we're experiencing. Keep in mind that all the efficiencies that we make around commissions, whether because it's lower volumes or whether it's because it's a better mix, more direct, are flowing 100% to cashflow but are not flowing 100% to EBITDA, because of IFRS 15. Most of you know that, but when I look at some of the models it's not always reflected. When you collect the customer you have to amortise its acquisition cost over the life of the customer, so if it's two years and they are connecting – I don't know – in the middle of the year, you only get 25% of the benefit. Just keep that in mind, that cashflow level, again, 100% of the impact.

Nick Read

Yes, can I just do a quick build on Margherita's point, because there's two important factors that I'm sure you'll ask anyway. So, Margherita's pointed out the fact that we're not making a big assumption on volume drop in A&R, because we've got commercial momentum, we're performing well, so if the volume is there we want to make sure that we are taking the volume. The volume might be structurally down in the marketplace, in which case, of course, we will save that cash and it will have a benefit to either the – the other factor is also the capex, and mobile capex, because we set ourselves the ambition of co-best on capex, and so we want to be putting in the capex to always ensure we have a good resilient network. If incumbents around us slow down the coverage or the capital spend, then of course we will moderate that as well, but we've held our capex, assuming most of them will do a similar type of performance. So, again, both of these were factored in within the overall outlook we were looking at.

Georgios Ierodionou

It's very clear. Maybe on one point, on bad debt provision which you mentioned earlier, and delays in payments, is there a particular market you have in mind?

Margherita Della Valle

If I can, Nick, not really. I think it's fair to say that, as we closed the year in March, we have not seen any material impact, in particular in the consumer space. We don't see any significant change of behaviour at this point in time. It's a little bit different in enterprise, because as we've gone through April, we have started to get some – arguably, so far, not many, but some requests, from SMEs predominantly, of

either suspension or delays of payment. So we see this as something that may be gradually building throughout the year.

Nick Read

Okay, we'd better move on.

Polo Tang, UBS

Hi. I just have one question, in terms of German broadband. Can you give us a sense, in terms of what percentage of your German gross adds, are coming onboard with the one-Gigabit speed?

Separately, if we look at broadband retail pricing in Germany, it's been remarkably static – around about €30-35 per month. Therefore, how optimistic are you that German consumers will pay more for faster broadband speeds going forward? And then also just to look at Deutsche Telekom, it's actually started offering free Disney+ as part of its bundles, so is this impacting your broadband momentum in Germany for the current quarter?

Nick Read

Let me do a high level and then, if there's a data point or two, Margherita, but I would say the promotion that we ran, fastest speed in town, was very effective. We doubled the size of the Gigabit base we had. So I think the demand is there, at the right price points. Of course, what we then did was take that promotion out of the marketplace and then put in our pricing. I think the pricing was well judged against DT's positioning. What we're trying to do is, obviously, from the point you're really making about where pricing is today, is make it an ARPU-accretive move, as people move up the speed ladder, and we are seeing that come through the numbers.

Margherita Della Valle

Just in terms of data points, you asked what percentage of gross adds are coming at one Gigabit per second. We're not disclosing the full breakdown, but I can say that over 60% of our gross adds are over 400 Gigabits per second, and this number is above 85% if you take the 250 megabit per second level.

And we have really seen good ARPU accretion in the recent months as not just new customers come in with high speeds but predominantly our own customer base is moving up the ladder, effectively speed increase is the more for more I think for fixed broadband, and I think it's in everyone's mind what speed can bring those days, and it's definitely reflected in the results we're seeing in Germany, as Nick mentioned, in terms of how fast the top speed plans are growing.

Nick Read

Okay. We probably just need to get a bit shorter to get through everyone.

Sam McHugh, Exane

Hi, guys. Just a very quick question on your guidance, I guess. If you look at your slides, I think you said that the roaming revenue's a bit higher, maybe 65%, 75% so far. When I think about the guidance, are you assuming, within the slight decline in EBITDA that you kind of flagged, that there'll be basically no roaming at all? When I think about these other pockets of headwind, do you think they could be as big

as the kind of €450-500 million roaming headwind? I'm trying to understand how conservative you've been. Thanks very much.

