Vodafone Group Plc

Preliminary Results
Analyst and Investor Conference Call

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Preliminary Results

Vittorio Colao

Chief Executive, Vodafone

Good morning and welcome.

Today will follow a slightly different order. I will give you the highlights for 11/12. Then Andy will do the whole financial review for the year, and will be followed by Steve Pusey, who is going to talk about technology and what we are doing to deliver our Supermobile strategy. Then I will come back with some comments and remarks on our commercial strategy. Then as usual, I will be joined by Andy, Steve, Nick and Michel for your questions. Can you please move to the next slide?

Highlights of 11/12: Group organic service revenue grew 1.5% in the year; 2.3% in Q4. We are outperforming major competitors in most key markets, meeting our guidance. Adjusted operating profit at £11.5 billion, and free cash flow at £6.1 billion. As you know, Verizon Wireless have paid $10 billion of dividends, £2.9 billion was our share. We have distributed this to a special dividend. The board has resolved for a final dividend increase of 7%, 6.47p per share. If you add the special dividend of 4.0p, the increase versus the previous year is about 52%.

We have completed £3.6 billion of the share buyback of the total programme of £6.8 billion and we are now at 91%. As I said, I will make a few comments about the progress of our commercial and strategic delivery after Andy's financial review and Steve's network commentary.

Andy.

Financial Review

Andy Halford

Chief Financial Officer, Vodafone

Good morning everybody.

Let me just start off then with the key numbers. £42.9 billion of service revenue for the year. That is an increase, as Vittorio said, of 1.5% for the full year in total. EBITDA at £14.5 billion, just fractionally down 0.6 percentage points on a like-for-like basis compared with the previous year. The margin continues to reduce. So the reported margin was down by 0.8, we took some restructuring charges, without which the margin would have come down by 0.6, which is about half the rate of the decline of the previous year, so very much as we had planned. The adjusted operating profit at £11.5 billion, if you adjust out for the disposal of SFR, that is on a like-for-like basis a 2.5 percentage point increase compared with the previous year. Actually, that £11.5 billion number, if we restate that on the same basis of FX, as we did the original guidance, that is £11.8 billion, i.e. the very, very top of the guidance range that we gave at this time last year.

Let me then move on to the lower half of the P&L. First of all, financing costs are up, year on year. I have got a slide later on this, but broadly speaking, two factors in that. One is the decision to fix more of our interest rates, and the other is some credits in the prior year that are not recurring.

Tax of £2.3 billion is broadly similar to the previous year. The effective tax rate was 25.3%, so just slightly up on the previous year. That is primarily due to the increase of the mix of the profits from the US, which is a higher-taxed territory.

We have then the gain in the middle on the disposal of the SFR stake, so a £3.4 billion gain and have taken additional impairment charges in the second half of the year for Italy, Spain and Portugal, which in addition to Greece in the first half, brings the total impairment cost up to just over £4 billion. Earnings per share was 14.91p, which is down 11% on last year, but remember 8% of the 11% is because we have disposed of businesses. So the underlying is 3%, and put simply, that is down exclusively to the decision to fix more of the interests costs.

The dividend we have increased by 7%, as Vittorio said, in line with our commitment. That gives us a full year, 9.52p prior to the 4.0p of the special dividend. So 13.52p for the year in total, a 52% increase, year on year.

Free cash flow, which again, I'll go into in a bit more detail, at £6.1 billion, is in our guidance range for the year, lower than last year, because if you recollect last year, we were in the final stage of our working capital programme, which gave us about a billion of benefit last year, which did not recur again in 11/12.

Moving then onto the high level walk of the previous year's service revenues with last year's. We started the previous years with £42.7 billion; this year was £42.9 billion. If we go across the page, the second column here in grey, the effect of regulation – again, significant: £0.9 billion of drag from the regulatory front. But the good news as you go across, is that data again has grown, more than offsetting the reduction in voice. So the data revenues for group were up by 22% at £6.2 billion. Then I have a separate slide for each of these: messaging revenues were up year on year, the fixed revenues were up, wholesale revenues were up, and the FX clearly has slightly reduced the final number. £42.9 billion is the number for the year.

Now, if I look at that in terms of the pre and post MTR rates, we have got here the sequential quarterly growth rates in grey; this is the reported numbers. In red is the numbers before the MTR rate cuts. I guess the first comment here is in Q4, the most recent quarter, roughly 1% of that growth is because we had an extra day because of the leap year. But nonetheless, a good fourth quarter for the year. The overall impact of MTR cuts has been about 2.2 percentage points for the year as a whole. Broadly we expect that to be similar for the year that we are now in.

So, let me just go across then, and look at one or two areas of focus. First of all, data: on the left hand side of the chart here, the data revenues, as I said, were up 22%, £6.2 billion for the year. So good progress here, particularly driven by mobile internet. Mobile internet revenues up 48%, year on year,107 million users of data across the Group. 27%, the bottom left hand chart here, of European customers now have smartphones, which is up 8 percentage points on the year before, which itself was up 8 percentage points on the year before that. Roughly 60% of customers who have smartphones have got data price plans with us. In Europe, of our postpaid consumer base, about 43% of our revenues [Q4] are now coming from customers with integrated tariff plans.

On the right hand side we have messaging. So we saw slight reductions in overall volumes of messages in Spain and the Netherlands, and we had regulatory caps in India. But notwithstanding that, the overall volume of demand for messages remained very strong – 11% growth in messages across the group. Overall the increase in revenues from messaging, up 4.4%.

Moving, then, onto enterprise and fixed, two of the other areas of focus, both of these actually have got similar growth rates to the year previous. So on the top here, in red, the enterprise revenues across the group grew by 2.2%, and are now £9.9 billion. Enterprise revenues now comprise about 23% of the revenues of the total Group, or in Europe, they represent about 30% of the European revenues. So the general theme here was fairly aggressive on pricing, but very, very strong growth, particularly from the Vodafone Global Enterprise unit, the big multinational accounts, where we actually saw revenues up by 11%, primarily by greater account penetration.

On the bottom left, then, we have the fixed revenues, which grew by 5.4%, again, similar to the previous year. We now have 6.4 million broadband users. Our One Net product, we have taken that up from 1.3 million customers to 2 million during the course of the year.

Just stepping back then, the 1.5% overall growth in service revenues – not surprisingly the story here is strong growth in emerging markets, good solid performance in northern European markets, and weaker performance in the southern European markets. So on the left, you can see the stars, if you like – the Ghanas, Turkeys, and Indias – in roughly the 20-30% range. On the right, you can see Greece, Spain and Australia, which all struggled more, albeit for slightly different reasons. Not that it is on this chart, but just of relevance, I think: if Verizon Wireless were on here, being 40% or so of our net worth, at 7.3% growth, that would actually come in as the fourth highest growth business, and the biggest single one, if, of course, we counted its numbers in our revenues.

Just in terms of quick comments on individual countries, and I will go through these reasonably fast; Vittorio will comment on some of these in a minute. The top left here is Germany. I think the headline here is regaining mobile revenue market share in the German market, which is good. We saw the fourth quarter revenues grow by 4%, both before and after MTRs. We had data revenue growth in Germany of about 18%, and a major continuing push on Enterprise, where we saw revenues grow by 8.2%. We have now built out LTE network that covers about a third of the population, which Steve will talk to shortly.

On the top right, then, on the UK, I think the best description of the market overall is probably the word 'fragile'. I think the performance of our business has been very good. 1.1% reported growth, 4.5% but for MTRs. Data slowing slightly as we have the lapping effect from the previous year, but a big focus on improving the mix of the customers progressively towards contract. We now have 69% of the consumer contracts revenues in the UK coming from customers on integrated tariffs [FY 11/12].

On the bottom left, Italy: a more difficult macro environment. A 4% reduction in revenues; it would have been about half that, but for the MTRs. Big push on data, 14% up. Mobile internet was actually up 76% in those numbers. Enterprise was up 5.8 percentage points, so I think doing well against a difficult background.

Finally on this slide, in Spain, where again I think the macro environment remains very challenging, 9% reduction in the revenues there. I think doing well against our main competitor, but nonetheless the overall market is pretty difficult. The key change there more recently has been in the dynamics with regards to customer acquisitions and subsidies, which is early stages, but clearly a step in a helpful direction.

Let me move then onto the AMAP region. India, here, on the top left: a very, very strong year from our Indian business. Revenue growth there last quarter 21%, but pretty much 20% for the year as a whole. We have seen prices stabilising in the market. Actually, the ARPU for our business there went up by 4.8%. We now have 150 million customers. In revenue terms, India has now moved into fifth place in the group, having knocked Spain off the perch. We have seen a continuation of the trend ever since we bought the business of increasing revenue market share. Broadly, I think the operational side is really very positive. Separate that a little bit from some tax issues, but the operational side is very positive.

Australia, then, on the bottom left here. The numbers I think belie the fact that there is some impact from MTRs, so 4 percentage points of extra drag from the MTRs, otherwise, actually, the trend might actually be starting to pick up a bit. Clearly taking some time to get the brand perception improved. Steve will talk in a minute about some of the things that we have been doing on the network, and I think good progress has been made there. We have announced the strategic agreement with Optus, which again, I think is an important step forward. As Vittorio will mention, some management changes as well in our Australian business.

Finally, on this chart: Egypt. I think a very good story here. So this is a year on from the Revolution. We have seen the like-for-like quarter grow by over 7%. We have particularly been strong against the number two operator in Egypt. Data revenues are up by 53%. I think the business there actually is in very good shape, and pulling through what has been a very difficult period for the country very commendably.

Let me change track a little bit and talk about margins. I said earlier on that the reported margin is 0.8 lower than a year ago. The top chart here shows how it has changed by country, and the bottom chart shows how it has changed by, in essence, the cost driver. So if you just look at the top chart, you can see there the 32% the prior year, and in essentially the 0.8% – really, Spain and Germany, in some respects, are the total, albeit Germany is almost exclusively because we took some restructuring charges – the rest are net-neutral. Put another way, Australia actually took the margin down by 0.2% on its own, some restructuring was 0.2%, so the underlying excluding those is around the 0.5% level.

If you look at it by cost driver, not surprisingly, that was primarily about continuing investment in smartphones, and some extra commercial costs that came with that, plus the restructuring. I think overall the margin is very much on the trend line that we had foreseen. On paper, the second-half margins look a little bit weaker, but remember the impact of the restructuring charges was taken fully in the second half. That more or less accounts for the difference between the two half-years.

