Vodafone Group Plc
Interim Management Statement
6 February 2014

Opening Remarks

Vittorio Colao

Chief Executive Officer, Vodafone Group Plc

Good morning and welcome to our interim management statement for the third quarter. I will briefly take you through the highlights, before handing over to Andy, who will update you on our financial performance. I will then close with an update on our strategic and commercial developments, and then move to Q&A, for which Andy and I will be joined by Philipp, Steve and Nick.

Let me start on slide 3, highlights for the quarter. Group organic service revenue was -4.8%, consistent with Q2, with Europe remaining challenging, particularly Germany down 7.9% and Italy down 16.6%. We continue to see strong growth in our emerging markets, driven by strong data usage, with India at +13.2%, Turkey +3.9% and Vodacom +3.5%.

We are beginning to see signs of stronger commercial performance in Europe, through better contract net additions. This is driven by both our Red and our 4G strategies. We are also seeing success with our convergence proposition, with improving fixed-line trends and a growing customer base.

We confirm today our full-year pro forma guidance of around £5 billion of adjusted operating profit, and between £4.5 and £5 billion for free cash flow.

Vodafone Red has now launched in 18 countries and we have 9.8 million customers. We are well on track to reach our target of 11 to 12 million customers by March. Red is today stimulating data and voice usage, and ARPU dilution is showing signs of stabilisation.

We continue to grow our 4G coverage; now we are in 13 countries across both Europe and AMAP, with 2 million customers. I will show you later the improvements in the data monetisation and usage in our 4G markets, which is on average double that of those using 3G plans.

Our enterprise business has begun to demonstrate better commercial performance as well, with improvements in churn and positive net portability in most of our European markets. In key growth areas, progress has been particularly good, with machine-to-machine revenue growth of 30% and VGE up 4.5%.

We updated you on the Project Spring programme in detail in November; for now we are entering final negotiations with our network vendors, and our markets are preparing their teams to deliver the business plans. Markets are actually already accelerating their network build-out.

We have made further progress in our unified communication strategy across Europe, and we have completed the acquisition of Kabel Deutschland, where we are now a 76.6% shareholder. At the EGM on 13 February, we will table the domination agreement for approval.

Lastly, we held the EGM for the Verizon transaction last week, where all resolutions were passed and we are on track to complete the transaction on 21 February.

Andy, over to you for the numbers.

Financial Review

Andy Halford

Chief Financial Officer, Vodafone Group Plc

Good morning, everybody, and thank you, Vittorio. I'll start on slide 4 by giving you an overview of the Group performance. As Vittorio has mentioned, Group service revenue in the quarter was £9.9 billion, which was down 4.8% year on year. In Europe, service revenue declined by 9.6%, the same as the previous quarter, reflecting continued economic pressures and increased competition in some of our main markets. AMAP, which now includes Turkey, continued to grow strongly at 5.5%, with good growth in customer numbers, accelerated data usage and more supportive pricing environments, particularly in India. I'll go into more detail on each of these regions shortly.

On a management view, capex was £1.8 billion in the quarter or £4.5 billion year to date, which is around £500 million ahead of last year's capex spend, due to accelerated 3G sites in India and enhancement to Germany's network capability. We continue to expect the full-year capital investment to be similar to last year, plus approximately £500 million of initial Project Spring spend.

Free cash flow was £1 billion in the quarter and £3.1 billion in the year to date. This is £300 million lower than last year, due to the phasing of the capex spend. Net debt at the end of the quarter was £31.5 billion, which will be significantly reduced once the Verizon transaction completes at the end of this month.

On slide 5, we have our usual service revenue walk. You can see the impact of adverse foreign exchange movements on the left, driven primarily by the weakening Indian rupee and South African rand, which is partly mitigated by favourable euro movements. The M&A movements in the quarter are mainly due to the KDG acquisition.

