

Vodafone Group plc

Results for the six months ended 30 September 2016

Analyst and Investor Conference

Tuesday 15 November 2016

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Business Review

Vittorio Colao

Group Chief Executive

So good morning. Welcome. Thank you for coming here today. I will do the usual business review, then Nick will follow with the financial review of the quarter and the half year and then we'll take your questions.

Overall view, we got another good quarter of growth, 2.4% at Group level. This is, I would say, despite the roaming headwinds, and this has been supported both by growth in emerging markets and in Europe. And this is a combination of, again, much more for more actions, and stabilising ARPU as a result of it, and of course customer growth in emerging markets.

Group EBITDA up 4.3%. Strong cost control. Operational leverage at work. Today, Nick and I will talk about India. Non cash impairment decided at €5 billion net of tax, due to increased competition. Nick and I will share the reasons why we think Vodafone in India is strongly positioned for the future. We explain the trends and explain the strategic and financial outlook. And finally, the Board today decided to increase dividends by 1.9% dividend per share to €4.74.

Overall, we cover the engines of growth, enterprise, data and convergence, fixed broadband. Fixed broadband's particularly good. We continue to grow. We are THE fastest growing broadband provider in Europe, and now we have a very large NGN network in Europe, which is, I think, and I will show, a very good opportunity for future growth.

And finally, strategic progress in the quarter, we acquired spectrum in India. We'll talk about India again. And we're progressing with the approvals of both joint ventures, the Vodafone-Ziggo one in the Netherlands, and Vodafone-Sky one in New Zealand.

So let's start. First of all, as I said, good momentum. Classic snapshot. On the one hand, good growth. Good growth in customers. In mobile, 1.4 million. In fixed line, 325,000. Good, I have to say also – for the first time, we have pre-paid also starting to grow again, which is good, in Europe. As you can see in the centre part of the chart, this is now leading into a world of more stable ARPUs, stable both in Europe and in AMAP. And, as I said, this results in growth in both areas. This is the seventh consecutive quarter of growth at Group level, and the second consecutive quarter of growth in Europe.

So how are we doing this? Just two words on our differentiation strategy, two pillars of our differentiation strategy. The first one is what comes after Project Spring. We invested heavily in technology, both fixed and mobile. As you can see on the graph, 90% 4G coverage now in Europe. 70% of European urban sites have fibre. And as a result, the user experience is clearly improving. Improving not just in Europe, where now 90% of the data sessions are happening at 3 MB/s or higher, which means high quality of video, but also dropped call rates are going down. The red line is only the AMAP one. We don't show the European one because it's below 0.50, so it's very good performance. 15 out of 20 of our networks now have best rating in data, and 17 out of 20 have best rating in voice. And this is very important because this was the first pillar of our differentiation strategy.

In parallel, we are becoming bigger in fixed network, the right part of the chart. 53% NGN coverage in Europe today. I can say that essentially the opportunity is the same as the incumbents. 82 million households followed, of which 31 million followed directly with our own NGN, and the number will go up to 37 million once the Ziggo integration has happened. So large opportunity, largest NGN footprint in Europe, second largest on-net NGN footprint. Clearly, Spring has been the foundation of our strategy.

Clearly the other foundation is the experience with the customers, what we call under the name of the 'CARE' Project. This is the commercial exploitation of the previous fundamental pillar of the strategy. So we now are giving network guarantees to 17 markets. Thanks to the network performance that we have we can guarantee that we can reimburse people if they're not happy.

We are granting real-time monitoring in 13 markets. Our My Vodafone app has now almost a 40% penetration. This is very important, and we'll cover it later also from a cost perspective, but here it's the commercial side, and what is leading to the increased usage of data from our customers. We are doing much more personalised offers. 17 markets, and some of them really have made a science out of this, are now giving personalised offers to customers. As a result, churn is down more than one percentage point.

And finally, 24/7 help in 14 markets, because life is not just digital, it is also still human in some aspects. And this has led to 66% first contact resolution, which again is important if you want to give customers the perception of the value of the service that they get from us.

So is this giving us any real appreciation from the customer? The answer is yes. Left part of the chart, we keep being, by a tiny amount, leading vis-à-vis the composite of the competitors. But most importantly, the gap versus number threes is not only stable but even increasing. And this is a very, very important point. If you do a strategy based on quality and based on differentiation, it's not really about being the leader, it's about really creating a two tier market. And this slide, I think these results illustrate that in most markets we have been able to drive that.

As a result, as you can see from the centre part of the chart, we lead or co-lead in many markets. And let's face it, we still have two or three cases where we need to improve and to work. And these are the ones in the bottom part of the chart. I will not comment on how we make it, because these are just examples. It's essentially, as you can see, network guarantees. It's about giving much more for more type of offers, personalised offers. Every market has a different dimension to it, but the outcome is the same.

So this is the basis of what we have been doing. How are we making growth happen? First of all, data. Data, clearly, keeps being a great engine for growth. We have around 60 million customers, the red bar, in 4G around the world, and 40 million in Europe. 57% of our data traffic now in Europe is 4G, which is pretty important. There is still at per user level a hefty increase quarter after quarter. Numbers are different. 1.4 GB in Europe, about 0.9 GB in AMAP, but still growing in a very healthy way.

The central slide is a bit cryptic, but it's very important. There is high growth. 60% of growth in data. If you look at the absolute amount in data, the last quarter was more than 200 petabytes of increase, which is more or less what happened in the previous three quarters. So you might say, 'Oh my god, do these guys have the capacity to do it?' The important point is buried in the line below the graph. Despite this increase, our network utilisation went up only one percentage point in the quarter, which really means that through investment, but also through smart management, we can really support continuing growth of data for quite a bit. And that's very important if you look at the right part of the chart, because, despite our perception in this room that everybody has a smartphone and everybody has 4G, in reality the penetration of smartphones is still only 50%, and if you look at 4G in particular in Europe it is about a third of the base. So there is a lot of potential for further penetration, and we have the capacity to support data growth. So this is important.

Is this turning into money? Yes, it's turning into money. Different numbers. These are clearly examples. Between €1 and €6, depending on the country, and again this is combination of including roaming, increasing data, giving services depending on the local marketing priority. But this is generating more money for us, and therefore the ARPU stabilisation that we have been talking about is now happening. In some cases it's even ARPU increase, not just stabilisation. And the centre part of the slide is important, because if you turn it into a per gig price, from a customer perspective this is a dramatic and very, very positive price reduction: 40% year on year. I always say this to regulators and to journalists. The unit price is going down in our sector 40%. But of course, the total spending is holding or is even going up. I think this means more value for the customers, more value for the operators and a much healthier industry for all of us together.

The second engine for growth is enterprise. Enterprise is something that we chose a few years ago as an important engine for growth. Enterprise is now 28% of Group service revenue, and 32% in Europe. So it is becoming a very important part of Vodafone. We lead in 15 out of 20 markets. We have the best 4G IoT footprint in the world: 31 countries. And we continue to expand in fixed line, with IP-VPNs now in 73 countries.

This quarter we have a little bit better news, because we continue to grow in fixed line. The central green and black or grey bars: 4.6%, 4.7% growth. But we have also accelerated a bit in mobile: 2.8%. This is because there's still ARPU decline in enterprise mobile, but less than in the past, than we gain in market share. And we gain in market share because, right part of the chart, three divisions: Global Enterprise, Cloud and Hosting and IoT continue to have healthy growth rates. Different, but healthy growth rates across the piece. So enterprise is an important part of our strategy.

And finally, convergence. We had 327,000 households added in the quarter, which is in line with the previous quarters. There is a higher number of NGN additions, because we also have some migration, which again is health from a long-term perspective. As you can see on the right part of the chart, we have been building quite a bit. Building means building ourselves, like in Spain 600,000 homes, or in Portugal 100,000, or in Greece where we are starting. But also building through others, and here I can say a few words about the two partnerships, one in Ireland, one in Italy. With electricity companies, both of them. Different nature of partnership, but essentially they start to deliver. In Ireland we'll have 65,000 homes by the end of the year. In Italy it's going up by 30,000. We have the first five cities, and it will go up quite significantly longer term.