Let me just turn to, kind of, a different topic, on the cost side: operating expenses for the group two years ago – so this chart is taking you over a two year period – £10.7 billion. The focus we have had on costs has taken in the blue bar here, £0.9 billion, out of those costs – that is about 8% for the Group overall. In fact, the majority of the £0.9 billion came from Europe alone, so we've taken about 12% out of the European cost base in a two-year period. Some of that, in the green box, has been reinvested, so we've had to deal with inflation in wages and energy costs. We have got more network locations, and we have invested selectively in new product areas, but the net of those two is we have taken about a third of a billion out of the cost base. Then in AMAP, obviously, we have put more money in there to fuel the top line growth in the AMAP markets.

One of the other areas that, personally, I am the most proud of, is what we have actually been doing behind the scenes in terms of shared services and getting efficiency and cost reduction across the group. So five years ago – so a longer time interval now, we did not have any shared service centres. We have now got shared service centres in Egypt, in Hungary, and two in India. We have now got 6,000 people who are based in those locations. We have completely changed out all of the finance, procurement and HR systems across the group; we used to have 20 different ones. As of 1 April this year, we are now on one. We have now got 70,000 users on that system. In procurement terms, which I'll come onto on the next slide, that is giving us huge benefits. We have externally benchmarked the new shared service centres, and they've gone straight in at the second quartile with an absolute ambition that we will get to first quartile by March 2014. But all of this is already on a run rate of taking £100 million out of our cost base, and there is definitely more to come.

I mention the supply chain off the back of that harmonisation of the systems and co-locating people, we have made, again, huge, huge progress in the supply chain area. So we used to have 24 separate teams; we now have one team. We are managing somewhere around £10 billion of spend. We have seen savings per supply chain employee rise 60% over that period of time. We have recently benchmarked externally, and our savings that we are achieving through this team of about 10% last year, that compares with a world class standard – not an average standard – through external benchmarking of 6%. So clearly delivering much more benefit, hence the capex we are investing, amongst other things, getting a lot more money for that. You can see overall the increase in the cash benefits that we have got cumulatively over that period of time coming just shy of £5 billion.

So, Verizon Wireless. You will have seen, through Verizon, the numbers for Verizon Wireless, but just very, very high level: the last quarter, the service revenue growth was 8.2%. It's been in a corridor of 7-8% now for several years. We have seen an increase in market share, a big push on smartphones, like we are doing in Europe. The bottom left chart shows the margin that we are achieving in the Verizon Wireless business, which is absolutely at the top end of the pack in the US, and, in fact, the last quarter put four percentage points on the margin.

The top right is the debt level in the business. Notwithstanding the payments of the $10 billion payment out to the shareholders, we have now got the net debt again reducing; that is currently at $6.4 billion. Then the overall spectrum rollout on the LTE is going very much on plan, and nearly two-thirds of the US population are now covered.

I think we put in a similar chart to this last time around. If we take Vodafone, and take our proportionate share of Verizon Wireless and add the two together, then in service revenue growth terms, rather than being a 1.5% service revenue growth business, on this basis, the group is at 3.1% growth. If you take the EBITDA for Vodafone, £14.5 billion, and add our share of the Verizon Wireless, that takes you to over £22 billion equivalent. The same, albeit not on this chart, for free cashflow takes us over £9 billion. A number of areas that we are actively working with Verizon and Verizon Wireless are listed on the right.

So, on to financing costs. I said earlier that these have increased a fair amount, year on year. Let me, sort of, do this chart in reverse order. In the bottom half, you can see a number of items from last year, which were sort of benefits to the interest line, so the SoftBank asset accretion, the China Mobile dividends, and capitalisation of borrowing costs, in aggregate about £400 million that is essentially not recurring. Hence, the truer comparison is really the middle line, £1.6 billion playing the £1.2 billion, and the vast majority of that is taking a conscious decision that we would lock in the fixed interest rates whilst they are low by historic standards. Some mark-to-market costs as a result of that. But overall, excluding those, we have got an interest cost of about 5% for the year, which is roughly what we would expect for the current year. We have now got about 76% of our debt fixed over the next three-year period.

In terms of free cashflow, I said earlier on £6.1 billion, and that played £7 billion last year. By far, the biggest single movement here is on the third line, on the working capital. If you recall, we had a two-year program to take money out of working capital. Over that two-year period, we put about £2 billion into the bank. That finished a year ago, and hence we have not got the recurrence of that.

The rest of the items here are net –roughly – neutral. We spent a little bit more, very deliberately, on capex, very strong belief in driving towards the data networks. We have lower cash tax costs, and we had slightly lower dividend receipts. Overall, if you take that £6.1 billion, and you add the £2.9 billion that we received by way of the cash dividend from Verizon Wireless, we actually received in the year £9 billion.

On to the balance sheet: I think the balance sheet is in good shape. We started the year £29.9 billion of net debt. We have closed the year at £24.4 billion, so a net reduction of about £5 billion during the period. Quite a number of moving parts here, so the £6.1 billion of the free cash flow. Disposal proceeds, primarily SFR and Polkomtel, contributed £7.6 billion. The share buyback programme that happened during the course of the year, £3.6 billion. The Verizon Wireless income dividend £2.9 billion coming in; equity dividend out £4.6 billion, for the standard dividend and £2.0 billion for the special dividend.

Spectrum: we spent £1.4 billion on spectrum, particularly in Italy, Spain, Greece and Portugal, with a number of spectrum auctions still coming up, it has to be said. Then one or two smaller amounts down at the bottom. So £24.4 billion was the closing net debt. Since the end of the year, we have received £1.5 billion from the second tranche of the SoftBank proceeds, albeit we do have, as I said, a number of spectrum auctions coming up in the relatively near term.

So in terms of guidance against what we had said we would do last year, on adjusted operating profit, this time last year we said we expected between £11.0 and £11.8 billion. At half-year, we narrowed that to £11.4-11.8 billion on a comparable basis, we hit the top of that range, £11.8 billion. On the free cashflow, we were at £6-6.5 billion as the guidance range this time last year and at the half year. On a comparable basis, we have come in at £6.2 billion, so the middle of the range. The EBITDA margin: we said we expected that to continue to decline but at a slower rate, which as I said earlier, has been the case. The overall level of capex we expected to be similar, which, again, has proven to be the case. So I think against the guidance of last year, that is a firm set of green ticks.

Now, more importantly, moving on to the guidance for the year that we are now in, what we've done here is just started off with a sort of simple table that says the published numbers of profit for last year, £11.5 billion, and cash, £6.1 billion. Do remember, however, we will not have a recurrence of the SFR dividend, etc., therefore on the free cash side, we need to take £0.2 billion out. And we have taking a view, particularly with recent movements in foreign exchange rates, that we will guide on the basis of, in particular, €1.23 to £1, whereas last year's actual was €1.16, and that takes £0.3-0.4 billion out of the cash and the profit. So underlying, £11.1 and 5.6 billion were the comparable numbers for last year. We are guiding to £11.1-11.9 billion for the adjusted operating profit, i.e. we expect an increase, and the free cash flow in the £5.3-5.8 billion range, i.e. stable free cash flows.

We have said that for the service revenue, primarily because of the MTR effects, our previous guidance, the 1-4% range – we think we will fall slightly below the bottom of that range. And we'll do an update in a year's time on the subsequent year. We expect the margin trend to continue, and are still targeting to get that broadly stable by March 2014. And we have just for equivalence shown what the medium term free cashflow would be on the new guidance ranges.

So bringing this towards a close, just a reminder on shareholder returns. We will, over a four year period, have returned very, very nearly £26 billion to our shareholders. The red is the basic dividend; the grey is the buybacks; and the blue is the special dividend. We have committed to a 7% increase in the dividend for the final for last year, and reiterated 7% for next year. The share buyback programme continues, and that should complete somewhere in the summer of this coming year.

So in overview, I think a robust performance against a more difficult backdrop. Just key numbers to me: service revenues up 1.5%; the margin trend is improving, as we said it would do; the adjusted operating profits up 2.5%; £6.1 billion of cash flow generated; £10.2 billion of cash returned to shareholders net debt at the end of the year, 1.7 times EBITDA. We've updated the medium-term revenue guidance, or updated the revenue guidance for next year. And we have essentially said the underlying guidance for the 12-13 year will be an increase in operating profits – in adjusted operating profits, and stable free cash flows.

So with that, I will hand over to Steve, who will talk to you about something different.

Network and IT

Steve Pusey

Chief Technology Officer

Thank you, Andy, and good morning. What I'd like to do this morning is share with you how our technology investments are supporting our Supermobile vision and in particular to focus on two areas: network – we do believe that the network is a sustainable differentiator and I will share with you how we're taking a market leading data position to the very boundaries of our infrastructure. And also on IT, where we believe we can create an unmatched and support creating an unmatched customer experience, of all touch points for Vodafone, which we also believe is a sustainable differentiator.

So firstly onto the investments. You can see that we've kept a consistent level of investment in our assets through the last year, up slightly year on year. If we look to Europe, our focus has moved particularly to those capabilities of online call centres, security, our platforms for the future – machine to machine and One Net – to service that growth. We've invested quite significantly in the platforms for the future in billing and CRM to create a flexible platform for the data world that we face. And in our networks, we've been quite aggressive in the transmission self-build, both improving the capability but reducing our reliance on third party released services. And in networks, we've now taken the data coverage in Europe to 89% of our footprint, something that we feel is very important, particularly for smartphones.

In AMAP it's a similar story: targeted investments. You can see with South Africa, we've quite aggressively done a radio refresh there to the very latest technology, and that's been supported by a transmission build, again reducing the reliance on other parties. In Australia, we had to correct the Australia infrastructure, so big investments in radio there as well as in the 850 MHz spectrum, which has been vital for coverage and depth, to address some of the issues, which are now overcome and we're now building for the future. And in India, although we've had a lower net site count, we're very proud of the fact that that investment went into a first class 3G network in India this year. We took the very best learnings from our European arena and we delivered a state of the art 3G network in India that has won best network after we completed its build.

So to look at the drivers – and probably this is one of the most important factors for us in technology, clearly driven by data and clearly driven by data volumes. Our traffic has gone up year on year, about 35%. But the important message here is you can see that the mix has changed, more aggressively away from mobile broadband and towards smartphones, LTE and wireless fixed replacement. That brings with it new challenges. For us, particularly, we've invested in signalling to address the smartphone growth, which has – we've just kept ahead of that phenomenon, so we've had no impact on our customers. And as regards capacity, we're still very comfortable with capacity. You can see from the bottom left graph there, that in the busiest hour we're still running at 8% maximum over 90% utilisation figure. So that's a comfortable floor. Overall on the footprint, we're still running at 36% busy hour utilisation in our markets. And a second sort of reference on that is that in the spectrum, we're still only using 47% in Europe of our second carrier, which still, again, is a reference point for capacity ability for the future. So we're still very comfortable with the capacity.