Strong adoption of our integrated plans, particularly Vodafone Red, has driven up mobile in-bundle revenue, which now represents 59% of Europe mobile service revenue, up 7 percentage points year on year. This has been particularly evident in Germany, Italy and Spain, as Vittorio will explain later. Mobile out-of-bundle customer revenue declined 11.8%, which is consistent with the prior quarters, reflecting increased take-up of integrated offers and the ongoing economic and competitive pressures in European markets.

There was an MTR impact of 2.4 percentage points this quarter, and we're expecting this to reduce roughly 1 percentage point next quarter. Other service revenue is declining, partly due to revenues from our MVNO agreements, where we are being increasingly strict on the conditions to ensure our differentiation is protected.

Turning to slide 6, as Vittorio mentioned earlier, we have seen an improvement in our contract net additions over the last few quarters, driven by our successful 4G and Red propositions, and additional investment in selected markets. Our commercial strategy is improving churn, growing our customer contract base and improving our customer mix, which has turned a quarterly reduction of 135,000 European contract customers into an increase of 432,000 over the last four quarters.

Turning to the next slide, let's look in more detail at each of our key countries, firstly Germany. Service revenue declined 7.9% or 6.2% excluding MTRs. This represents a deterioration on the prior quarter, reflecting increased price competition, both in the consumer contract and enterprise segments, creating downward pressure on ARPU. We have increased network investment this quarter, and upgraded 1,040 sites to high-capacity backhaul, which will support our LTE rollout, which is now at 67% population coverage.

We have seen some commercial improvement in the quarter, following an increase in acquisition and retention spend, which is reflected in our strong net additions of 292,000, of which 123,000 are contract. Smartphone penetration continues to grow, up 11 percentage points year on year to 62%, and mobile in-bundle revenues increased 6%, with strong demand for our Vodafone Red plans. Following our acquisition of KDG, they reported a strong quarter with broadband net additions of 88,000.

Turning to Italy, the service revenue excluding MTRs was flat quarter on quarter, at 12.4%, with further deterioration in the underlying performance as the aggressive summer pricing filtered through the prepaid base. There are, however, some signs of prices recovering to the €15 level, up from €10 in the summer, but the overall market continues to contract. Despite these challenges, we continue to roll out 4G, now in 27 cities. We are seeing positive signs of increased data usage with our 4G plans, with data users up 13% to 9.8 million or 12.8 million data users on a 100% ownership basis. We now have 1.4 million customers on Vodafone Red plans, representing 97% of consumer contract gross additions, and are driving growth of in-bundle mobile service revenue, which was 10.6% year on year. Our convergent strategy in Italy supported the fixed-line revenue growth of 1.8%, which has turned positive up 9.9 percentage points, year on year. We also had some favourable news from the regulator, which has determined fixed-line wholesale fees and cabinet access, which supports our fixed-line investment strategy.

Moving to slide 8 where we look at the UK and Spain, in the UK service revenue trends declined by 5.1% or 3.6% excluding MTRs. We continue to accelerate our 4G rollout, which covers 13 cities, and a further four cities will be covered in Q4. We have experienced the strong take-up of our 4G services with our special content offer, and now have almost 0.5 million customers at a premium ARPU. We have 2.3 million customers on Vodafone Red plans, which represents 36% of the consumer contract base. The data usage from 4G Red customers is supported by our Spotify and Sky Sports offers, and an increase in contract smartphone penetration, which is now 77%, up 4 percentage points. Cable & Wireless continues to deliver the targeted synergies. So far, we have connected over 2,700 base stations to our network.

In Spain, service revenue declined by 10% excluding MTRs, which is an improvement quarter on quarter driven by a stabilising contract base and strong fixed-line revenue growth. However, the market remains challenging, with ARPU declines driven particularly by continued competition with MVNO convergent offers. We continue to lead the market in 4G, which is now available in 19 cities with a target of 80 by the year end. We expect to launch our first fibre offer in April, following our current trials. Vodafone Red is performing well with 1 million customers, of which 30% have taken a fixed-line offer. This in turn has boosted fixed-line service revenue, which is up 5.7% in the quarter.