So our – apart from the integration of Ziggo in the footprint, our own ability to reach through NGN homes in Europe is becoming very material and very significant, which I think indicates a great opportunity. How big is the opportunity? Well, today, if you look at the left part of the chart, on our own footprint we have around 19% penetration, so we have 5.9 million households on net, and in theory we could have a marketable base of 30.7 million. That's 19%. But of course we have a lot of potential in places like Italy or in other markets where we are well below the 20%. And of course, as I said, this footprint is also expanding. Another interesting information, we only have 1.9 RGUs per home. This is kind of low relative to the industry norm, which is more 2.4/2.5. So again, this is an opportunity.

So what do we do? We continue to sell converged. Now we have 28% of fixed-broadband homes on converged offers, which is up three percentage points versus last year on a bigger base. Of course, we will push in a disciplined way. We don't want to give away too much profitability, too much ARPU. But we will continue along this – with this strategy. In the second half we start seeing here what incumbents have been talking about for quite a while. And again, we have to recognise that we're seeing the same thing on churn. So if you take the Spanish numbers, the ones on the blue bars, when we move from mobile to triple play, churn halves from around 27%/26%, which is high, in general, in Spain, to 13%. But when you move to quadruple play it halves again to, in this case, 6%, which I understand is more or less what is considered best practice in the world. So not only do we have an opportunity to expand in fixed line, and to consolidate our base, but we also have an opportunity to reduce the churn at the other side.

And finally, in the context of the strategy, regulation. I have to say, we are pleased, and we support and we welcome the European framework review, because essentially it reflects what we have been standing for, and what Vodafone has been standing for traditionally, which is a pro-investment and pro-competition position, which is supporting gigabit investment and allowing good competitive access to high capacity networks. I would say we have four ticks. First is on the spectrum, the red part. Minimum 25 years life is pretty good. The second tick is access to duct and poles. And to, I would say, de-regulation, subject to certain competitive tests, which we think is healthy. The third tick is clearly that cable has not been regulated. And the fourth is the harmonisation with a double lock mechanism of EU regulations. So from that point of view, I think regulation, at least as far Vodafone is concerned, is going in the right direction.

Now, the only non-tick, or un-tick, or cross, whatever, is the roaming discussion, which is not technically part of the framework. The roaming caps clearly are not helpful. The theoretical maximum impact for Vodafone this year would be €300 million, but we are mitigating it significantly with our own roaming offers, and next year even a bit higher than that, and I think Nick can comment on it. But again, this is pre-mitigation. I would say, overall the broad direction, forgetting for a second roaming is positive and roaming, again, we all knew at some point would have to become part of the commercial, normal offers. And this is what I have been doing. I have been talking to you, probably three years ago. And that's why we are integrating roaming in

our own tariffs more and more.

This is the end of the general part. Let me say a few comments now about how things went market by market. First of all, Germany. I have to say I'm pleased with Germany's performance. As you can see on the chart on Germany, we continue to be co-leading, or close to Deutsche Telekom. In all fairness, they still have a bit of an advantage on data; we have an advantage on voice. But the important thing is that the gap versus the third is opening here. And we now have pretty good 4G coverage throughout the country, and improved a lot. In some cities we are already getting to the highest possible speed.

As you see, we are also recovering in terms of commercial performance. The new thing here is that prepaid also is starting to grow again. Fixed line continues to do well. Fixed line this quarter has also the positive contribution of DSL. The only area where we are not performing by choice and by design is connections in indirect channels. We still are not convinced that the profitability of indirect channels is the right one. We know that some – actually, one of our direct competitors is very heavily in direct channels. Again, we reserve our judgement but we don't see the economics completely right in that channel.

And the proof, or at least the comfort, comes from the right part of the chart where we have 3.1% growth in the quarter, with mobile growing 1.3%, enterprise not yet fully positive but improved, fixed going up 6%, cable – the number on the slide is really – has to be read more as 6% rather than 9%. And also, EBITDA growing 3%. So I would say a good performance in Germany, proving that the strategy is the right one.

And I think I could say the same for Italy. In Italy we have lost the NPS leadership because of pricing actions, but we retain a very, very strong network performance perception. As I said, we are accelerating the deployment with Enel on fibre. And as you can see in the central part of the chart, we have a steady performance on fixed line and what looks like a negative steady on mobile - In reality we have achieved stability in the active prepaid days. The negative number in Italy is because of this washing machine, so prepaid, which is peculiar of the market. And we have reached 2 million fixed broadband, of which 400,000 are now fibre. So healthy from a customer quality point of view.

And again, as a result, 2.2% growth, 1.6% in mobile, 5.2% in fixed. I have to say, fantastic performance at EBITDA level, plus 10% in Italy. And this is clearly a function of the commercial results, but also a function of the fact we have done a pretty deep job on costs in the country. So I would say Italy also pretty good, like Germany.

UK I would call it more of a mixed performance. We have some positive signs. The biggest is clearly the P3 network test, which gave us the co-lead position in the country, which gave us the clear lead in London and the clear lead in voice nationwide. We have some evidence of improvement in customer perception. The NPS of the touch point, so the NPS of the customers who actually interact with Vodafone, is positive now, and dramatic improvement versus one year ago. But we're still not completely done with the mitigation of the IT migration problems, and we are still suffering from overall perception in the market.

KPIs are actually not bad. So we're back with mobile contract growth. And most important in the quarter, we also have fixed contract growth. Here we only had one month of line rental removal. That has been taken very positively. There is an acceleration now in connections, in fixed line. But, as you can see in the right part of the chart, I would call the performance stable, if you take away all the distorting factors, versus the previous quarter. And the EBITDA level, we are losing 6.5% because we had to invest more in customer and in technology costs to mitigate the IT migration problem. So I would say positive signs in the UK. Not fully happy, but most importantly not fully delivering what the customers need and deserve. But working on it.

Spain is another case of good performance. In Spain we continue to lead in NPS customer experience. We have a fantastic network. Not – 92% coverage in Spain versus 96% in Italy. You're talking really – given the size of the Spanish country, you're talking about really important numbers. Very large NGN network. 14.7 million homes passed, 9.5 million on net. This number will go up to 10 million by the end of the year. So pretty good performance.

Also, commercially, as you can see we are back to regained commercial momentum. We have to change pricing in April. That has got some short-term impact, but I think it was healthy and right to do. And as you can see on the right hand of the chart, I would say again this is a case which works the other way round. More or less the same performance as the previous quarter, once you take out the out of bundle overlapping effect. And, like in Italy, a remarkable performance at EBITDA level. Even if this is only plus 5%, this is plus

5% after content cost, which is, as you know, a new feature of the Spanish market. So again, another place where I think, under Nick's great orchestration, all the ZBB and all the fit for growth programmes are delivering.

Moving to India, first of all, the performance in the quarter, I would say in India we continue to lead in NPS. We have number one in network NPS. We have increased our spectrum holding in India by 62%. We have both 4G spectrum, and we'll be able to have 4G operational now in 17 circles, which represent 94% of our data revenues. We had a little bit of a slowdown in the performance. It's not hugely visible in the financials, but clearly you can see the total number of data customers has flattened versus the previous quarter. The 3G/4G is still growing, but the data component actually in terms of revenues is slowing down, and data prices have been going down due to the arrival of Jio.

So I would say, if you look at the financial performance, 5.4% growth, 2.6% growth of EBITDA, you could say it starts showing that there is more competition, but so far I think sequentially, quarter over quarter, we have the same performance of Bharti and Idea. It's a minus two, which is more seasonal. But again, if you go one level below you start seeing that there is a little bit more competition already in the quarter numbers.

Let me talk then about competition and Jio. A few words. First of all, I always say let's not forget what we're talking about here. We're talking about a country of 1.3 billion people, of which apparent penetration is 77%, but the real penetration is only 40%. If you look at the little numbers at the bottom of the left hand of the chart, you have 254 million estimated devices, smartphones in India, which is 40% penetration, and 4G handsets is 8%. So if you only take that part of the chart you say there's hundreds of millions of people in India who still have to get into data, into smartphones, into 4G so the opportunity in terms of underlying market remains probably the biggest in the world for telecoms. In this context Vodafone is pretty strong: number one brand, number one consumer NPS, number one in enterprise mobility, number one retail outlets and a history of delivering in a fairly constant way across the different tiers. But there is a new competitor, a big competitor investing 25 billion in the market with free offers out.