Margherita Della Valle

Clearly we are sharing with you our view on EBITDA, but we're not, in this instance, sharing an actual guidance range. But if I can give a little bit more colour around what we see on the back of the preliminary view of the economic assessment, I think you move from what I would call the top end, stable, implies a degree of recovery on the travel patterns and therefore the roaming trends in the second half of the year, so better than the -70% we see now. And at the lower end, if you want on the slightly down side of the equation, what you would have is no significant roaming recovery and a combination of pressure from a broader negative economic outturn, if this is what we see.

So that's a little bit how we have been thinking about the two extremes. From a cost perspective, we have factored in, obviously, our transformation numbers as well as a degree of stability in our capital intensity, which is what Nick was explaining earlier, and no major volume changes.

Nick Delfas, Redburn

Thanks very much indeed. Just two questions from me. First of all, you haven't talked very much about net promoter scores, and obviously with all these changes in distribution, how are you seeing those evolve?

Secondly, on Huawei, could you talk a little bit about how you see the costs related to reducing exposures of Huawei and what kind of percentages in the network you're thinking of over the next few years? Thanks.

Nick Read

Okay. I would say – sorry, the first point was, again?

Nick Delfas

Net promoter scores.

Nick Read

Yeah, net promoter. So what I would say is that we have two types of net promoter. One is touchpoint NPS, so, in other words, it's real-time, you call the call centre, you're asked to give feedback immediately, we monitor all the touchpoints around our business. I would say we've had favourable trends on touchpoint NPS, as we've done better product, better network quality – you know, all the things that you're seeing us gain commercial advantage on and momentum is being reflected, lower churn, etc, so good correlation.

I would say that the lag NPS, which is the more survey-orientated NPS we do into the market versus competitors, has been a little static, and we've been puzzling as to why that is. We need to understand if it's more segment-orientated. So is it a case of we've got a lot of people that are very happy, but then we've got some other people in other segments that are not? So we need to do more analysis of why we've not moved. We were reflecting, as a management team. We would have expected, with the

commercial momentum we've got, that that lag NPS would have moved more significantly. You never know, in two quarters' time it might start moving, but... So work to be done there, I would say.

Just in terms of Huawei, we're now expecting the European markets to come back on the toolkit and the implementation of that toolkit in June. So there hasn't been a move on the date. Maybe with COVID-19 there might be a delay. I would say, obviously, you know we said that we're taking the core out of Europe. That was a €200 million hit for us, but spread over a four to five-year time horizon, so we'll absorb it within the capital intensity that we have planned.

As of this moment, I'm not expecting additional, if you like, capital pressures. I do think that governments have now sort of realised, even though of course there are macro tensions, if we were doing a network swap today, it would have been catastrophic for the performance of the networks at a critical spike, so I think a lot of governments have gone, 'Mm. Now we understand all the arguments and why it's so important and delicate to handle this over long time horizons', and allow us to do it in a moderated way, where we balance and develop more diversity of vendors.

So you've seen our announcements with OpenRAN. We've committed – we want to do OpenRAN, but OpenRAN is a longer-term project and you need time to do that, over a significant number of years. So as long as we have time and we do things moderately, we don't see this as being an economic downside for our business.

Nick Delfas

Okay, thanks very much.

David Wright, BAML

Hello, everyone. Thanks for the extended call. Listen, just to, I guess, express some appreciation from our side too for the measures that Vodafone has taken over the last couple of months. It is very much appreciated.

And then just onto my question, just on the wider portfolio, you've talked about ROCE being a target that you're obviously publishing now but has clearly been key to your discussions with the regional businesses over the last few years. I guess the question is: are there any real sacred cows here? If your five major markets, the big four Europeans and Africa, are not making their ROCE targets on a mid-term view, are these assets that you could even consider to divest at some point? They've obviously had a pretty good chance to achieve their results over the last few years. I wonder when you're really drawing the line.

And just subsequently on the portfolio, a little softening in the language of Egypt. I think you'd said calendar H1 this year. Obviously we've seen the buyer delay it on funding process and you're now saying fiscal 2021, so is it more like a kind of end of the fiscal year now with them in mind? Thank you.