If you move to the top right hand chart, one thing that we do monitor to give best performance to our customers is the performance that the smartphones can deliver and the tablets can deliver. The graph here depicts an accurate figure of our base, and you can see from the red column that 46% of our smartphones in use today are operating with a 7.2 modem. And in the next chart I'll show you how we invest to keep the network performance ahead of that curve so that our customers can get the very best out of their smartphones by using the Vodafone network.

And lastly, we monitor on a weekly basis the throughput of those devices. What are customers doing and how do we need to evolve the network so that our customers can get the very best data service? You can see from the pie chart it's dominated by streaming – usually video but quite often audio these days – and web activity, which means we have to invest in improvements in latency as well as net throughput speed.

Now where are we going with our investments and Supermobile? Firstly, coverage. We do feel that everybody will want ubiquitous coverage for data, so in the next couple of years we will be extending our footprint of data coverage to at least 93%. In the big markets, it will be beyond that. This a total average. We'll use 900 spectrum refarming in all of our markets to achieve a lot of this. It also has the added benefit of indoor coverage improved performance. And we've introduced, in the bottom of that top left bar charts there, a new KPI that we thought might be interesting for you. We're trying to give a measure, moving away from raw downlink speed, to what is a measure of average performance that the individual can experience on the Vodafone network? So we picked this 'how many data connections are experiencing 400Kbps or better consistently?' That's really a proxy for good video experience. So today, 79% of our measurements are showing a connection above 400Kbps, and it's obviously something that we'll be focused on improving quite aggressively through the next two years.

If you move down to the bottom left hand graph, this is our network radio. And that matches up with the previous chart. You can see the majority of the handsets today are at 7.2 modems. 82% of our European network is already better in speed than 14.4 or better, and that's a wave that we keep pushing ahead on. You can see as it evolves towards 2015 that we'll move up through the HSDPA capabilities to HSDPA+ at 43Mbps, and that will keep us ahead of the projected capability of the devices in the market, again targeting the very best experience on the Vodafone footprint. You can see in the purple bars an overlay. This is delivered through single RAN, 2G, 3G, 4G, and one-box of LTE. We say overlay, because it will be some time before you proliferate exclusively the market with 4G devices, so customers will want the benefit of both services in many locations. And by 2015, we'll have at least 36% of our footprint on LTE.

Top right hand corner. This is really important for a great service for the customers, high speed backhaul. We donate high speed by a capability installed of 1Gbps or better. Today, 41% of our European sites have that capability. We're aggressively upgrading that, and in 2015, we'll have at least 74%.

Also, we're pushing fibre deeper in the city centres: about 14% of our footprint has direct fibre connectivity to the sites today. We will be delivering small cells this year in our city centres and we feel it'll be more economic to do that off of direct fibre connections to the sites.

And lastly, LTE. We were one of the founding fathers of LTE in Vodafone, with two of our colleagues in the industry. Pleased to share with you that it is delivering the step change that was promised for the customer. The figures on performance there are conservative figures; our early customers on lighter loaded networks are actually getting better than those performances, above the 12MB performance criteria. As Andy said, 35% of the households in Germany are covered. As you know, we had to do rural first, as per the licence, but we have now moved into urban coverage in mid-November, and we'll extend that through this year.

We have also launched in Portugal, very recently, in the major cities. And that will be complemented by Italy and Spain before we get to 2013. In preparing the future, we're big believers in single RAN flexibility, so we will be keeping ahead of the LTE ready, and switching on very quickly and very economically as spectrum dictates, and we'll extend the single RAN to 80% of our footprint.

On to IT. We believe we can deliver an unmatched customer experience. That's not just by investing in the individual attributes, i.e. online, retail, call centres, etc. It's the interrelation between those assets, so that any one of our support or sales agents can get full visibility of the customer's interest, activity or issues. And we believe we can delight customers by linking those assets together. So we will be investing more heavily to differentiate in that experience for our customers at all touch points. That will extend to the way we push products and pricing to marketplace. So bundling, flexible discounting, flexible charging for an internet world is paramount in our IT investments.

And lastly, the ability to exercise and release very rich network assets to third parties, by releasing what's called application programming interfaces, or network capabilities, APIs, to third parties, we think will be a rich source of future opportunity. Today that's manifested in charge to bill and third party charging with our billing assets presented externally. We will invest more in this.

Whilst this has been going on, we've quietly been transforming our technology assets over the last five years, in a similar journey to Andy explained earlier. We have consolidated 14 regional data centres into five very large hubs – three in Europe, Africa and India. We have virtualised those hubs into creating the Vodafone Cloud; Europe and Africa is already completed and this year – well, very quickly we'll be extending that to the Indian capability. The Vodafone Cloud is alive and it gives us very fast flexible speed of delivery, as well as business continuity and resilience. It's on these platforms that we deliver the centralised services. Andy talked about the ERP system we delivered and we could mention the machine-to-machine platforms, the One Net platforms and even as we move forward, the consumer platforms like Joyn that you can experience upstairs in the foyer.

Security is very, very important. Security will grow as a challenge to our industry; we invested early in a blanket security umbrella, not just for our own company assets, but also of course to protect our customers' data. We created a centralised management centre in Europe, but this extends to the full footprint of the Vodafone capability and assets. And lastly for efficiency of management of all this estate, we created three [technology] shared service centres, one in Hungary, one in Egypt and one in India, to most economically manage these assets.

So in terms of the technology footprint, we feel that we've got a very, very solid base for the future. We will maintain best network; we will extend data to everywhere that we have voice; and we will keep ahead and give a special service for those smartphones and tablets of the future. We will create an unmatched customer experience by investing seamlessly across online retail and customer care, and that will be delivered across the Vodafone Cloud, and lastly we've done all the major building blocks. We've quietly built a very strong high capacity robust global IP infrastructure – a superhighway, as it used to be called – we have built the Vodafone Cloud and we have built a best-in-class security infrastructure to protect our assets and our customers.

Thank you very much. Vittorio.

The Strategic Way Ahead

Vittorio Colao

Chief Executive Officer

So, what's the way ahead? I would like to wrap the financial and operational comments of Steve and Andy into a more cohesive, strategic way ahead. Starting by 2008/12, what did we do and how did we do it, and then, moving into the priorities of those, I have to share some remarks about our organisation.

This is the original chart that I illustrated to you in 2008, about the strategy of Vodafone; it was called 'A Stronger Vodafone.' It had four pillars; it was talking about operational performance, delivering more minutes, more SMS, sweating the assets and leveraging on the scale. It was also about growth, in those days we used to talk about bundling and DSL as growth engines; emerging markets delivery – not everybody was convinced we would really deliver in the emerging markets, and of course, capital discipline and priorities for managing our balance sheet.

In 2010 we moved again – another original chart – to something which we called 'A More Valuable Vodafone.' Here, we were more precise in talking about leadership in three areas; more precise in indicating, as engines of growth, data, enterprise, emerging markets and again, re-stressing efficiency, scale and capital discipline. So the question for me is did we deliver and how did we do it in order to look into the future and see what we will do.

Now this chart tries to answer the question, did we deliver? On the left hand you will see the evolution of our market-share over the four years period in some of our largest opcos, Turkey, Italy, India, Spain, South Africa, UK, all of them went up; Germany went a little bit down over the four years. On the right hand side of the chart you see the last quarter on quarter, so the more recent trend, which again with South Africa stable, has all the other markets positive. So I think we can say, yes we did deliver. How? The how is really – and this is important because I am often asked about what is the read across of our strategy implementation – I really think we delivered implementation of our strategy on a group-wide basis, but also allowing for local implementation to identify the right priorities and for implementing what was relevant. Let me quickly go through some of the examples. In the UK we are recovering EBITDA, not yet where we were, but clearly recovering; we have re-focused on value, delivering a very good performance on enterprise – Andy has indicated already the performance – re-organised the company and de-facto redesigned the way we approach the market.

In Germany again, some similar topics; enterprise leadership, very good performance in the year, 5.6% service revenue growth, more recent quarter even higher. Whole company has integrated Arcor which was a specific priority there and as Steve has indicated, we have leadership in Germany and in general in Europe in that space. So recent quarter performance, 4% as Andy has said.

To move to India, in those days we said national footprint very important. We now have 110,000 sites up from about 50,000. Market share went up to 21%; we are clear number 2 – strong number 2. Andy has said margins are also going up, slowly, but going up, so a success story, mainly built through a network and branding locally managed.

Vodacom was more about maintaining the leadership; we chose data and network distinction as the key vector for this strategy, it has been very successful – £700 million of data leadership in the country. I have to say I am also pleased with the international performance of Vodacom; finally Vodacom is going 40% outside of South Africa and we have also managed a good brand integration without losing the strength of local Vodacom, but reaching a recognition of our broader brand and iconography which has now covered the whole of Africa.

Italy – leadership, we just have got the leadership – we maintained the leadership, we are stable in a challenging environment. In Italy, clearly we are leading in the consumer space, strong MPS, a lot of innovation in the data space, but I am also happy to report very good performance in enterprise; Italy is our leading country for the One Net converged solution for businesses, and we have a very solid distribution in the country.

If you look at Spain, Spain is a more difficult case. Now the good news here is we have not lost ground to the main competitor; actually, if anything, we have gained a little bit in the period, but honestly we have lost ground together with the main competitor to the others. In Spain we have made the deliberate choice of investing into lower prices and different commercial models. It shows, in the declining EBITDA. It is very important with the new commercial model that we are trying to push through in Spain is successful in Spain and hopefully also beyond.

A few quick comments about the other markets – there is no need to go into detail. Turkey is a great case – 29% market share just reached, stronger network, strong distribution, excellent implementation of the brand. We went from negative EBITDA to about £270 million EBITDA there, and a great brand execution.

Netherlands has been again another good example of applying our data pricing philosophy early, almost a test-bed for it. Now we have a 31% market share and the EBITDA margin is back into the mid-30s and we also are using the Netherlands as the test-bed for our new distribution model after the acquisition of BelCo.

Ghana –probably not the most value creating acquisition that Vodafone has done in its history, but at least a pretty good turnaround; it is an amazing case, from number 4 to number 2. The very strong position, Andy has shown record growth of 30%; we are EBITDA breakeven in Ghana, including also the fixed line. Sso again, a demonstration that we have a Vodafone way to approach emerging markets.

And then Australia – again transparency, we have made integration mistakes; we are fixing them. We have a new, very experienced CEO there and we have, you know, a bit inflow of Vodafone expertise into the market; we have fixed the network problems; we have a collapse in the complaints from the customers – I expect this to take some time, probably 18-24 months, but I think that from now on this should be another turn-around case.

On the financial front again, I don't need to go through the story, £15 billion raised through disposals; minorities investments sold in France, Poland, China and Japan; 6.8 billion share buyback; £2.9 billion dividends received.

So I believe that our strategy works; it's a broad strategy, it covers all the countries, but the beauty is that we have found the right balance I believe in global strategy and leveraging on our scale, but also allowing for prioritisation at the country level and investing the money where it really yields the better returns.