What are we doing about it? We are working on two fronts. On the commercial front we have changed our offers to basically mitigate the impact both at the high end and the low end. At the high end, we have introduced new Vodafone Red tariffs which are clearly more convenient and we have introduced promotions which give 10 GB for the price of 1 GB. At the bottom end, which is more the value-seekers we have introduced the 10-30-30 promotion like our competitors for voice calls, and we are introducing the flex concept, which is a concept that has been very successful in Egypt of units that can be flexibly allocated by the customers to whatever they want. These are clearly short-term commercial reactions.

Longer term, the strategy has been to buy spectrum, to accelerate the deployment of 4G which Nick and I have encouraged them to do quicker and earlier so that by the end of this year we should have 4G in all of the 17 circles – the 12 leadership and the five where we are a strong challenger. Nick will cover the financial aspects of that so I will not go really deep.

So India, yes, it's more competitive. We are kind of in line with the market. We expect more competition, but we have both commercial and technology – from a spectrum point of view we think we are equipped for being in the medium and long-term one of the key players in the market.

Vodacom – usually I don't say many words because they present always before us another great story of leadership, NPS, strategy but most importantly here a great marketing story, a story of customer base management, direct offers, the 'Just for You' banders are actually becoming very successful as you can see. In the central part of the chart we have a lot of prepay banders but the personalised ones are becoming a vast part of them. This shows, then, in the results. Growth of customers: 7.6%, reduced churn. We have 4.8% churn on contract in South Africa. I think that is the lowest I have ever heard anywhere in the world so I have really pleased with what we are doing there and clearly data continues to be the booster of our performance.

At Vodacom Group level you can see there is a little bit of slowdown in growth. It is not really in South Africa; it is more in the international. The international has got all these customer registration issues which have slowed down the growth, but the good news is that now the number of customers is picking up again. So, I think we'll go through this and Vodafone will be again across the piece in a very solid position. EBITDA growth is 4%; margin 38.6%. I think, again, it's another great story.

So, before turning to Nick, let me say what is next. The strategy remains the same; Vodafone continues its evolution from mobile, from metered, from consumers into a data company, converged enterprise and metered big bundles. This is a combination of networks – 4G, 5G, 4G+ first and 5G when it comes – fibreisation, cloudification, and virtualisation, which are very important to prepare for the future and then clearly Internet of Things. This is the vision for 2020 that we are working against.

In terms of key programmes, the second half of this year and possibly next year, I would say don't expect big changes. We have three pillars of our technology strategy: 4G+ and fibre now, and preparing for 5G – under the leadership of Johan, who sits there, so if you have questions of 5G I am sure that Johan would be happy to take them. Transforming ID: at this point the approach will be country-by-country, cluster-by-cluster because I think we learned how to weld things and also through mistakes how to not do things. And then virtualisation and cloud to reduce cost and, most importantly, increase speed.

Commercial strategy: consumer CXX and care will be our carrier for differentiation. In enterprise, continue to push on the 3D vision, VGE, IoT, cloud and hosting. We have a fourth one which is security but it's very small. And then we have just decided to launch a consumer IoT division, given the fact that we think that in 2020 or by 2020 it will be important to be in that space and to strengthen to our data analytics unit across the piece. And finally, since nothing can happen without financial discipline and focused investments, our efficiency programmes – Nick will talk about Fit for Growth which continues throughout the period. We will continue to apply zero base budget to the central and coordinating functions to be sure that we squeeze costs and to reinvest somewhere else. Digital, which is very important from a customer point of view, will also be very important to reduce customer care and distribution costs.

With that, I think it is time to talk about numbers.

Financial Review

Nick Read

Chief Financial Officer

Good morning, let's talk about money. By the way, you can tell we're building up to the budget with the shortness of my haircut. Right, turning to the key highlights of our financial performance, starting on the left-hand chart, organic service revenue for H1 grew 2.3% with Q2 slightly stronger at 2.4%. This was a little ahead of our expectation with good performances in many markets but especially Germany. A tight cost-control under our Fit for Growth programme saw EBITDA accelerate at a faster pace than service revenue at 4.3% year over year, expanding margins. Headline EBIT returned to growth at 7.5% year over year but excluding the depreciation and amortisation benefit from holding the Netherlands asset for sale, the underlying performance was down 3% year over year. However, with the leverage effect of growing EBITDA and normalised capital intensity we would expect to see EBIT stabilise as we go into next fiscal year.

Turning to the lower half of the P&L, I just wanted to briefly cover a number of points. Lower adjusted earnings per share is driven by two factors. First, the increase in financing costs reflects lower capitalised interest in India as we begin to put into service previously acquired spectrum. In addition we experienced FX losses on intergroup lending. Excluding these factors our underlying net finance cost was stable year over year despite our higher average debt. Secondly, our share count has been increased materially given the mandatory convertible bonds, but it is our intention to buy back those shares with the proceeds from the Verizon loan notes. Finally, our reported loss for the period was impacted by a net €5 billion non-cash impairment of goodwill and assets in India driven by our expectation of lower projected cash flows following increased competition in the markets.

Turning to our operational performance, you can see from both charts our service revenue growth is broad based. Top right, you see Europe continue its acceleration Q2 plus 1% year over year versus negative 1% this time last year, even after absorbing the negative impact from roaming this year. It is pleasing to see that 10 out of 13 European markets are now in growth. AMAP produced another strong quarter of greater than 7% growth whilst absorbing price pressure in India, with strong performances in Turkey and Egypt which you

can see on the far left of the main chart. On the far right we see the UK and Netherlands still in negative territory. We expect to see an improvement in Netherlands in H2 as we lap the change in VAT treatment. In the UK we see a similar underlying performance in Q2, given the ongoing mix shift towards SIM-only contracts in the marketplace and a drag from lower MVNO revenues.

Still on service revenue, I wanted to give another view, this time focused on our three growth drivers and the contribution they make. As you see on the left, mobile data is our largest contributor to growth with Europe consumer mobile delivering the largest improvement year over year, stabilising as we drive more-for-more pricing strategies in our markets. AMAP consumer mobile continues to be the largest contributor at 1.8 percentage points. Consumer fixed, contributing 0.6 percentage points having added 1.5 million customers over the past year, and finally enterprise contributing 0.8 percentage points continuing to take share given our unique international footprint with deep local roots. It's worth noting the black bar where we've have taken conscious action to eliminate very low margin, international voice transit which represents 0.6 percentage points of the 0.8 percentage points drag highlighted. This is set to reduce in H2. So, if we look at H2 trends in service revenue growth we see a similar underlying performance to H1 when adjusting for the previously highlighted last year Q4 70 basis points, leap year and one-offs and the MTR cuts in Germany from December with the group benefitting from a lower carrier drag and a solid European performance broadly offsetting the negative impacts on India's slowdown.

Turning to EBITDA and our work on costs through our Fit for Growth programme, as you can see on the first blue bar, we were able to deliver approximately 60% incremental growth margin in H1, given our focus on more-for-more pricing actions and further penetration of our fixed NGN footprints. I was pleased with the progress we made on cost, which overall we held flat but produced a far higher output in terms of commercial performance as seen in the top box.

Let's take a closer look at how we are managing to hold our cost base stable using the key building blocks of the Fit for Growth programme. Our direct cost base continues to increase, up 2% year over year given higher wholesale fees on a 500,000 new off-net broadband customers – since H1 last year, as well as the impact of 85 million increase in content costs in Spain and Portugal. Content costs are expected to have a further rise of 70 million in the second half and should then plateau given limited content auctions over the next couple of years in our key markets. Customer costs remain stable thanks to our focus on A&R efficiency, which further improved by 30 basis points in Europe, and good progress in Spain, particularly, offset some market pressure in Germany. Technology costs also increased due to Project Spring footprint expansion year over year of about 5% which moderated in H1 with only a 2% additional build. This increase in cost was more than offset by a 14% decline in support costs as our ZBB initiatives began to take an impact.

When looking at the potential of further cost reductions I want to remind you that our Fit for Growth has two parts to its execution. First, through A.T. Kearney benchmarking, we break down all of the processes within an opco to determine whether the operation is a top quartile by process. If it's not, we size the opportunity by process. The opcos are then targeted on a multi-year improvement programme to reduce the performance gaps. In addition, we have a small programme office to coordinate and drive best practices and accelerate progress. Secondly, we identify and develop group programmes where we see the opportunity to see our global scale and bring competitive advantage. The pie chart on the left gives you an illustration of the mix we have achieved in phase 1. Phase 1 was 2016 to 2017 and all initiatives are now identified and being executed so we remain on track to achieve our FY18 targeted run rates.