Nick Read

David, very good question in terms of market reviews, and that's what I was trying to stress. When we sit down and look at the strategy and the long-range plan of each market, we have to be convinced there's a path to making the cost of capital on a market basis. If they can't do it through their organic plan then we start to look at, structurally, how can we reshape that business within the context of that marketplace? So it is a very rigorous conversation. It leads to restructurings of business. I mean, I'd point to Spain as a really good example of one where a couple of times we sat back. Coming out of

football was a very significant decision, going more digital, channel management, you'll see us take actions on indirect channels, as an example where we see the economics as not as favourable as we want in certain markets, to improve the long-term returns for that marketplace.

Network sharing was another way of us improving the returns on a local market. Having the CEOs go to governments and look for administrative spectrum in terms of – instead of large auctions, or moderating the amount of spectrum that they need. All of these things we go through, market by market. So I would say we work them actively, and that's why you see the progress that we made by portfolio and by market.

I would say to Egypt specifically, look, it's really been hit by COVID-19. You can't really close out due diligence and full government engagement if no one can travel. So though they're making a lot of good progress, ultimately STC, top management needs to be in Egypt, needs to engage with the Government, finish off the due diligence. So we just extended the MOU to allow that to happen, and obviously there's a number of conditions that need to be fulfilled. We're going through all of that with them as we speak.

David Wright

Very good. Thank you very much.

Jerry Dellis, Jefferies

Good morning. Thank you very much for taking my question. I have a question really on competitive conditions, please, coming out of lockdown. I think we've seen in Spain, what's arguably a bit of a competitive escalation around unlimited data at some quite aggressive price points, and I just wonder whether you're seeing the early signs of this in other markets, and perhaps a little bit of detail on how you plan to cope. I suppose relative to previous sort of recessions, there's now much more in the way of no-frills players, so customers could, if they so wished, find sort of good enough service at lower price points. I'm sure you have a plan to manage that. It would just be interesting to know how you plan to handle that and whether you think it's really an issue. Thank you.

Nick Read

Yes, if I was calling out, just very quickly, where do we see increasing competitive tension, Spain, TEF, unlimited, not speed-tiered, in mobile, that was a pretty aggressive move. It's a shame that Orange and TEF didn't go speed-tiered. It was a missed opportunity. Glad to see that O2 in Germany did go speed-tiered. So, you know, it shows that people can follow the right model, in my opinion, for accretion of ARPU. So, fine, there's been a slight elevation in Spain, and I'd say probably fixed in Italy has oscillated between ultra-aggressive at €20 and slightly below, up to €35. We're sort of sitting in the €27 zone at the moment. So I would say they're the two. Most of the others are generally – I mean O2 in the UK was a bit aggressive in Q4. I think that was quite promotional and indirect, Carphone Warehouse-driven, but generally I'd say most people have just been stable at the moment.

I think you make an interesting observation. If I stand back, our business is very different from what it used to be, and I think you're seeing that commercial performance coming through. We're being really consistent in our commercial strategy, so though you might see variation by market, the framework is the same, and the framework is we're going to compete in high, mid and low. So we're doing unlimited speed-tiered in the high. We're often deploying second brands in the low. We are gaining traction across the board, in all of those segments, and we monitor our share in each of those segments. If a

competitor moves, we move very quickly, so we don't give them, if you like, the time-lag advantage of response anymore. We're immediate. You know where we stand, relative to you, on pricing.

I'd say the second brands is something that previously we debated. Now we're committed to second brands, if correctly deployed. We've done that very effectively in Italy. We repurposed ourselves in Spain with really good effect and results, VOXI in the UK. I could go on. I think that has been good.

We do a lot more below the line now than we do above the line, so it's a lot more controlled, targeted, AI, big data analytics, ARPU-accretive. So it's got a lot more science to the way we go about pricing. Don't get so fixated with above-the-line pricing so much going forward.

So I would just – then we drive convergence, then we drive one more activity, so that we bring down churn, so that customers don't go back in the market. So what I'm saying is, there's a lot of levels now, a lot of sophistication to the way we approach markets. Whether our competitors approach with the same level of sophistication, I don't know, but this is something we apply a lot of time and energy on, and I think it will stand us in really good stead, to make us stronger through a recessionary cycle. I go back to the point that people value quality. So businesses, high-value consumers will continue to value quality. Of course, people that are financially struggling and vulnerable might turn to better deals or value deals and make compromises, and we need to be there for them as well.

That is a beautiful finish to this call. Thank you very much, everyone, for listening. Great questions as always, and we look forward to seeing you soon. Stay safe, from both myself and Margherita. Take care.