Where do we go from here? What is the strategy for 2015?

The most important element of our strategy, and here it looks a bit theoretical, but it is not, is the Supermobile strategy. What is meta objective for Vodafone, what is the objective that I am giving to my countries? It is clearly leadership in value share. Leadership in value share will require more differentiation I think for the industry, but also for Vodafone specifically; increasing loyalty from the customers, sustaining the current ARPU and improving the AMPU, so the margin per customer.

We have six elements. I will cover quickly all of them and some of them have already been covered by Steve: clearly network excellence is a tangible source of differentiation; second, healthy data-pricing model and recovery; roaming data services portfolio, not just products, but also services; an easy customer friendly state of the art experience in dealing with the customers; industry benchmark retail, evolving into a service model more than an acquisition model; and a well-balanced choice of terminals.

Now on the network I don't have to say a lot of things, because Steve has already covered, here the usual chart; traffic keeps going up, we are about 60 petabyte, very stable indicators in the lower part of the chart. How do we do it? It's first of all through investment, so we invest 25% of our investment is just for managing capacity; second, we clearly mesh different types of technology, Steve has mentioned a small cell, it's LTE, it's HSPA, it's everything that helps fibre, high speed transmissions – self-build, I mean, all the things that Steve mentioned, to manage the growth. Some kind of active management of utilisation, which really means discrimination across customers. But also most important, I also want to draw your attention to this, the trends in consumers are different – smartphones are the really growing thing and this is for an average user of 200-300MB per month; tablets are becoming bigger, usage is of an average of 400-500MB per month, but mobile broadband data cards, which are going down, we used to be at 1.5-1.3-1.2GB per month, so there is a re-balancing effect that we can accommodate and actively manage in our networks.

Second element of the strategy, and this is really important, is pricing. And here, as I said, we used first Netherlands and now more actively the UK, Spain and the other markets to really lead new pricing concept; integrated tariffs are, for Vodafone now in contract consumer, cover 43% of our revenues, up from 27% one year ago. This is a huge marketing effort, but this is I think what will really bring us in a much better place to increase then the average margin per customer. Of course UK and the Netherlands are smartphone countries, higher numbers, the pre-paid markets are falling, but also in pre-paid we are making an inroad, and if you look at the usual chart which says how much revenues are at risk, it is now 15% of the revenues which are consumer contracts out of band or incoming, which is still a big number – 16% actually – but down from last year. And we continue to work actively to reduce this number.

Third element: portfolio of services and products; first of all roaming. We have made proactively a distinctive point of Vodafone that we bundle data roaming into our tariffs. We today have 2 million customers on our €2 per data tariff; please inform Brussels of this. We have 2.1 million customers who have roaming included in their tariffs; today I was reading the Italian newspapers advertising for SMEs and so forth, data roaming included in the main package, and we are seeing some very positive trends as you can see, +39% of data roamers versus the past. We noticed from our database and our CRM analysis that some customers were turning off data when they were abroad, now we are trying to address that by saying, 'Don't worry, it's €2 per day, it's included in your pack, just keep doing what you do at home.' And this is, I think, a positive of Vodafone.

Of course, basic internet revenues are up 50% as Andy has said, lower part of the chart. This is due to a variety of reasons, there are special offers, bundled offers, but also new products, and Steve has mentioned joyn. I would like to mention the Cloud services that we have launched in some markets and will be launched throughout the whole of Europe this year; the anti-virus and protection services, so Vodafone Protect, Vodafone Cloud, Vodafone Guardian and all the additional products that we give to our customers to make the data experience better for them.

One key element of our strategy will also be the customer experience. I have to say the job that my colleagues – and Michel especially has done in Europe has been incredible this year. From the chart we now move from 265 million visits to online cares to 474 million. We moved from half a million active mCare users to 8 million, and we have now 60% of our customers who receive their bill online in Europe. This is important, because it is not just cost. Of course there is a cost element in the strategy, but there is also a very high engagement and NPS implications, so this is again re-capturing loyalty back into our own domain, delivering also a service that costs us less. More of this in the future.

I mentioned shops. We are planning now by 2015 to move 6,000 out of our 8,000 shops into a new format, a format which is more about retention than acquisition, and more about service than sales. We have already done – we are kind of underway in the UK; the early results are very good. We are shrinking the number of shops, increasing the footage, changing the model; higher revenues as you can see in the case study plus 30%; higher margin 4 percentage points; and higher customer satisfaction, so retail is going to move into a service type of hub with a strong value in managing loyalty and managing retention and this is, as you can see, a common theme across everything from pricing to network, retail and customer care.

And of course, the final element of this, which has a very important economic impact on our P&L, is terminals. I am glad to see that now if you exclude the kind of super-basic phones, even in the high end, 18% today of the volume, so there is wide choice. In the mid-end 32%, we can manage acquisition and retention costs much more proactively than before and we also have our own in the value segment, our own brand with specific project, 1million Vodafone Smart, half a million Facebook and you know, you go on like this.

Tablets are also an important element in the device strategy, there are now 1.2 million active tablets in the Vodafone networks – I use the plural 'tablets'; it's not just one, it is more and more formats and more to come. Again, this is going to be an additional line of revenue, which is complementary to the main smartphone revenues, not just a replacement.

So these are the kind of six big vectors of our consumer strategy. You might ask do you have goals; do you have KPIs? The answer is yes we have book this thick of KPIs and goals which we monitor monthly, but I am not going to share the details. Let me tell you what the key KPIs are; of course smartphone penetration, which you know we are following, we are on track for the 35% goal. In 2015 the number will be much higher, we are now convinced that it will go higher. Data usage, we are planning for a much higher usage than the 200-300MB per month, per customer. Recent quarter on quarter numbers for Apple iPhones for Android are actually positive, so it is going in the right direction.

Pricing is very important; we are talking a lot about pricing of voice, pricing of data, whether it is falling, where it is going. I really believe that we have to move into ARPU and AMPU type of thinking, because everything is going to be integrated and we are actively looking at the increase that this is generating. We are not very far away from what we gave you in the past; we always said €2 to €10 with, you know with € being a little bit where we are today; we keep working on that and of course the terminal side and the subsidy side is very important, which leads to the next one, commercial cost.

We measure the efficiency of our commercial investment on a monthly basis as subsidies as a percentage of committed revenues and we are bringing it down market by market, and some markets more than others, Spain clearly is the test market, but we have targets by market to go down, you know, several percentage points to make the economic equation better.

Finally, churn – churn very important; now we are in a kind of stable type of environment, it has to go down, because my ambition is to bring it in line with the Verizon experience, or the American market.

I will not talk about enterprise today if you don't mind. We have an open office on 27 September. Nothing new here. VGE clearly big vector, 10.7% growth last year; we are expanding; it's a world-class organisation. One Net, very good performance in One Net; more than 2 million seats now active. We are now launching a version of One Net for larger companies, a version for international companies and we are expanding the functionalities of One Net.

Machine-to-Machine +40%, relatively small but still £250 million. A few sectors selected: automotive; consumer electronics and smart-metering as priority; we will cover again in September. And finally security and software solutions, which is more and more to be bundled with our enterprise catalogue. Everything, including the integration of Cable and Wireless, will be discussed in September.

Now, everything has to be funded in life. What are the four buckets in order of importance? So by size. Clearly commercial cost is very important, as I said efficiency targets and healthier commercial models are part of our planning in that area. Second, procurement and supply chain, Andy has covered how strong and effective we are now in our global purchasing; we are centralising more and more contracts; we are going into more collaboration with Verizon Wireless, finding mutual benefit in different types of vendors and competitors. The third one is network and IT; Steve has talked about what we have been doing in this area. We are considering selectively active sharing where it makes sense, more centralisation and more sharing of platforms across countries and moving to single IT stacks progressively, which is the equivalent in IT of what we have done in network.

Finally, Andy has said, shared services, we have today 6,000 seats outside of the normal footprint; we would probably to go to 10,000-11,000 in a reasonable timeframe and also get to world class capability there. These are the main cost initiatives that will fund what I have described before.

Now, we have to be realistic; there are challenges in front of us, or only great opportunity – yes there are some challenges. In order of importance, macro - clearly austerity in Europe, lack of confidence in southern Europe is a big issue. Some underlying cost inflation in emerging markets has been kept under control and the temptation of taxation that some governments, if not all governments, are feeling these days. This is really what I would put under the number one cloud.

The second is regulation, MTRs. Andy has talked about it, we have been hit a little bit more than we thought by MTRs, spectrum pricing and spectrum conditions, very important for us to get them right. And a little bit of roaming, even if here I have to say that we are pro-actively addressing the roaming thing, so I am bit less concerned.

If I have to say, India probably falls, you know, is under both clouds, consistently with the monsoon season which is approaching, and clearly the macro and the regulation are, for us in India, they are both areas, you know, to be monitored, but monsoons eventually finish and they have a season.

And finally, competition, as always, there. I have to say good data pricing is an important element in the competitive landscape that has to be kept under control. Last point, over the top substitution speed, as I said, yes it is there, but we are less concerned than in the past; we are doing the right things from a pricing perspective, we keep VOIP disintermediation under observation; it's stable, it's 3% of our total network, we manage many, many, many more billion minutes in our own packages than through VOIP. Of course, we'll continue to have a look.

Now, how do you go with opportunities like the ones I have described, but also the challenges? I think you go with a strong organisation. We have a strong organisational programme called 'The Vodafone Way' – it is not here that I will share all the elements, but there are two that are important. The first one is the alignment of our management on the long-term interest. As you know we've worked a lot on incentives and we have put a more balanced mix of global versus local in the short-term. But we also have introduced last year here guidance for ownership. I am glad to report that today we have more than 30 million shares owned by the senior part of the team, and more are vesting this year, so we expect this number to go up during the year, during 2012. The important thing is that more than half of our people already exceed the 100% ownership target, which again gives a very strong alignment with value, with shareholders and with long-term orientation.

The second element which I think is important is the depth of our bench. When we started the journey, we had 208 senior people. We then added Vodacom; we added Ghana; we added India. 112 have left the company in one way or another; 68 have been hired from outside; 68 have been promoted; there is some reorganisation that probably will bring the number back to around 200, but this says that we have roughly about a third seasoned people, about a third promoted from inside, and about a third hired from outside, 60% of whom have international experience within Vodafone. We are very proud of this; we only have, you know, three CEOs who have been in position for more than 4 years and one just for 4 years and one month. And we have also increased the diversity of our management body.So I am confident that we have strong alignment of interest with long term value, but also a very good depth of management for trying to face the challenges, but most importantly exploit the opportunities.