We therefore took the opportunity to develop phase 2 which has similar savings ambitions to phase 1. You also see the composition change between the two phases. Procurement was heavily centralised in phase 1. The opportunity moving forward will be to adopt a manufacturing teardown model, to cost each component, and avoid over-engineering specifications. Shared services have ramped up quickly so we are yet to see the full financial benefit to date. So far we have been focused on building captive, scaled centres in our emerging market footprint but moving forward we see significant opportunities from AI and in-sourcing of application development. Sales and distribution are constantly optimised as we drive My Vodafone app and direct distribution whilst improving the customer lifetime value economics of indirect channels.

In network and IT we achieved material savings in driving network standards during Project Spring. In phase 2, we're focused on bringing our IT costs as a percent of revenue down from the 5.5% to below 4%. And finally, we used ZBB in group reviews in Q4 of last year and its now being rolled out to all countries as part of

the budget process in this quarter four. Bottom line: our systematic focus on driving efficiency in all areas of the business while growing our top line gives us confidence on margin expansion moving forward.

To close on costs, we've concluded our latest A.T. Kearney benchmark review to inform our phase 2 execution. The recent results shown here: we have made the greatest improvement over the last three years when compared to any previous review cycles with some excellent performances as highlighted by those above the horizontal line. There is opportunity for all the opcos but this chart shows the largest opportunity to the bottom left quadrant where the gap to top quartile is still significant. It highlights the UK, Ireland and Germany where we have further to work to do and the local management teams are working on their plans for the coming quarters.

I took the last two results presentations about the broad-based nature of our top line recovery. I am now pleased to see the combination of this recovery along with systematic cost control feeding into broad-based margin improvements. In Europe, A&R and opex are generally declining, driving higher margins in all our major businesses except the UK, which Vittorio as already stated, has had some well-documented operational challenges. It is worth commenting on Germany, which despite reaching 100% of our targeted cost and capex integration synergies six months ahead of plan our costs rose year over year due to increased subsidy levels during H1 given competitive aggression in indirect channels. Whilst in AMAP, despite inflationary price pressures and costs we are improving margins everywhere bar India, given our rapidly expanding 4G footprints.

Consequently, as you see on the left hand chart, our Group EBITDA margin continues to improve up 70 basis points year-over-year. Now 19 of our 26 opcos are expanding margins with ambitious three-year improvement targets set for the vast majority of the businesses moving forward.

Moving to capital expenditure, we continue to take a disciplined approach as we drive down investment levels by around 25% following Project Spring, normalising at mid-teens capital intensity. During H1, we've invested to support our growth in AMAP, notably India, where we're executing our 4G plans post the spectrum auction. You will see this reflected in seasonally higher capex levels in H2 bringing us toward the upper end of our guidance range on capital intensity as we indicated in May.

In Europe, we have continued to invest in 4G densification and mobile backhaul. We now have fibre to the site in 69% of our urban sites versus the 95% target we have set for 2020. Despite strong traffic growth, 4G utilisation at busy hour has only increased by one percentage point with the Project Spring investment giving us substantial headroom in the future allowing us to lower investment levels in capacity. In fixed line we are investing in incremental footprint expansion in southern Europe, predominantly Spain and Portugal, while CPE costs remain high due to strong customer growth. Finally, we've increased investment in IT consistent with our long-term cost-saving ambitions.

It goes without saying that capital expenditure discipline is also critical when acquiring spectrum. In the recent Indian auction we invested 2.7 billion in line with our plan. However, I want to take the opportunity to build on Vittorio's India summary and explain our investment strategy. Since 2010 post the expansion of competition in India which brought a step change in the pricing environment and cost spectrum, we've been focusing our investments in India on the circles where we believe we can earn an appropriate long-term return on capital. There are 12 circles where we enjoy a leading position with an average 27% revenue market share and attractive margins. As you can see from the chart, 93% of all our Spectrum spending since FY10, including 92% of the spend in the recent auction, was focused on these circles. We now have 3 to 5 data carriers in every circle giving us significant capacity for future data growth.

In addition, we have the option to re-farm 900 MHz for low-band data services reducing our need to participate in future 700 MHz auctions. Importantly, we are gaining revenue market share in our leadership circles both in Q1 and in the last two years. The Spectrum investments we have made in our most profitable circles gives us a position of strength from which we can shape future potential consolidation. There are five further circles where we have a strong challenger position, typically number two and three, with rising revenue market share and improving margins. You can see from the chart that in FY16 we invested capex to rollout 3G in the circles to replace our 3G ICR arrangement. Moving forward, I think we are well-positioned to achieve scale.

Finally, there are five circles where our market share and margins do not justify costly spectrum investments. Here we will maintain our pan-India presence through ICR arrangements with various partners on top of our

core urban presence. These contracts have recently been renegotiated on improved terms and we expect these circles to be free cash flow breakeven moving forward.

Moving to free cash flow which was break even in H1, mainly as a result of the final payments associated with Project Spring completion in FY16 driving a year-on-year increase of just over €700 million in capital creditors. A large seasonal outflow in working capital is not unusual in H1 and in fact the swing was lower than in prior periods. Cash tax payments reflected the benefit of the reorganisation of our Indian businesses which took place at the end of last year. For the full year, we expect cash taxes of around €1.1 billion with a similar affected tax rate for the first half. We continue to expect a mid-20s underlying effective tax rate in the medium term. Finally, despite a higher gross debt level our cash interest costs declined in H1. We expect the full year to be around €1.1 billion with a higher H2 given the timing of the bond interest payments and KGG minorities paid in October.

Our balance sheet remains robust with leverage at 2.6 times, net debt increased as expected to €40.7 billion mainly due to the payment of the final dividend and FX impact. We expect net debt to reduce during the second half despite payments for spectrum in India and Egypt given strong free cash flow and the monetisation of the first tranche of Verizon loan notes. We also expect to close our JV with Ziggo in the Netherlands which would lead to an approximate half a billion euros net cash inflow, given the refinancing. We have taken advantage of benign funding conditions during the period to significantly extend the duration of our maturities. The average life of our debts has now risen to 9.4 years, up from seven years last year and we've achieved this while leaving our underlying cash interest costs flat year over year.

Turning to guidance, overall we remain on track to hit our internal plan of the year. Europe is ahead of plan, driving modest upsides to our internal expectations in the first half. However, given increased competition in India the top end of our original EBITDA guidance range needs to be slightly modified, narrowing the range. During second half we expect revenue growth to be broadly similar to the first half on an underlying basis as our performance in Europe compensates for lower India growth. We continue to expect to deliver free cash flow of just above €4 billion and, given our performance and outlook, the Board approved a 1.9% increase in our interim dividends.

On that, I will hand back to Vittorio.

Questions and Answers

Vittorio Colao

I don't think I need to summarise too much. I think, for me, the key chapters are we continue to work on differentiation, technology and commercial, as I explained. Pleased with commercial momentum in Germany and Italy and Spain and South Africa, prepared for competition in India, and I would say, not deteriorating but still we need to improve in the UK – modestly ahead of expectations in the first half and, I have to say, focus on driving operational leverage – we'll continue to do it in the ways Nick has illustrated. And, with that, I think we should open to questions.

Polo Tang, UBS

I just have two questions. The first one is on India. Are you seeing negative service revenues for the December quarter, given promotional activity by Reliance Jio and do you think the entry of Jio into the market triggers further consolidation in India? Second question is really just a follow-up in terms of Fit for Growth phase two. Can you actually give some colour in terms of what the financial impact of this phase two in terms of Fit for Growth might involve?

Vittorio Colao

Yeah. Let me start the answer on India and maybe you [Nick] complete India. Let me take the broader thing. What's happening in India is very interesting. You have somebody who invests \$25 billion in a market whose EV is I don't know what – you tell me – probably 60, 70, 80. I don't know, but it's basically a massive

investment relative to the size of the market. Clearly, there are a couple of players who are investing. Airtel is the market leader, so they're basically digging their heels in and Vodafone, in the way that Nick has explained, we are strengthening our position a little bit more selectively because we are smaller. What will this result into? I think consolidation is the answer and there will be pressure on unit prices, not necessarily dramatic declines of ARPUs, but definitely there will be bigger volumes of minutes, bigger volumes of data; there will be a challenge on how to serve this from an opex point of view but, you know, you cannot defy the rules of economics. The marginal place on the cost curve will eventually have to consolidate and so it will work back into the main thing.