Moving to AMAP on slide 9, in India we continue to gain market share with 4.9 million net additions in the quarter. We now have 160 million customers representing 38% of our total Group customer base. We continue to see less price discounting, which has helped to increase ARPU by 9.6%.

Vittorio will show you later how data is really taking off in India and in our AMAP region, with data browsing continuing to grow particularly strongly in India, now representing 10% of service revenue. Data users have grown by 38% year on year to 46 million, and we now have over 5 million 3G customers using, on average, 730 megabytes per month, which is well above the European average. Given the take-up of 3G usage, we have accelerated the rollout of 3G sites in the quarter. The auction for 1,800 and 900 MHz spectrum started at the beginning of the week and has yet to conclude. Therefore, we cannot comment on our position at this time.

Moving to the bottom of the slide, Vodacom Group service revenue grew by 3.5%, supported by quarter-on-quarter growth from South Africa, up 0.6%. This was driven by successful summer promotions, which led to strong net additions of 1.3 million and traffic uplift, which boosted ARPU growth of 3.8%. ICASA, the South African regulator, announced proposed MTR cuts last week, which would be effective from 1 March this year. Vodacom is supportive of an MTR glide path, but does intend to challenge the legal validity of the process.

In Vodacom international businesses, service revenue grew by 15.1%, slightly lower than last quarter, due to increasing macro and competitive pressures. It was supported by strong prepaid customer net additions of 1.3 million.

Now on to slide 10 for the Group's financial position, we generated £1 billion of free cash flow during the quarter. Our overall net debt increased to £31.5 billion, mainly due to the £7 billion acquisition of our 76.6% stake in KDG. On a statutory basis, which deconsolidates the debt raised locally by joint ventures, principally in Australia, net debt was £29.8 billion. As you know, this debt level will be significantly reduced once the Verizon transaction completes. The chart on the right shows the pro forma net debt post closure, but before the acquisition of the remaining KDG minority. This will be our lowest level of net debt since March 2005.

To conclude on the next page, we have less than three weeks to go before the completion of the UK transaction, which we expect to occur on 21 February. We held our EGM last week, where all resolutions were carried for both the general and court meetings. The consolidation of Vodafone shares will take place on Monday 24 February, and the commencement of new ordinary and ADRs will be traded from that date. With that, I'll hand you back to Vittorio, who will take you through the remaining slides.

Commercial and Strategic Priorities

Vittorio Colao

Thanks, Andy. I will now focus on our commercial and strategic priorities, starting from slide 12. You can see how we are continuing our transition to become a scale data company. In the top-left chart, data traffic growth is rapid; it's up 64% year on year, driven by smartphones and 4G. 4G now makes 17% of European data traffic. We have seen strong growth in traffic in AMAP as well, up 10 percentage points to 40% of total Group data traffic.

On the top right, you can see the improving user experience of our customers. 85% of the data sessions on all smartphones now reach over 1 megabyte per second. This highlights the progress we have made in upgrading our network capability to support faster speeds for customers.

Of course, it's not just about faster speed; it's also about our network footprint. As you can see, and here I'm on the bottom left, we continue to expand our 3G and 4G network coverage, up 22% year on year. We now have around 14,000 4G sites across Europe and 60% of our 3G footprint is at 43.2 megabyte-per-second speed.

As Andy mentioned earlier, Indian data usage continues to accelerate. To stay ahead of the demand, we have rolled out our 3G sites more rapidly, as you can see on the bottom right. India's 3G traffic now makes up 16% of the AMAP total and India is already the second-biggest data market in the world.

Moving to slide 13, I will share you with here some of the very encouraging signs we are seeing with 4G. We have 2 million customers with a 4G device and plan. In the last quarter, 45% of our smartphone and tablet gross adds were 4G-enabled devices. This is a number that is even surprising us a little bit. In the top left, the transition to 4G in the UK is also driving a significant increase in data usage, with an increase of over 130%. In Italy, data usage has tripled for customers taking a 4G device and plan together.