In order to conclude four macro-conclusions; first, demand for data, enterprise and emerging market growth I think is well addressed by our strategy which will be continuously adjusted to take into consideration the various developments in the world. We are competitively stronger, we have a decreasing dependence on mature voice – now it is 38% mature voice as a percentage of our total revenues – geographically balanced assets; technology operational and organisational set-up is now right to leverage on the Group strength, but also to locally implement the best strategy, which I repeat is to capture value share. And finally, we continue to be focussed on generating very good shareholder returns with a strong value orientation for both capital investment and corporate activity. And with that I would like to ask my colleagues to join me for your questions.

Questions and Answers

Vittorio Colao

So, Tim, and then I go this way and then I go there.

Tim Boddy, Goldman Sachs

Thanks, it's Tim Boddy from Goldman. A couple of questions: I would like to ask a bit about growth. You've obviously stepped away from your mid-term revenue growth target of 1 to 4%; can you update us really on what you are trying to say in terms of growth? There is a very strong operational message around cost discipline. Are you saying you've given up on growth and you are going to try and sweat the assets more? Or do you still expect growth for the Group in the medium term? And then the second question seems, I think, linked to that; again you have emphasised in Supermobile your goal of achieving network differentiation. It does seem that when we look at the market today, in general small players still grow much faster than larger players and regulators seem very keen to limit the potential of the larger players to get network advantage. So when do you think we'll see that point where the smaller players stop growing so quickly and you can really get that differentiation?

Vittorio Colao

Yes, maybe I take both questions – I take both questions and then maybe, Andy, you can refine.

First of all the growth question; we have been hit a little bit more than expected by MTRs, we will therefore bethis coming year, a little bit below or slightly below the 1% to 4%. Of course, you know we still have the ambition to grow. I have a strong value message in this phase also, because you can grow in revenues, but we also.I am truly convinced there is an opportunity in Europe to grow in value, which is a little bit linked to the second question also. How do you create value? You create value by having stronger technological platforms and giving better service to your customers. It's true that some smaller operators keep growing more, but we are confident that if you look at the broad numbers, I mean, it is nice to have a nice big percentage of a small number and in some markets, you know, like Germany, you start seeing some strain on some of those players. So we are convinced that our strategy is the right one to create more value, and hopefully to capture a higher part of that value in Europe.

On the regulators, I think you have a point; we need to fight a little bit harder with the regulators because some of them are still a little bit in an old model, but again there is so much need in Europe for investment, for employment and, quite frankly, for very good digital infrastructure and quality infrastructure that I see that the awareness, if not the action, is moving, but I will have to spend some time on that. I agree with you. Andy, you want to be more…?

Andy Halford

No, I mean, I'd just add the MTRs has been a greater drag then we envisaged, so that has brought us down a little bit. I said earlier the MTR effect of this next year will probably be similar. I think actually the year after it should start to improve a little bit, so that plus maybe the economic environment picking up should be a better sort of space the year after this, but growth, but clearly modest.

Vittorio Colao

Robin has high-jacked the microphone, so what do we do here?

Robin Bienenstock, Bernstein

To be fair, it was given to me, but I assure you… Alright, since I've got it. So, I guess really the idea that you want to create value, what I am seeing is some of the smaller players actually creating more value with a subsidy-free model, so smartphone penetration has quite rightly been a KPI for the last few years, but with obvious implications for your costs. You've got some blunt measures in Spain; is that a model that makes more sense across Europe, or are there more subtle things you can do to reduce that spend and then be able to give more value back to your consumers? And then separately, I am just wondering how worried you are about Wi-Fi cannibalisation and the risk that network differentiation will be harder for you and more expensive where you don't own your own wire line and whether or not Verizon-style cable partnerships might make sense in the future?

Vittorio Colao

Yes, this is like four questions in one. Okay so Simon and then we go back this way and then that way.

First of all, your question on the subsidy model, I think that the Spanish model – first of all I support that and we support that, as you have seen, by our commercial moves. It is a healthy thing and we are trying not just in Spain to go there. As I said we are moving to an efficiency measure of A&R which tries to pull back the amount of up-front investment or at least to make it more proportional. We can do it now much better than in the past, thanks to the availability of many more of these, you know, things. Of course, it's something that we have to manage relative to each market, so to be clear things have to progress throughout all players, and if some players are faster or slower to adjust to the new model, well, we will play whatever game makes sense for the specific market.

The question on Wi-Fi, I would say that it is a little bit of a myth that fixed operators have an advantage there. Yes we are embracing. Steve, maybe you can make a few comments on that – we are embracing all new possible technologies, whether it's femto, Wi-Fi, lamppost I don't know what the others and the next thing, but the reality is that it is the operational implementation which is difficult; it is not the fact that you own or you don't own, you know, the little fibre that goes there, it is who owns the lamppost, is the borough, is it the London Transport Authority, is it a neighbourhood, is it a cabinet that is owned by BT? So there is so much operational complexity, we don't think honestly that we are at a disadvantage; actually we are all in the same place, we are going to play that game, but it is not about who owns the link that is going to make a big difference. Steve, do you want to talk in more technical terms?

Steve Pusey

Yes, I think to add to that, Robin, I mean, we will incorporate Wi-Fi in our small cell technologies so it's for us we're agnostic and we've always said that, so the wireless technology, it's another wireless technology. Interestingly, we have been measuring and monitoring performance of Wi-Fi versus LTE and the higher order HSDPA and in the four big markets where we have tested this, we are outperforming Wi-Fi in the public environment in raw downlink speeds. So you know, I think we get too hung up on as Vittorio said, the raw radio versus the operational degree of difficulty. The backhaul challenges that exist absolutely with Wi-Fi are the same as macro, and the big benefit of macro HSDPA or LTE is the consistency of the service, the handover, the quality that we can deliver etc. So we'll take Wi-Fi we'll bring it into our mix; any incumbent faces the same challenges on real estate and distribution and small cells that we do. And largely one might argue the effect of Wi-Fi on smartphones and tablets in the home, we've already gone through that wave, because it is what it is on the amount of data volume consumed in homes, so we're really talking. I think your question was more public Wi-Fi and I would say we'll incorporate it in our mix.

Vittorio Colao

There was something on Verizon, but I couldn't really understand. What was the question?

Robin

Verizon-style cable partnerships.

Vittorio Colao

Yes, it's a market by market thing, so we will look, and we are looking at partnership agreements of different kinds with both content owners and other infrastructure owners, it's a market by market thing, so Verizon has got a pretty good one in the US. Yes, Simon.

Simon Weeden, Citigroup

Thanks, Vittorio – Simon Weeden from Citigroup. Three questions, but one is a small one. Dividend cover, as we look at the growth and the dividend and the free cash flow, I am just really talking about the ordinary dividend, does there come a point where you worry about your free cash flow cover of the ordinary dividend? Is that something we should think about from beyond the current fiscal year, in terms of the growth in the dividend?

The second one is, just to come back to the subsidies and commercial cost side of it. If as we have seen sometimes in certain areas, there is a migration towards SIM only and away from subsidisation, you get a revenue drag associated with that as customers' ARPUs fall because they're not paying for the subsidy recovery anymore, first off, should we expect that drag to be present in the total revenue for Europe over the next few years and secondly it is it time to start to disclose what proportion of your revenue in some way is influenced by the need to recover a subsidy associated with the sale? So you are not seeing just voice data and text; you are seeing voice, data, text and handset or device

And then just finally the quick one was, is there going to be any prospect in the near term – well not the near term – but what sort of timeframe do you see retirement of 2G networks being a factor.

Vittorio Colao

Okay, so while Stephen and James prepare their questions, let me get a piece of the second one and then pass to Andy, Steve and Michel to share the other one.

Let me say, I half agree with you: half-agree in the sense that it's not by coincidence that I have said that internally we measure and we will have to measure more ARPU and AMPU, so margin per customer as opposed to just pure revenue, because at the end of the day if you lose a piece of the revenue because that goes into a financing scheme, but you also lose the cost of the subsidy and the margin goes up; it could be good news actually, and that's the way we are teaching and we are internally debating all these commercial decisions, because at the end of the day, you know, it's just the margins that really matter. It would be more and more margin. I don't agree with you when you start talking about disclosing the voice, the data, because in reality with integrated pricing, these are accounting allocations. At the end of the pay, I pay, in the UK, £26, £31, £46, whatever it is going to be for a set of services. So I believe it is going to be more revenues and margins, rather than splitting to the specific things. Andy dividend cover, Steve the retirement of 2G, Michel, maybe another comment about subsidies if you have anything more.

Andy Halford

Yes, on the dividend cover, I'm fine there. I mean we are talking about high – you know, the mid to high fives, free cash flow, with mid to high fours of dividend; we've got the debt level at the lowest level it's been at now for really quite a long period of time; we've got the Verizon Wireless cash coming in, you know, hopefully on a reasonably regular basis, so I think when you put all of that together we are in a good space. I mean, the uncontrollable clearly is the FX, particularly on the euro, but that aside, I think we're in a good space on the dividend cover.

Steve Pusey

We don't necessarily look at it as 2G, 3G and 4G, because with single RAN, as I said, 80% footprint on that it's a shared infrastructure, so we look at it a different way. For sure there was an evolution of customer types towards smartphones and tablets, which is reducing their reliance on the 1800 and 900 spectrum that was originally designated for 2G voice and text, so you are seeing us re-use that as the customers migrate and re-farm in the 900 and that will continue. So I think, you know, infrastructurally single RAN is somewhat agnostic to that, as well as the backhaul, so the benefits for us is we're re-using that spectrum as we evolve those customers up through the smartphones and you'll see that continue. There are some network assets that we can retire that are capacity driven and we'll do that, but I think it is a natural evolution that will follow and the main benefit and win really is the spectrum re-use.

Stephen Howard, HSBC

Thanks, Stephen Howard here at HSBC – two questions: do you think that small cells, which look to be the next big iteration technologically speaking, are likely to be scale friendly, particularly in view of some of the comments that we've just heard on backhaul and the challenge that that represents?

And then secondly, just trying to wrestle something positive out of the Australian experience, it would at least appear to demonstrate that if a meaningful gap opens up in service quality levels, it is very visible in revenues. Unfortunately that hasn't been particularly in your favour in this instance, but what I'd like to try to understand is what kind of differential do you think you need to open up in a positive sense in order to drive meaningful, observable revenue differentiation? If you look at that slide I think you had, page 32, you've got this figure of 100% objective by 2014-15 of device throughput of over 400Kbps per second. If that's your objective and you think that network is a differentiator, where do you think your leading competitor is going to be at that date? Thanks.

Vittorio Colao

You take the first one; I'll take the second.

Steve Pusey

Okay. We've been doing lots of studies, Stephen, on small cells, and I read your paper; very well written. It's something that we've grown out of the femto work, which we also pioneered, and we moved to what we call public femtos, which we started installing in enterprise and other coverage.