At some point, a new equilibrium will be found and potentially things will start going up again. That's a little bit away we think, and Vodafone has the ambition to - in our leadership circles, in a very disciplined way, in a very financially smart way - to have the intention to be one of the players that will enjoy the longer-term consolidation of the sector. Nick, do you want to be more precise?

Nick Read

If I just boil all down to visibility over the next one or two quarters, I'd say one of the trends we're really seeing is we've refreshed, as per Vittorio's presentation, our commercial offering. We're seeing good traction in the market. In terms of net add performance, actually the net add performance for the quarter didn't look so strong but, if you look at September and you look at October, we're trading well on customer growth. I'd argue we're not losing customers. We are losing some data growth because, obviously if there's a free service out there, which is going to be predominantly a second SIM in the marketplace, we're going to lose some of that data.

What we have to see is what happens when, as per the TRAI, the regulator, says the promotion has to stop from the 3rd September and they have to start charging. What we have to see is how many of the customers want to stay on Jio as a primary SIM, as opposed to being a secondary SIM. We could see volumes come back to us on that basis, but we will have to see. To conclude on India in terms of top line, in Q3, of course we are going to have a little more of a slowdown, but let us not be overly dramatic. That is what I would say.

On fit for growth in terms of the financial goals, we had said all along that we were driving a systematic approach to efficiency within the company. We'd said that we were targeting 24 out of 26 businesses, on a three-year basis, on a multi-year basis to improve margin. The first half was a good illustration of how seriously we're taking that: 70 basis points' improvement year over year is a good start point, I would say. Clearly, we want to be able to accomplish similar goals on a multi-year basis.

Now, will we give exact guidance? No, because we're a large group, a big portfolio, with a lot of moving parts. Composition can be different. You've heard it all from me before, so I don't think we should get down into, 'And it's going to be this number,' because that's very hard for us to predict. I think H1 is a good illustration of our ambition.

John Karidis, Haitong Securities

Thank you very much. It's John Karidis from Haitong Securities. I also have two questions, if I may. The first one is to do with your fixed-line business. Is it right to assume that the size of the off-net broadband networks is likely to increase faster than your on-net broadband networks? Therefore, what does that mean about the profitability of your fixed-line revenue, going forward?

Secondly, specifically in the UK, as you may know, Ofcom is looking for volunteers to help them build the third all-fibre network to about 40% of the country. Sky has already said, 'Thanks but no thanks.' Under what circumstances, would you step up to the plate and be one of those brave volunteers, please?

Vittorio Colao

First of all, I believe that we should think about return on capital more than profitability. In this industry, we always talk about EBITDA, EBITDA, EBITDA. You should start thinking about EBIT, i.e. only return, which by the way next year we have the intention to emphasise stronger. Yes, you're right, the off-net resale is less

profitable, but the capital allocated to it is also lower. The more we use not our network, the more we will require economic conditions that allow a certain margin to be made, hence a certain kind of tension with the incumbent.

At the end of the day, this is also the answer to the second question. The reason why it's important to have access to duct and poles is exactly to have an alternative that is economic. Then I can look at where I prefer in a specific area to build or to leave, but if Ofcom helps me, Openreach should have a competitive rate here and should give access to duct and poles here, and in that way we make the trade-off. It's impossible to give an answer in general. It's a little bit like in Italy, you have areas of the country where it's going to be very hard to build, to the point where there will be subsidies. Now, whether it should be won by Enel or by Telecom Italia, in the end, we prefer Enel because we have a better contract. If then Telecom Italia, at some point, improves the conditions of that contract that is still good for us. You cannot give a black and white answer to that type of question, regardless of conditions and geography.

Maurice Patrick, Barclays

It's Maurice from Barclays. I have a couple of regulatory questions, please, the first one on roaming. You quantified the retail element of the roaming number for the drag this year and next year. There are proposals in Parliament to have a much lower wholesale rate; I believe the €8.5 number could become possibly €1 per gigabyte. You presumably are insulated against the opex risk, because of your diversified nature, but say the Finnish operators are talking about wanting lower rates. Are you worried about lower rates being imposed at €1 levels and the potential impact that could have on arbitrage or OTTs entering?

Secondly, you made the point of I think about 95% of your sites being fibre backhaul now in urban areas. As you start thinking about the European framework review and how the final recommendation will come out, how important is cost-orientated access to backhaul networks to fulfil your 5G vision? Thanks.

Vittorio Colao

On roaming, it's a combination of two things. It's the price and it's also the fair usage conditions, which are important. The price is important. Clearly €1 per GB is too low. If you start talking about the cap proposal that has been debated, it talks about €8.5 going to €5, which some operators are not happy with. In the end, Vodafone could live with it. We all lose more [business] model than the others, of course, because we have more on net and we have an advantage, blah, blah, blah.

The real point is the fair usage conditions. There was a proposal of 90 days; it has been kind of turned down. I'm not sure how much higher than they go because, if you think of weekends, where you should live in your country hopefully, and you think about working abroad 50% of your time, you actually get to 145 or 150. There's not a huge amount of margin there that can be played. This will be the important element of the discussion.

Now, northern countries don't like it, clearly, for one reason. Southern countries don't like it for another reason. My sense is that big countries like Germany or like France will not allow the wholesale rate to go to a point where their own industry is threatened. Again in the current climate, I don't see many people being really very happy to sacrifice their own industry for the greater common good. In that sense, it's probably one of the positives of the balanced situation that has to be found.

The second question was the importance of cost orientation to get to the 95% fibre. Of course, as I said, the lower we get the better it is, but also don't underestimate we have alternatives. We can work with third parties and especially – and that's why I raised the point about access to infrastructure – we can build ourselves if we have access to duct. That's why access to duct and the clean conditions for accessing passive elements of the incumbent infrastructure is very important to competition. Countries really care about competition. That's the single element they should work on.

Nick Read

Could I just say one thing on the roaming that sometimes isn't appreciated? Assuming no domestic arbitrage opportunities, so that that's covered, two thirds of our roaming traffic is on footprint, so it's within our

operations. That final third is on a balanced trade flow with our partners. Actually, you could argue from an economics perspective we are in a long more favourable position from, say, some other operators that maybe have imbalances.

Akhil Dattani, JP Morgan

Two questions, firstly, just on the outlook and specifically just on the thoughts you have around India. As you both mentioned, the H1 performance has been better than you expected across the board, yet you've chosen to trim the top end of the guidance. I guess I'm just trying to understand within that is that a function of the fact that to keep such a wide range doesn't seem credible going to H2, it implies too big a range for the second half, so there's some implicit prudence for H2 or are there specific things in India? I guess, when you talk to India, I completely take your points around there are going to be effects within the business. As we look through what you've seen so far halfway through Q4, are there specifics you're seeing or is it just you're worried about them sustaining the data pricing at free, post 3 December?

Secondly on Enel, there have been a lot of rumours and discussion around whether their rollup targets are actually on plan at the moment or not. Any sort of colour around what you're seeing and how comfortable are you with what they're doing? You also mentioned that, currently, your penetration is 5% of your fibre footprint in Italy, versus 20% elsewhere. What steps are you thinking through to try to drive that up to a more peer-group-average sort of number?

Nick Read

In terms of thinking on the guidance range, you did a pretty good summary yourself. When you look at the guidance, clearly we tried to narrow the range down, as we get to this point in the year, to be more helpful. How you have to look at that range is what could happen on the top end: the top end is Jio start charging from 3rd December; we see reasonable dynamics happen through quarter four, in other words a slight normalisation of the situation; we also potentially see Italy, now the consolidation happens. What happens to the below-the-line promotional activity that has been pretty aggressive over the first half of the year? If it gets moderated that could be quite beneficial for Italy. These are the two higher ends.

At the lower end of the guidance range, can we clearly say Jio will definitely start charging from 3rd December? No, we can't. Therefore, if they stay free for another quarter that is a big variable in what happens in the marketplace generally. On top of that, could a European market get suddenly more competitive? Of course it can. Unfortunately, we have to keep that slightly lower end of the range in place, just in case a number of things go against us in terms of headwinds.

Vittorio Colao

On the Enel project, what we can report is that Enel is getting up to speed. There are now 30-40,000 homes per month, which is pretty good. Now, these are not homes; these are apartments, so it's easier of course, but it is families in the end. Their theoretical maximum speed that they can get is 100,000, which comes over time. We don't hear any operational issue in their deployment, and now it's up to us to convert existing customers into NGN as soon as they become available. Of course, we have to go by area, because we don't want to go more times into the same area.

If you think about our footprint there, we will have 1.5 [million] in phase one, plus 1 million of Metroweb, plus 2 million of FTTC, which is 4.5. This will go up to 8 or 9 in phase one, and then we see what happens in the – let me call it poor areas, the C and D areas, where there will be a Telecom Italia versus Enel with a kind of subsidised rate. Potentially, Italy could become, in a matter of a few years, a pretty fibreised country and, I would say, probably 60% of it competitive and 40% not. What we need to do is basically go block by block. It's geographic marketing; it's not mass marketing. Again, if you take today's *Corriere della Sera*, you see Vodafone is advertising at 1 gigabit per second – today's. This morning I saw the first one, so that's what we're doing.

David Wright, Bank of America

Hi, it's David from Bank of America. I had two questions, please. First of all on Spain, it's quite clear that Orange has gathered a lot of momentum. It looks like you guys are holding your own and Telefónica is starting to really lose, but Orange Jazztel has definitely disrupted a historically favourable environment. How long are you going to give them before you guys feel the need to react, is my first question?

Second of all, it was a curious move to introduce the very aggressive broadband pricing in the UK. It felt like you would always be a little bit more reactive to BT and EE, rather than necessarily proactive, so I'm just interested in how you guys came about that strategy. Thank you.

Vittorio Colao

Thanks, David. Let me answer both questions in a very short way. How long will we wait to react to Jazztel? For those who are not familiar, it's become the second brand of Orange that plays always systematically – €7, €6 or €5 below our price points. The answer's very short: not very long. We said it last time and now it's becoming now very long, the answer, and it is what it is.

On the UK, you say our pricing is very aggressive. I think the UK has done some additional thinking on the situation on the market, and we found two things. One, this is a market that is going very quickly over the top, because of the English content and because of whatever, the things that we know. Therefore, it would have been a better entry strategy to have clean pricing, without line rental, focused on naked broadband, focused on our customer base. This is also why we are holding the launch of TV, because we prefer to build scale in our customer base on naked broadband, because there are so many people and so many customers who naturally now are appreciating that.

Of course, we are anticipating a request – sorry, not that we are doing something completely crazy. It's a request from Ofcom to have integrated pricing without the hidden line rental. We did it and we did it at the commercial level. The take-up, which is only partially visible in our number, is actually good, so we are pleased with that. We think that to build scale that's the best entry strategy into the UK, rather than going with the traditional offer with TV and then the hidden line rentals and things like that. –

San Dhillion, Exane

Okay, two questions. The first question is on organic EBITDA. Nick, you say it's relatively broad-based and it is but, within the mix, AMAP is growing at near enough 10%. Given what's happening in India and Egypt as well, with the currency devaluation, what kind of level of organic EBITDA growth can we expect with that, within that region?

Secondly, given that organic EBITDA has been in growth phase for some time now, what type of leverage do you think a growing EBITDA company in telecoms can sustain, going forward?

Nick Read

Sorry, I missed the second one.

Participant

It was just a question on leverage. Given that Vodafone has been growing EBITDA sustainably for some period of time now, what leverage can a growing telecom company sustain?

Nick Read

Look, we've gone out with our range at 3-6% type growth. We said, when we went out with that guidance range, that the mid-point was broadly where our plans were as a business. Therefore, we remain in line with our plans. Yes, we've had an anticipated slowdown in India, but some of our other AMAP countries are

performing very strongly. I'd pick Turkey, Egypt, etc. I remain confident in our outlook, in terms of the guidance.

Obviously as we go into leverage, think about in terms of more for more. There are really two things that I would draw out in terms of the growth drivers. The first is the data side. Clearly, if we are monetising data that has a strong leverage effect. The second, which was the point already made, is selling fixed on-net has a big leverage effect as well, because we've already got the network there. Those two have, if you like, high margin throughput. Lower margin throughput would be selling off-footprints in fixed. That composition depends on our leverage. As you see, I think we've done a good job. Outside of direct costs, which have a wholesale and a content [element], we've done a really good job of holding costs down and we're looking to get further efficiencies, going forward.

Jerry Dellis, Jefferies

Good morning. It's Jerry Dellis from Jefferies. Two questions, please. Firstly, you mentioned in the slides that you're making personalised offers to customers available in 17 markets. I just wondered whether you could give us some more detail perhaps about the level of customer take-up and what typically happens to a customer's ARPU when they adopt one of these personalised offers.

Then the second question is really on Italy. I suppose Telecom Italia managed to reduce line loss last quarter, with quite an effective quad-play campaign. They seem to be investing with more urgency on fibre. I wondered, commercially on the ground, what impact that is having upon you and to what extent you now need to act a bit more urgently there.

Vittorio Colao

It's difficult to give you a general answer on personalised offers because, by definition, as the name says, they're personalised, so it's very difficult. Let's say what's the purpose of these things. These are data-analytics-driven strategies that are aimed at identifying opportunities to upsell, based on a more generous type of offer. They are usually ARPU-accretive and unit-price-dilutive. I give you more of this or that if you use it at certain times of the day, in certain months, in certain days, more versus the previous. There's a huge variety of offers but, essentially, that's the... If you look at the take-up, it's very difficult to generalise, because it depends on what you're talking about. There are some who have a fantastic take-up. For many of them now, we are using the My Vodafone App, the digital app, because it also creates a certain kind of stickiness to the Vodafone experience. I think it's actually an interesting question. We might do a dedicated kind of investor and analyst focus, separately from these events, because it's becoming more important and it's one of the areas where we're investing, so maybe we'll follow up.

The second question on Italy, listen, yes, Telecom Italia is doing what everybody else is doing, so building more fibre and trying to do quadruple play. We are going to push ourselves. We are going to launch TV, again with a different strategy from the UK, for a different reason. We are already at a good broadband customer base, so we can now add the TV offer. What do I see in the market? The only thing I don't fully understand is a very aggressive entry point at €19 from Telecom Italia. You kind of not expect, but accept, from Fastweb, but from Telecom Italia I would have expected a bit of a premium versus Fastweb, also because Fastweb is their partner on the deployment of fibre, so it's a bit of a strange thing. Having said that, we will play the game that we need to play. I think there's an opportunity in Italy, with the consolidation of Wind and 3, and preparation for the arrival of the new entrant in nine months' time. There's an opportunity to uplift ARPU in a healthy way.

Andrew Lee, Goldman Sachs

Andrew Lee from Goldman Sachs. I thought one of the bright spots from your results was the operational leverage that we started to see more than a glimmer of, particularly in Europe. Specifically on Europe, given your confidence on cost control, I wonder if you could talk about what the outlook for what that operational leverage trend is, on a 12-18 month horizon. Should we see that accelerating? I wonder if you could just talk about the mix within that between mix improvement, in terms of your revenue growth, and the cost control you're delivering.

Secondly on AMAP, where we're not seeing as much of that operational leverage coming through, is there anything that can be done? Is there anything we should look for that's changing that could start to deliver a bigger gap between revenue growth and EBITDA growth? Thank you.

Nick Read

What I'd say about Europe sort of somewhat goes back to my answer before, which is, if we can drive more-for-more strategies and monetise data, there is clearly strong operational leverage. We did the Project Spring spend; the network is built. It has a high amount of capacity. Therefore, incremental throughput's very high. We're working very hard on support costs. We're working very hard on customer costs to bring those down over time, and I think we're demonstrating, in the vast majority of markets, we're doing that. If you like, the jaws should work well as long as we are monetising data.

What do we rely on? We rely on rational incumbents in the Tier 1, along with us, to price appropriately and not undermine the more-for-more pricing strategy, and keep strong networks, which we are doing. On the fixed side, I don't think we're reliant on anything. We are driving the penetration on the fixed side and content is a little bit behind us, because most of those auctions have taken place. On the emerging markets, a lot of that was network build. There is always inflation in emerging markets and we try to suppress that as much as possible, through efficiency savings. It really does come down to top-line growth in emerging markets, customer growth and data monetisation.

Andrew Lee

Can I just follow up, just on the fixed side? You're very confident in the operational gearing on the fixed side of things.