Originally there were lots of challenges on interference – that was the main issue. We put them in Milan – small anecdote – and cars driving past were flipping on and off every three seconds and it was crashing everything. So we've experienced that wave of learning. The economics of deployment are not so much backhaul because we can mesh backhaul and we can put if off on higher order fibre. The real issue is the one Vittorio alluded to; it will be a new challenge for real estate and new kinds of real estate requirements for small cells, be it lampposts, the sides of buildings, the acquisition of suitable consistent power feeds, etc. So our main concern is not so much a backhaul; you know, we're pretty well equipped with fibre into our city centres now, metro rings and fibre to the base station where it matters, and we're increasing that. It is the real estate and the challenges in acquiring real estate to put these things on.

Vittorio Colao

Let me take the second one on Australia. I can say yes, Australia is an example of when things go wrong. I can say Turkey or Ghana are examples of where things go right, actually, but you know, you actually open in the other direction. I wish I had a mathematical answer to your question. I think, to be honest, we learnt the

400Kbps measurements from Verizon – Verizon were very strong on measuring customer experience at the video level at 400Kbps. So we are importing that from them.

Honestly it's not the only thing. Of course, an interactive video and streaming experience is important, but it's also all the other things that I mentioned. It's also the ability to self-manage your account, which is becoming much more complicated. Let me say a-la-Amazon, which is my ambition – my ambition is to be the Amazon of telecommunication in terms of relationships with the customer. It's also the type of experience that you give in the shops, and you give live when you have to choose. It's a lot of other stuff; it's the IT – the IT capabilities to propose and push the right services to the right people; it's roaming differentiation. So there's a lot of things that would go into opening the gap and we categorise them under the six chapters that I have indicated to you and that's our strategic plan for now. It's difficult to attribute a single one gap as the target that would enable a positive gap.

James, then Maurice, then we have to go a little bit there, and then we come back here.

James Britton, Nomura

Thanks very much. Two questions, please. Firstly, why has data growth slowed quite a bit in the UK market? I thought smart phones were selling pretty well over here. Secondly, on the issue of network quality again, and the key stats that you give around congestion. So if of 8% of sites are suffering some sort of congestion in the busy hour; what does that really mean for urban sites? Presumably that could point to substantially higher congestion in urban areas. And do you think that 8% level is the acceptable level? You obviously want to drive up data spend for customers.

Vittorio Colao

Michel for the first one on UK, and Steve for the second.

Michel Combes

So, for the first one, three reasons: first, lapping the effect of a price increase on data last year in the same quarters; second, high penetration of data already in the UK, so obviously you have slower growth; and the third, still some decline on the mobile broadband.

Steve Pusey

And to the second question, 8% is not a static number, i.e. when we find a congested site – and we don't call it congested, we say busy – it's not that it's collapsed; we regularly have sites that are 90% geographies, but if it consistently hits 90% utilisation, we have them on watch daily. And so if you look at our capital investment in capacity, they are almost certainly targeted at these sites, and what you'll see is the site will get relieved, we'll add extra backhaul capacity or another carrier, or ultimately cell split, and that 8% moves around. So customers don't experience the static congestion ever. This is what we focus on and this is what we put our investments in to relieve that pressure. And you will see that actually in a city like London, it's been moving around London for around three years now. What we are saying is we're comfortable with this level, because we can address it and it does not impact customer experience, and we get on it fast in it and we keep pressing it.

Vittorio Colao

Yes, here and then Nick, Andrew, Robert, Justin.

Maurice Patrick, Barclays

Right, hi, it's Maurice Patrick from Barclays. Couple of capex questions. The first one, I think capex went up slightly; you were saying it was broadly flat. It seems most of that is opportunistic spend rather than capacity related. Is that the approach which you see yourself taking in 2013? And the second question relates to the mix of capex. It seems it's been lower radio, more transmission than core. Is that the same direction we should think about in the next couple of years, despite the increase in IP backhaul?

Vittorio Colao

Yes, the first question has an easy answer. We invest where we see opportunity to have positive business cases and I'm not concerned if one year I invest £200 million more and maybe next year £200 million less. So, it's really business driven decisions, not anything – I don't know whether you call that tactical but it's a business driven decision. On the mix, Steve?

Steve Pusey

Yes, on the mix it's very much to target the two areas that we said earlier on the IT side: to create a forward looking differentiation on customer contact points, online retail care, and conjoin them together; we will carry on investing there. And in the networks, we're deliberately investing in single RAN to give us flexibility, reduced opex and efficiency that comes with that, but preparing us for the future and the backhaul. So we are consistently investing in those areas right now – perhaps slightly heavier emphasis in the last 12 months, we'll continue for a little while on the backhaul capability, but pretty consistent there. And certainly not increasing, which is usually the question in capacity. Although, of course if you up the size of the pipe you're inherently delivering more capacity, but capability is where we are focused.

Vittorio Colao

Nick, Robert, Andrew, Will.

Nick Delfas, Morgan Stanley

Thanks very much. Nick Delfas from Morgan Stanley. Just a couple more network questions following up on those. I think previously Steve, you showed some relative download speed charts which you haven't done this time. I'm just interested if that's because you don't want to or because they haven't got better and just a little bit more information on that would be interesting. And then secondly, going back to this 8% of sites hot in the busy hour, presumably there is some kind of 80/20 rule around sites. So these 8% of sites may be carrying 50% of traffic in the busy hour; is that not a meaningful network experience problem? And again, how do you think that compares across the sector?

Vittorio Colao

Can I take the first one, because it is linked to the second one? The reality is that, yes, we continue also to monitor the speed and we have all this nice speed things, but the reality is that, again, in discussions also with Verizon, we said what is really relevant is the experience of the customers. I don't care if I have 15 Mbps when, by the way, the handsets that Steve has shown are not capable of getting more than seven, most of them. I care if when I'm watching my Chelsea versus Bayern thing, I cannot get the right moment where the goal is scored or it gets interrupted or I don't get my music in a consistent way. So I have to say this was part of a discussion with our network colleagues to say, let's take the customer's point of view. Of course I measure the speed and of course I have speed tests here and I just check that I have XMbps seconds here and whatever. But the reality is that what is going to be important is the ability to spread our investment on as many customers as possible. And this is what we have given them as a mission.

Now, on how hot or red hot the 8% are…

Steve Pusey

Yes. What we actually do – by the way I totally concur with that, we are at the point in raw speed that it doesn't matter anymore for the things that customers want to do on the internet, and it's more the consistency and Vittorio set their pace and we are trying to follow it consistently.

On the 90% figure, this is a rolling average we take. So we measure every busy hour, and it's not there's a customer experiencing it three days in a row; we meant that figure is taken from a 14 day average and how many times does a site pop up as over 90%. Now it doesn't say over 100%, meaning there is real stress. So we picked a conservative figure that allows for some headroom and we still address it early when we see a challenge creeping up, and you can address it very quickly with spectrum – so we've got plenty of headroom in spectrum, as you can see, or substantially releasing more backhaul capability or power.

So we're quite comfortable that that's the right metric to follow and we are quite comfortable that we are addressing it such that it does not impede customer experience. And customers are pretty quick to tell you when it does. And that has happened on occasion. At Clapham Junction, there is a good example here that we've got on, and hopefully you will see a difference there now when you get the feedback consistently. Others in the industry – I don't know what others do. You would have to ask them, I'm sorry. We are pretty comfortable that we can keep ahead and deliver a differentiated experience by focusing on that in what could potentially become a congested zone.

Vittorio Colao

Robert, Andrew, Will, Justin, back there.

Justin Funnell, Credit Suisse

Thank you. Justin, Credit Suisse. Just coming back to your revenue guidance, I guess very few of us that have a view for the next three years, but you used to have one. I just want to go into a little bit more detail on the reason for the change in the approach. Maybe it's just an investor relations philosophy thing, but if we look at some of your trends.

That wasn't a euphemism for anything. Just looking at your organic trends, when you look across the four big markets, your non-SMS data revenues are generally slowing. It is not just the UK; it is all four of them. We aren't seeing tiering working properly at the moment. Is there something more fundamental basically behind this change in the revenue guidance? Do you need to shift your pricing structure more significantly to get that growth going again?

Secondly, just on Spain, just drilling into slide 13, please, the growth excluding the effect of MTR is a very helpful slide you put there. It has got worse obviously by a per cent; I guess there must have been a leap day effect as well; it has probably got worse underlying by 2%. Could you just talk us through what happened in that quarter in terms of the timing of what Telefonica was doing with subsidy changes, what you were doing, and to what degree that affected the growth rate for you in that quarter?

Vittorio Colao

Yes, I will turn to Michel for the Spanish question. Let me take – because I really, I really want to reiterate what I already said. I'm not so sure I would really look so much at detailed, 'Voice is doing this, data is doing that, SMS is doing that' in the future. Of course we will continue to do it for a while, but as I have said, the more the penetration of smartphone goes there, the more we sell bundles, the more we give,even on prepaid, kind of included in your pack this amount of data, the more the allocation of each service is a function of the price, the service in isolation would get – because this is an accounting rule, if you can get it separated. But it's not what the customer really experiences. The customer pays, 31, 46, 38, whatever it is, and then there's different behaviours. So I really believe that the focus should be more on the ARPU and the AMPU going forward.

Yes, there is still pressure on voice but to some extent, we take it. I mean, if I look at average price per minute in Europe versus average price per minute in the US and I look at that data ARPU and data margins in Europe and in the US, we are exactly, you know, the other way around and we should rebalance over time. So, we are following the market and pushing the market a little bit there.

Now, Andy, would you like to comment on IR forcing us to change our philosophy?

Andy Halford

No.

Vittorio Colao

The answer is not an IR thing. I think we just said what it was, is, you know, the world has changed, there has been a bit more pressure from the MTR perspective. There is the economic situation which is difficult to address and we just basically said that we would be below the 1% and we still have plans for growth. This is what we can say today but there is no big underlying, you know, phenomenon that is taking place, just a reflection of where we are. Michel, Spain?

Michel Combes

So Spain: first, quarter-on-quarter I would say that underlying is more or less the same performance, mainly driven by still pressure on price so that was what we have introduced a few quarters ago, in order to rebase our prices and tariffs. And the second is traffic, which is going down, so which is probably the only country in Europe where we are experiencing voice traffic going down, year-on-year, so that's what is driving this performance around minus 9% in Spain.

In terms of the new commercial model which has been implemented, as you know, we have implemented it in Spain ourselves only from 10 April, so of course there is no effect on the last quarter. We can just say that for Telefonica it has had a big effect, so the total volume of gross adds has reduced by roughly 30% in the market and most of it coming from Telefonica. We have introduced the same in April, so we see now some pressure on our gross adds in April and March. The good side is that we see also some improvements on churn, so we have a rebalancing from gross adds to churn – still early days.

What we are trying to drive and coming back to the question of Robin and Simon – I guess on commercial [costs in] Spain, there are two things that we are trying to do: the first is to give more transparency on handset prices because up to now, the customer doesn't know the value of the handset that we are giving to them so – and this idea of, let's say moving to financing or other type of stuff in order for the customer to realise much more what is the value of the handset, doesn't mean that he cannot buy your package but at least he has to understand what is the value of the handset. And the second is rebalancing in between acquisition and retention, so which is moving this shift in order just to make sure that we put more resources and retention and reducing churn, which was the main target of Vittorio.

Vittorio Colao

Yes, I have Robert, Andrew, Will, Akhil maybe?

Will Draper, Espirito Santo

It's Will Draper, Espirito Santo. Couple of things, one on India and one on Verizon. In India obviously you're executing well organically and there appears to be some repair in market pricing. Do you think there is a requirement for consolidation in India still, i.e. an inorganic move, and related to that, do you have enough spectrum in India and if you don't, how do you think you might acquire some?

And then on Verizon, we're sort of half way through the year; I wonder what the timetable for discussions with Verizon over the dividend is and what kind of, well I guess, timing for a decision on that we might expect. Thank you.

Vittorio Colao

Let me take the second one whilst somebody gives the microphone to Nick Read who will take the question on India since Nick is the architect of, not the operator, but the architect of this great performance in India over the last three years and he enjoys all the intricacies of spectrum rules in India.

The Verizon question is an easy one to answer: there's no timetable, no public timetable; this is a private partnership; it is not a listed company. We just paid the special dividend three months ago; we will update the market whenever the discussion takes place. I mean, the budget is discussed at various points during the year in terms of first forecast and then approval and so on, so we have nothing really to communicate today and this is, again, keep in mind this is a private partnership, this is not a public traded company.

Nick, India: do you want consolidate and do you have enough spectrum for continuing to be as successful as you are?

Nick Read

So, in terms of consolidation, I think you're effectively seeing what we described about a year ago. We said there were sort of like, three tiers: the new entrants, the regional players and the national players and I think with the recent licence cancellations of 2008, you're seeing an effective consolidation take place.

So, do we need to consolidate? I don't think so. I think Vittorio and Andy clearly explained, we have a national footprint, we have national coverage, we're performing very strongly, so we don't need consolidation; we think it's healthy for the market, we think it's taking place today.

If you're talking about spectrum, do we have enough? Well, clearly we'd always like more and we'd like low-band spectrum as well for LTE in the future so the answer is: yes, we'd like more, if the price is right. Clearly the pricing being discussed at the moment is not right; we will struggle to make a business case on a number of circles if it stays at this level, so I think it's a function of the price of the spectrum, a function of the pricing in the marketplace. If spectrum is as dear as is being discussed, then pricing will have to go up dramatically in the marketplace to make the business case, which in itself will have an effect on volumes of minutes, etc.

So, very fluid, but what I'd say is, at this point in time, we have enough spectrum for the current environment and we assess, given the pricing of the spectrum in the market going forward.

Vittorio Colao

Good. Andrew, Robert – yes, Robert first, Andrew.

Robert Grindle, Deutsche Bank

Robert from Deutsche Bank. On the interest rate fix and the impact on earnings, Andy, please could you say what that impact was again and when does it drop away, assuming interest rates remain stable? Secondly, any sign that LTE customers in Germany are dropping their fixed lines because the broadband LTE experience is so good? And then finally, when you do a big RAN upgrade, aggressive I think Steve called it, in places like South Africa, can you recycle some of the old equipment into less mature markets?

Vittorio Colao

Andy, Michel, Steve.

Andy Halford

Yes, the finance costs, the EPS was down 11%, 8% was disposables for businesses so -3% was the net number. There was about a plus three from reduced number of shares in issue, a plus one from underlying trading and a minus whatever the balance is was the finance costs, essentially the finance costs was the result of it. The fixing we have done should give us the confidence that we will hold at this level for the next year, so therefore, year-on-year, there should not be an impact from finance in costs this year.

Michel Combes

On LTE, so at that stage, most of the 130,000 customers we have referred to are customers which didn't have a fixed alternative before, so it's in rural areas where there were was no DSL. As you know, we are now expanding the coverage of our LTE network, starting to move in cities and so we start to see some move from DSL customers to this new proposition. Many customers shooting for what I would call a, 'DSL on-the-go' or a 'DSL nomadic', meaning that they want to have this access in a few places and so that's what we are going to focus on in the next coming quarter and then of course, the third piece will be what we are introducing now as LTE on mobile, so smartphone LTE with new handsets which are arriving in the next coming weeks. So that is three markets that we are looking at: DSL substitution, DSL on-the-go and smartphone 4G.

Steve Pusey

Third question, yes, we can recover and re-use equipment depending on its age. When we do a single RAN upgrade we very often reuse the 3G equipment, not the 2G equipment; that is quite often junked. In addition to that the suppliers quite often offer a buyback incentive along with the refresh, so there's two ways of attacking that opportunity.

Vittorio Colao

Here, and then we have to move back.

Andrew Beale, Arete Research

Hello, it's Andrew Beale from Arete Research. I just wanted to come back to the network quality and investment area. I guess if I look at your balance sheet it is better than most of your rivals' and the EBITDA measure doesn't include the cash you get from Verizon. So you know, including that it is really quite a bit better than many of your rivals'. I saw your plans to 2015 and I understand it is all fairly complicated and you can't necessarily see it from a single set of numbers; but you don't have a huge amount of LTE targeted by 2015 in there. I guess just sort of thinking about that in comparison to say Verizon, which has created a very sustainable network advantage both in CDMA and now it looks like in LTE as well, I was just wondering whether you are already doing as much as you could to create an advantage there. Just because the prize from differentiation and the pricing power you might get from that seems a prize worth having judging from Verizon itself. So I guess the question is: is it logistics? Is it just that it is very hard to go any faster than you are currently going? Is it a capital constraint in terms of your free cash flow? Or is it just that you actually think it's a zero sum game and your competitors don't have as much, you know, aren't leveraged enough that they will follow you anyway?

Vittorio Colao

No, it is an excellent question. The answer is you are comparing a single country operation, big but still single country, with a multi-country operation like us. You are comparing a single country operation where they got loads of spectrum, which were auctioned according to certain rules, with a multi-country operation which has different rules, I mean look at the debate here in the UK still. If you compare Germany to the US you will see that actually we launched first LTE. As Michel said we went first into rural, but now we are getting into nomadic-urban. Eventually we will test the system even into urban non-nomadic. So in places where we have the spectrum, where we have enough spectrum and where we have the possibility of rolling out, actually we do. Of course we are looking in to it, and that is not by coincidence, I mentioned network as the first point. We are looking into ways of accelerating but if we don't have the frequencies there is not much that we can do. Keeping in mind that we have an alternative which is in the meantime increasing the HSPA speed, which doesn't deliver exactly the same experience in terms of latency, and peak speed and so on, but still has, you know, quite a long way to go, which in the US they do not have. So the answer is compare single country to single country, we are doing the best that we can. And we also are a little bit better off than Verizon because we have another intermediate step.

Yes, I think you have been very patient for a very long time, so I have to come to you. Then we need to move back, I think, Akhil, you had raised your hand. And then I saw another couple, yes, there.

Ottavio Adorisio, Societe Generale

So three questions if I can? The first one is actually very straight on numbers rather than on strategy. Free cash flow, I just noticed that given the timing difference on taxes you generated £626 million, so 12% free cash flow, with lower cash taxes. So I was just wondering, what is the timing difference all about? And according to next year, because you're guiding for flat free cash flow, adjusting for the forex, how are you going to basically generate this £626 million if it is just timing? So if cash tax goes up, cost really is going down in terms of cost, or goes up in terms of revenues.

The second one is on EBITDA. H1 EBITDA organic growth was flat. Full year is down to 0.6. So back of the envelope, it is down 100 basis points in H2. So you are talking about stabilisation on EBITDA; so what really makes you confident, because you know, from H1 to H2 we are going backwards?

And the third one, usual questions, because you are the only company without a clear guide on EBIT, what is your depreciation guidance for next year? Thanks.

Vittorio Colao

Sounds like an Andy question. Steve, you can relax now.

Andy Halford

This one I can't handle. So let me take them in order. The cash tax cost as you say was £0.6 billion lower this year than in the previous year. A small part of that was in Italy relating to some tax release. The bigger part was actually to do with the US taxes where because we actually receive a dividend from Verizon Wireless to cover tax costs, actually when you take the dividend and the tax cash together they are net neutral. So hence next year when we will have a higher cash tax cost in the US because of the end of the bonus depreciation, we will equally have a dividend change that will cover it, therefore there is no year-on-year effect of any consequence to be concerned by.

Secondly, on EBITDA, the simple summary for me on margins would be that we had a 1.3ppt reduction in the margin between the first and the second half a year ago. This year, that reduction was 1.7ppt, but we took the restructuring charges in the second half this year. If you ex out the restructuring it was 1.3ppt again this year. Therefore actually the pattern between half years is, adjusted for restructuring, unchanged. And the final one, we haven't specifically guided on the non-cash item of depreciation but given that we have had pretty flat capex for a number of years, I would suggest that one should expect the depreciation charge to be pretty similar next year.

Vittorio Colao

I think we need to get back here.

Akhil Dattani, JP Morgan

Yes, hello, thank you. Akhil from JP Morgan. Just a couple of quick ones. On competition, I am just interested in your comments that you think – or you seem reasonably relaxed let's say on competition in Europe at the moment, particularly in the context of moves from T-Mobile in the UK, E-Plus in Germany. I just wondered how we should think about that. Does that mean that you think of it as relatively isolated pricing moves or is that just a reflection of your confidence in your network advantage? Secondly, on Italy, the H2 margin down about 3ppt, which was a little bit unexpected, I am just interested to understand what is driving that, how we should think about Italy going forward. And then finally just in terms of buybacks, I was just wondering with the buyback expected to end this year, how we should think about the scope for a potential new buyback announcement? Thanks.

Michel Combes

So on the first question, we are monitoring very carefully what our competitors are doing in the different markets. T-Mobile, E-Plus, I guess that you are referring to these low-end no frill offers which have been introduced in the UK and in Germany. Of course we believe that, as you said, there is probably a little bit of bi-polarisation of the market. So let's say most of the market remains on these high-end or rich tariffs on which, let's say, we are competing, we are trying and we are leading the show in reaching our services, differentiated, as it has been explained, for the full network experience. Obviously we are also targeting the no frill end either directly or through partnerships and MVNOs.. So in both markets, but it is a market by market answer which has to be driven in order just to make sure that we are part of this game without driving it too fast because we believe that we are better off to differentiate in the other side of the market. So that is it for the first piece.