Nick Read

All you have to do is look at the results that Vittorio has demonstrated to you. Our net add performance on the fixed side has got real momentum. We're the fastest growing in Europe. If your commercial engine is running well, we're going to slowly penetrate on to our on-net base.

Ottavio Adorisio, Societe Generale

Thank you. I have one question and two clarifications, actually. The question is about the emphasis on return on investment that is welcome. I was wondering about India. Over the last six years, I think more or less you invested €11 billion. You generated after tax around €2 to €3 billion, so I was wondering, given your projections, when the Indian subsidiary is going to earn its cost of capital, on the back also of what's happening with Jio entrants.

The clarification, the first one, is on slide 13. You talk about 28% convergence of your fixed-line customers. Can we have also the same percentage for your mobile customers? How many of them are convergent? The other one is on your capex. Basically, during the speech, you referred to the fact that you did 14.3% on the first half. You mentioned about seasonality. Looking at the last three or four years, normally you do 300 to 500 basis points more in the second part of the year. Therefore, you said that we are going to end up at the upper end of the range, of the capex of sales. The problem is that you never had a range on that; you always only referred to mid-teens. I was wondering if we're talking about 18%, 19%, 17%, if you can tell us what upper end of the range means. Thank you.

Vittorio Colao

Let me take the broader question on India, maybe a small clarification on the mobile thing and maybe Nick can take the capex. On India, I think you are correct; India is not earning its own return, on cost of capital. It's a market situation. I have to go back to my answer to Polo; it's really about consolidation and it's really about the possibility or the opportunity to be one of the beneficiaries of that. This is the reason why we have decided to be more focused, more selective and, as Nick has shown in his chart, we are putting most of our money, 90% of our money, where we have the highest chance, which is where we are leaders, to have a

good return. We are very minded to continue to be disciplined to be focused in India. In general, but in India in particular.

The percentage you ask is interesting. We don't have it yet. We are trying to measure it through prepaid and so on. This is one of the big system changes that is necessary, so I don't have – unless you have it – I don't have the number. You can multiply whatever. Take the percentage, multiply two point SIMS per household or something like that, but it's not completely accurate, so we are getting organised also to measure the other number, which I agree is very relevant. On capex intensity?

Nick Read

I remember when we went out with mid-teens there was a big debate amongst you all about whether 11% and 12% counted in the range of mid-teens or whether that was only 13% to 19%. What did that exactly mean? I would say the consensus fell ultimately to 14% to 16 to 17% type range, and therefore we're saying we're at the upper end of that type of range [in half two] so, no, not 18% and not 19%.

Dhananjay Mirchandani, Bernstein

Thank you very much for taking my question. Dhananjay from Bernstein. I have a question on mobile proposition strategy for Europe. With Germany we've seen O2 launch launching its 'free' proposition, which arguably provides a pretty decent data experience once you maxed out on your data allowance and, more importantly, does not allow a MVNO on a resale basis to easily replicate that vital proposition. What is preventing the likes of Vodafone or Deutsche Telekom, for example, from replicating that and utilising this market cost advantage on the use of data?

Nick Read

What's stopping them from doing that? Probably nothing is stopping them from coming up with similar types of propositions.

Vittorio Colao

I think the question is what was stopping us. Correct? Shall I take it? I think the answer is nothing; it's just a matter of how well you are doing with your main brand and your second brand. You say a similar example. What the German market is telling is that Deutsche Telekom and Vodafone are their main brands, which clearly have established a gap, which we want to continue. Clearly not having unit-based MVNOs is helpful for us, and we are going to use more aggressively our second brand in the low – in the median - and low end of the market. I am not so sure; we might do it a little bit more. The answer is – but preserving this kind of separation I think is healthy, and it is – I think so far it has proven to be a pretty good strategy.

Will we be a little bit more active with our second brand? Like, you know, my earlier reply for Spain: probably yes, but we need to be sure that there is no contamination between the direct and indirect channels, and between the main brands and the second brands, because that is the way the market is working today. So I would say openness of mind, but caution with the wallet.

Nick Delfas, Redburn

Thanks very much. Nick Delfas, from Redburn. First of all I just wanted to understand that we've got all the drags that are already in the numbers. So we've got a carrier drag at the top line, which is about 60 basis points. You've got the content drag, the Spain accounting drag and the roaming drag on EBITDA, which I guess has dragged EBITDA by about 3 percentage points. You've also got a drag in common functions, which is another 60 bps of EBITDA. I just wanted to make sure we've got all the things that are already baked into the numbers this half.

And then secondly, a question on BT and Openreach, and ducts and poles question: who do you think is actually going to put real money into fibre in the UK via ducts and poles?

Nick Read

Yes, you have a long, long list there. The only one I wasn't sure whether you said was MVNO in the UK second half. That's the only – if you remember the start of fiscal year I called out a basket of drags, one of which was MVNO in the UK, of which we haven't seen in the first half, and we're anticipating in the second half to the tune of about 100.

Nick Delfas

And actually one other fact which is the exceptional items. You've got a very small exceptional in H1. Should we expect very few exceptional items going forward as well?

Nick Read

Exceptional items?

Nick Delfas

37 million, I think, in that first half.

Nick Read

I don't – no, I tell you what, let me pick it up afterwards. I can't –

Nick Delfas

It seems very low relative to some of your peers.

Nick Read

Oh, restructuring [costs] was one? Oh, right. Yes.

Vittorio Colao

On the Openreach, my instinctive answer is that the first ones who should put real money should be Openreach itself. That's the real answer, and why they don't do it I understand very well, but at the end of the day if one wants to preserve a certain status in the industry, it should put real money. In absence of that, then the opening of ducts and poles is very important, and the conditions at which they open ducts, poles and wholesale, which by the way is just the same problem we have in Germany. It's a discussion we have in Germany; the European Commission has come back on, again, wholesale conditions, ducts and poles for Germany, despite the fact that Germany has a much lower price.

In answer, some that – I think if the other players in the market, us, Sky, the others, that with the right economic conditions can put money in. The question is, of course, Openreach on one hand does not want to put money, and on the other hand, wants to keep conditions very high so that there is no incentive to invest. That's why I think they are ending in a difficult position, and they are in a difficult debate, because they want to have two things which are not compatible with each other. That is why the debate is going in the direction of the split. Whether the split happens or not, it doesn't really change the reality. They will always be under this pressure, so they need to find a solution.

Now, other players in Europe have found a solution by lowering wholesale costs. So for example, in Germany there is no split debate, because Deutsche Telekom has lowered wholesale. In Italy, wholesale is already low. In Spain there has been an agreement of competitive non-competitive areas that works. The UK has been a bit frozen in this discussion until now, and the discussion is becoming again heated. But, you know, again, there's a variety of players who could have an interest, and eventually there could be also

private players who start thinking that maybe, you know, it's worth, with the right access conditions to build private networks, like in Germany.

Nick Delfas

You did not say that you're willing to put material capital in.

Vittorio Colao

No, I said it depends on the conditions. I am back to the earlier point. I mean material capital, if it has a good return, you can put it, you can co-invest, you can do things like the glass fibre in Germany. There's plenty of solutions, again, but there must be the conditions, otherwise why would you do it?

Robert Grindle, Deutsche Bank

Thank you. Robert from Deutsche Bank. I wanted to ask you for your thoughts on your equipment revenue trends please. It's been weak in Europe for a few quarters. It was very strong a couple of quarters before that. Is the handset upgrade cycle over? Are we in some sort of secular decline on handset upgrades? Or are we just in a cycle that's going to recover? Are you seeing recovery in equipment sales in the quarter? Is there an enterprise component to it, or is it –

Vittorio Colao

SIM-only. SIM-only is going up. SIM-only is going up, which is an interesting trend, which I remember I talked about it two years ago. The reality is that handsets' kind of evolution is slow, and there's not a huge difference between one generation and the next. And therefore, some people are starting to say, 'You know what? I am better off getting more data, higher ARPU for us, and wait.' I don't think it's slowing down, necessarily, per se, but they are buying it separately whenever they want, and so on.

We will just do what's right for the customers. We'll follow both models, and eventually, if this turns into more net ARPU for us, this is good. But it's a net ARPU concept that is starting to creep, and we start using the expression

Nick Read

And clearly, convergence is going to be a factor in that as well, SIM-only.

Robert Grindle

A follow-on question is: have you looked at your service revenues ex the handset effect?