The second piece: in Italy, so I guess we are performing well in a market which is quite tricky and quite tough. The macroeconomic situation remains difficult, but we have gained market share. We have extended the gap with Telecom Italia in Europe. Last quarter Telecom Italia is recovering a little bit, obviously coming from a lower base, and very, very less aggressive on MNP. We remain, again, very focused on our Supermobile strategy. You have probably seen that we have even increased our prices for tablets or for data because we are really trying to play the differentiated game and to remain head of the market in that space.

In terms of EBITDA or margin in H2, slightly impacted by, let's say, over expenses in commercial expense in order to push this data story and just to make sure that obviously we can deliver this improvement in terms of data ARPU.

Andy Halford

And on the buyback, we have not announced anything today on further buybacks: the current £6.8 billion programme has still got a few months to run, so it probably will be over in the summer. Clearly the debt level is fairly low. Equally we have got one or two more unpredictable events still out in front of us. I think we just to see how those resolve and then we will see where we are at that point in time.

Vittorio Colao

Here, then this side here, we need to move here.

James Ratzer, New Street Research

Thank you. It's James Ratzer from New Street Research. Just two questions please, both indirectly related to the US. On the first question I presume you look with some interest at how Verizon's own share price is performing now, up over $40 a share. It strikes me that the rise they have seen in their share price hasn't fully been reflected in your own share price. Despite on my numbers, I think this year around 60% of your earnings will come from the stake in Verizon Wireless. When you look at your share price how do you think about that value discrepancy? Is that something you hope will naturally close over time? Or do you think you may need to take more proactive action on that front?

And then the second question, also looking at the US and related to the questions we have had already on subsidies, they have been introducing handset upgrade fees on contract renewals to try to reduce subsidies and increase handset longevity. Are you considering similar style moves here in Europe? Thank you.

Vittorio Colao

Maybe Andy can give you the right numbers, because I don't think we have 60% of our profit coming from Verizon Wireless.

Andy Halford

Not unless it has had an extraordinarily good year.

Vittorio Colao

Yes, unless you know something about this current quarter that we don't know yet, I think it is a little bit less. Nonetheless your point is very valid. I think Verizon Wireless has got a fantastic performance which is why Andy was showing the 30% kind of pro forma integrated thing. The best thing we can do to be honest with you is to get the dividends and to distribute the dividends to our shareholders, which is what we did last year, and what we plan to do. It is getting credit for, you know, reward for the good performance that they have. This is the way I think. I would not comment on relative stock prices because these are volatile and they can change. But the operational focus is clearly on improving what we do together and getting money out of them.

The subsidy and everything they do is an area that I have to tell you we study, as you might have heard or understood from some of my comments, incredibly deeply. Morten Lundal who is sitting here, is in continuous contact with his opposite number there. It is a very healthy market. The market structure allows players to experiment more. To be honest, we are doing some of the same things ourselves. I mean we moved, you know, in Italy to 30 months from 24. We are trying to re-lengthen in Spain. We are lengthening in Greece. I think everywhere we are moving to different types of models. What Robin asked before about, you know, the split between the financing and what was commented by my colleagues before, making evident to the customers a trade off choice between different types of smartphones is clearly part of our strategy. It is what I indicated at point number six of our strategy. It would be more and more evident in the coming months every time you, in the second half of this year I would say, every time you walk into a Vodafone shop. So yes, we are trying to do the same things, market by market, depending on, you know, the degrees of freedom that we have.

Emmet Kelly, Bank of America Merrill Lynch

Hello, yes, it's Emmet Kelly from Bank of America Merrill Lynch. I just have one question, and that question is: América Móvil has made an offer to acquire a large stake in KPN. I am just wondering what you think about that and whether KPN and E-Plus with a strong financial backer, do you foresee that as a greater threat in Europe?

And I guess all players in Germany will be monitoring this situation closely given KPN's ownership of E-Plus. Could you just remind us of what your view is on German wireless consolidation, your existing position, and whether something were to develop there, whether you would be willing to be an active consolidator or merely a passive one? Thank you.

Vittorio Colao

We always look at consolidation in positive terms, you know, in general. We follow the situation of KPN and América Móvil carefully. We, you know, will look at what they do. Honestly, are we concerned? No. I mean having a good, solid entrepreneur who wants to make money is not a bad thing to have as a competitor. So I don't think we should be really concerned by any possible developments if they take place.

John Karidis, Oriel Securities

Thank you very much. It is John Karidis, here from Oriel Securities. I just have two questions. Firstly, when you do you think Microsoft will be a better, stronger, competitor to the likes of Android and Apple from what you are seeing, versus what we are seeing?

And then secondly, mercifully, mobile termination rates I think won't go negative. So it sort of feels that although you've been hit harder this year, maybe the following year you might have some good news in terms of the impact of MTRs on your service revenue. Can you give us an idea of what the scale of the switch will be between this year and next in terms of, everything else being equal, the MTR changes to your service revenue growth?

Vittorio Colao

Yes, the first question, I expect the Microsoft environment to become more competitive, more appealing towards the end of this year.

John Karidis

Fiscal year?

Vittorio Colao

Fiscal – fiscal / calendar hopefully. It depends on their logistics to be honest. I hope calendar, but it could be fiscal, I don't know. But you know, around the end of the year a Windows phone should be, you know, more than coming out of, you know, they have a clear priority which is the fixed side, and then they will move to the laptop, and then they will move to the mobile one. And I think Nokia is working towards that objective as well, together with the others. So we will see.

The question on MTRs, yes they cannot go negative. I have to say that I also see some positive change of language. Yesterday there was a speech by Commissioner Kroes where she has marginally relaxed some of her initial timing positions. There is a healthy debate between some regulators and Brussels. I think it will hopefully ease off a bit. I don't think it will change direction.

In terms of impact, Andy?

Andy Halford

I wouldn't like to be hostage to fortune. You know, I think you say it's getting better; I think it is getting less bad.

Vittorio Colao

Yes, let's say less bad. Again, it's a complicated dynamic between Brussels and the countries. And you know, I would say less bad is probably a good definition.

Jerry Dellis, Jefferies

Yes, this is Jerry Dellis from Jefferies. Two questions please. When you talk about the group EBITDA margins stabilising by March 2014, I just wondered if you could explain to us how sensitive that is to your revenue growth assumptions on that timeframe. Then secondly, just in terms of tiering, I sort of wonder what percentage of customers are trading up through the tiers at this point. And as you track usage growth in the home and office environment, which I guess is really where Wi-Fi is actually prevalent, rather than in the public arena, what are you seeing in terms of usage growth in that environment.

Michel Combes

On the second one, on tiering, so I would say that probably we have not, let's say, given any figures at that stage. It is still a little bit early days because our tiered pricing has been introduced 18 months ago, and what we see that usually customers upgrade or uplift when they come to the renewal of their handsets, meaning that at that stage we are still in a single digit figure in terms of increasing.

Andy Halford

On the margin guidance, I suppose two comments. One, clearly the margin is sensitive to the revenue profile. That guidance is consistent with, I think, a fairly cautious view on the revenues. The other thing is that actually as we are increasingly diminishing these ranges, it is becoming very precise in a very big business.

Vittorio Colao

Shall we take one or two more?

Paul Marsch Berenberg

Yes, it's Paul Marsch from Berenberg. I'm just wondering how easy it is to switch some of your southern European billing systems to escudos, or drachma, or lira. How seriously are you thinking about contingency plans for such an eventuality?

Vittorio Colao

Let me take it, because – not because I'm an IT expert, but because I'm responsible for the Company. We do really hope, and we do support, the single currency and single market concept and we really hope that the leadership of Europe is able to push a constructive solution through. However, I also have the duty to ensure business continuity. So for many months we have got business continuity plans developed in a variety of scenarios, one of which also includes that some countries might theoretically get into different currencies. It is not the biggest complexity, the IT the billing one, the one that you referred to, the one that we are facing. So I think we can, Steve, we could handle it.

Steve Pusey

Yes.

Vittorio Colao

In the context of many more and many bigger complexities. But we have got plans in place for a while.

Nick Lyall, UBS

Hello, Nick Lyall from UBS. Can I ask two questions please? Firstly on Italy. It seems every time we have a quarter we get different answers from yourselves and TI as to who's being most aggressive in the market. So could you maybe just give us an idea of exactly where TI's aggression comes from if you believe it's them being aggressive? And maybe clarify their point on their call about this sort of olive leaf – the sort of gesture of pricing they offered.

Vittorio Colao

Mobile number portability 24 months. You should ask them if mobile number portability 12 month is the same as mobile number portability 24 month. Is that an answer?

Nick Lyall

That sounds good. Secondly, on the margin guidance as well, just by -

Michel Combes

Right with the extension of the rebate from 12 to 24 months. So very aggressive on MNP, pricing and commissions. Fact-based, when we have increased, fact based again, our prices and data we just get rid of let's say the low entry price point on data. So that's really two facts.

Vittorio Colao

A good habit is to, with all respect to my colleagues, is to walk into the shops and see things in the shop and not read PowerPoint.

Nick Lyall

I'll remember that for next quarter.

Vittorio Colao

Not for you. I'm not talking about you; I'm talking about...

Nick Lyall

And the second one, maybe I've read it right, I'm not sure. But the waterfall chart on the margins, just for the guidance for this year, for March 13, it looks like getting rid of an Australian problem plus removal of the restructuring gets you to more or less halving of the margins. So is there any prospect that actually the mix could improve in terms of margins, and we could have proper underlying savings coming through?

Vittorio Colao

I thank you for this question because it's the final good question, and then Andy maybe can comment about the future. You actually got it right. When we say -0.8ppt, in reality it includes 20 basis points of Australia and 20 basis points of restructuring. So when we said last year we were going to do, you know, another slowdown of margin decline, that's exactly what we had in mind. Now going forward...

Andy Halford

We don't do a prospective margin walk chart, it's – I mean...

Vittorio Colao

We do it internally, we do it internally. Internally we do it. We do not communicate it.

Andy Halford

Yeah, I mean there's a lot of ways to look at that, but I think, you know, the restructuring clearly was a factor last year. Australia, if we are at the bottom on that, then just arithmetically your point, Vittorio's response is absolutely right. But you know, as I said earlier, trying to guide a business with such big revenues to 0.2ppt, to 0.3ppt, to 0.4ppts of margin is really quite a tough thing to do. And I think, you know, the general trend that we are on the margins, I think, is good. It is now, you know, 2% two years ago, 1% a year ago, strip out the restructuring, just over 0.5% this year. We are heading the right way and therefore I am very comfortable with the statement that by March 14 we should get to stability.

Vittorio Colao

Can I think you all for your questions, your patience, your attention, and looking forward to seeing you next time.