Vittorio Colao

We do.

Robert Grindle

And is it stronger?

Vittorio Colao

We do because it's an important element. As I say, we talk about net ARPU now: net in my pocket, meaning without the handset component.

Robert Grindle

So is it recovering faster than your headline service revenue?

Nick Read

Yes, it's only really the UK that we're seeing there's some sort of shift in the mix. If you're saying, 'Is your service revenue really actually stronger than it looks, because of a bigger shift in the marketplace?' I would say the UK clearly is moving that way, and of course we've got the only material handset financing impact is in Spain, which is a drag of about 80 million in the first half.

James Ratzer, Newstreet

Yes, thank you, yes. James Ratzer from Newstreet. Two questions please. The first one was an interview wide question. You've obviously seen very strong data growth in the first half, but yet you're talking about your capacity utilisation only going up by one point over the period. Your other kind of peers are talking about similar trends as well. I mean as long as the industry can continue to grow capacity as quickly as you are, I mean, do you think it's going to be possible to get pricing power and therefore revenue growth in your European mobile service revenues?

And then the second question, please, was just around German profitability. You are seeing accelerating revenue growth there, but I think EBITDA trends were stable compared to H2. I mean you called out some of the rising A&R costs there. Is that something you think can sort of reverse and we can therefore see accelerating EBITDA growth in Germany in H2?

Vittorio Colao

James, two different answers. First, you talk about pricing power. The way I see it is slightly different. The way – why I mentioned that is this. Look at Europe. One and a half GB per user. Look at the Nordics: 7, 10, 13. Look at the high end of Europe, us. I don't know, my bet, this room, 5-6 each, probably, unless you work too much on the Wi-Fi in your office all day. So there is a potential to increase, not necessarily – what you call pricing power seems you can put a premium on it. I'm talking upsell. I am talking you spent 30 this month, you go to 35 the next. Maybe you get 5 GB more, which sounds like, 'Oh my God, you're doubling and you're only increasing 15%?' But for us, and that's why I showed the network statistics, it's actually doable. So we can continue to follow this growth in data, which will have small upward increments, without massive capacity problems. That was the logic.

Now, you call this pricing power? I don't know. Pricing power is usually in consumer goods or in fashion, is used as, you know, 'I can jack up because I have a differentiated brand, a differentiated premium relative to, you know, what is bought.' I think it is more the appealing ARPU. If you want to call it more than pricing power, ARPU power is probably what we are trying to achieve here.

On Germany, Nick will say something, but what I say is that – I don't know if you noticed, I praised Italy for the great work they did on cost. I praised Spain for the great work they did on cost. I hope in six or 12 months from now I will also praise Germany for the great work they have still to do on cost.

Nick Read

I think that would be a fair summary. I think that's – look, Germany's EBITDA won't accelerate in the second half. It'll be somewhat similar performance, mainly because, you know, we have to see what our largest competitor does in the marketplace around subsidies and the aggression in commissions in indirect channels. If they moderate behaviour, then maybe there could be a further improvement. What I would say to Vittorio's point, and to my chart in that bottom quadrant, basically said Germany has a significant opportunity in terms of its cost base, and we will help them on the plan. So hopefully next year we can see further improvement.

Stephen Howard, HSBC

Stephen Howard at HSBC. I've got a couple of questions prompted by your generously proportioned risks section within the results. So the first is: how worried should we be by things like the OECD's BEPS proposals, and also the directive of the European Commission on tax and financial reporting? I ask that, obviously, in light in particular of things like the case that DG Competition has against Apple.

And the second thing is, I see that you're saying that the outcome of Brexit won't unduly impact your UK investment, which is obviously welcome for those of us living here. But what I'm wondering is, at what point do actual market conditions in the UK begin to impact your level of investment here? You've got an EBITDA margin of, what, south of 19%? Germany's over 30, Italy's over 30, even Spain is towards 30. You've got Ofcom and the DCR suggesting that the industry here is generating substantial supernormal returns. You're not even free cash flow-positive. Never mind investment in fibre: what really is the case for incremental investment in mobile in the UK?

Vittorio Colao

Stephen, thank you for your question, because this links well with Ottavio's point on return on capital before, and also with the previous question of Nick about real money. Yes, the UK is the other place, together with India, where our return on capital is not adequate. And again, our Board is now very keen, and the dialogue between us and our Board is a lot on return on capital. I hope and wish that every other telco in the industry starts talking a little bit more about that, and a little bit less about EBITDA only. The UK has, like Germany, a) to do significant work on costs, because we clearly have a structure which is not appropriate for a 20% or 19% EBITDA margin, and b), we need better conditions around us.

I don't know why you link it to Brexit, because honestly, it has been the case for the last five years, even before Brexit, so I don't think it's a Brexit thing. I think it's, on the one hand, a difficulty to compete in fixed line unless you are one of the incumbents, which essentially are Virgin and BT, and the need for us to be more efficient in our distribution in the country, through a variety of things. But you're right to point out that we will have to apply to the UK the same logic of everywhere else, and in particular the logic of India, which is a return on capital-based allocation of investment.

Nick Read

Just on BEPS, I don't see any material impact from BEPS. We've been working closely throughout the consultation period. We have no aggressive structures, no artificial structures, so therefore there is no read-across from any recent cases with other US multinationals.

Guy Peddy, Macquarie

Thank you; it's Guy Peddy from Macquarie. Very quickly, firstly, Nick: on the UK margin, is there anything that is specifically one-off in this half that we should expect to roll out over time because of CARE, for example? Secondly, if you're focusing on return on capital employed in the UK, can we assume therefore you're going to abandon TV, because it's too late? And thirdly, could you just give us what is now the carrying value of the Indian asset? Thank you.

Nick Read

On the first one in terms of UK, yes, we have had a number of – I won't call them one-offs, but we've had some additional costs related to the service challenges we have. If we then look to H2, I'd be looking for the EBITDA to stabilise in the second half year on year, given the additional costs that we've had in the UK business. Clearly, we don't give out our carrying values for each of our businesses. All I can say is, everybody knows how much we paid for 100% of the asset. Someone quoted the 11 million in Spectrum, and you've got the impairment charge. So I would say that you're heading in the right direction, plus some FX negative movement.

Vittorio Colao

And on the UK TV thing, as I said, we decided to focus now on broadband, because that's where we see better returns and more important – it is more important to build the base. We keep the platform there, which is the same platform we are using across the Group in Italy and other places. And if needed, when needed, it's going to be ready for launch, but we are focusing, as I said today, commercially on essentially selling broadband to our customers, mostly. In the future we will see, but yes, the UK will have a more careful return on capital type of capital allocation.

Simon Weeden

You're a – for us at least, one of the more multinational of our multinationals. You've touched on Brexit, but there's more than one country potentially re-examining their international trading arrangements, and I wonder how you think about that from an operational capital point of view, and if there are any countries where there is a greater risk at some point that you will find challenges in repatriating profits out of those countries that you operate in.

Vittorio Colao

I mean, Brexit per se, like obviously there is other things. I mean, we have the local businesses, they are established locally, they are – they have licences or they have spectrum, which is issued locally. We have local management. While on the one hand I would prefer, in an ideal world, to have a single space, economic space, and a single regulator and single rules, at the end of the day we are actually born as Vodafone in a world which was not single and actually was fragmented, so we can operate in both worlds pretty well. And again, the beauty of Vodafone is that we operate in very different environments and we have different operating models across Vodafone, so we are very flexible and very – we can adjust.

In terms of repatriation of money, I would say, you know, so far the issue is more, you know, currencies. I mean, there are some currencies where it's hard – or harder – to find hard currency to take it out. So it's not really that they are kind of constrained.

Nick Read

No, I would say probably the financial challenge we have is more – we would ideally like to be matching our debt to the discounted cash flows of our markets, so that we are economically hedged. There are situations with some of our markets where we can't inject the debt into those markets. Generally, because they are highly profitable and generate a lot of cash. So, you know, unfortunately, we can't put the debt in. So I would say therefore we run a slight economic imbalance in some parts.

Vittorio Colao

Yes. Good. Thank you very much, again I leave you with two comments: good quarter, good performance in a number of markets, and the strategy continues, the evolution towards what we call Gigabyte Vodafone continues, and I have to say continues in a balanced way across data, enterprise and convergence. So we will keep working. Thank you very much.

Nick Read

Thank you.