On content, our UK performance has been boosted by a differentiated 4G offering for our customers, which includes an option to take a content package or to choose between two content packages. As you can see from the chart in the top right, those customers who are using that content are using two to three times more data than the ones on a standard 4G plan. 50% of our 4G customers have activated their content offer and 33% are shifting usage back from Wi-Fi to 4G, again proof of the good performance of our 4G.

Moving to the bottom left, you can see that, while usage of video and music streaming is increasing, the really good experience of 4G is also driving much greater daily usage of even more basic applications like search or email.

Finally at the bottom right, as you might expect, we are achieving a very good ARPU on 4G customers compared to the average for our contract base. In particular, a direct comparison for the UK shows an ARPU uplift of 19% from a Red 3G to a Red 4G customer, which of course is very encouraging for us.

Now, let's take a broader look at the progress of Vodafone Red on slide 14. We have 9.8 million customers across 18 markets and we're well on track to reach our 11-12 million target by March. If you take our four largest European markets, Red now accounts for around 23% of contract customers and 34% of the revenue. ARPU management of course is a key element of Vodafone Red and we continue to see an improving trend in ARPU dilution, as illustrated in the top right-hand chart, in the UK and Spain. There are also signs of churn improvement and signs of NPS scores continuing to get better. We continue to work on developing the plans, with increasing focus on family plans and shared data, going forward.

Moving to the bottom left, the growth in our Red plans is driving the Group towards in-bundle revenue away from what I would call 'the unprotected out-of-bundle' or 'at risk out-of-bundle' revenues. 59% of our European mobile service revenue now comes from bundles, whether it's contract or prepaid, up 7 percentage points year on year. Again, this is very important to future-proof our revenue vis-à-vis the technological change. Red continues to stimulate customer usage, both voice and data. Typical data usage doubles on immigration to Red, and voice is also up 20%. We are also very focused on the roaming opportunity. Again here, data roaming usage is up 137% year on year, and our daily roaming offer is now being used by nearly 11 million customers.

Moving to unified communications and slide 15, you are familiar with this kind of three-step approach to unified communication. Here we have highlighted our Q3 progress with the red circles and red words on the table. In Italy, we have reached now 37 cities with our VDSL offer and we are in negotiations with vendors to fulfil the self-build to the cabinet. We continue to accelerate our self-build fibre deployment in Portugal, which now has over 700,000 homes passed. In Spain, we will commercially launch our fibre product in April, and we are targeting 3 million homes passed by September 2015. As Andy mentioned, we are seeing improving trends in fixed-line revenue driven by growing net additions. Although our German base continues to decline, the rate of decline is slowing also in Germany, and the launch of our new wholesale VDSL proposition in February should be a further positive catalyst.

Conclusions on slide 16: growth in emerging markets continues to be strong. Demand for data is really taking off across the Group. This is a positive secular trend that partially offsets the ongoing regulatory competitive macro pressures in Europe. As I mentioned at the half-year, I do feel that we are approaching a turning point in Europe and I'm encouraged to see the early signs of increasing commercial traction in several of our markets, as Andy has shown before. Financially, we are well positioned; we will have a very strong balance sheet when the Verizon Wireless transaction completes later this month and significantly improved dividend cover post the share consolidation. Today, we have confirmed our full year pro forma guidance.

In terms of strategic products, we have continued to develop Vodafone Red and our 4G offer, with almost 10 million and 2 million customers respectively on these plans today, and growing continuously. We are delivering on our convergence strategy, building our capability market by market, with the aim of being a unified communication leader – a scale data company, as I call it – in all of our major markets.

Finally, our enterprise business is developing clear differentiation through a suite of products and services, which will move us further up the value chain from pure connectivity. The strong growth in machine-to-machine and the strong growth in VGE demonstrate that this strategy is beginning to bear fruit. Our goal now is to push forward aggressively with Vodafone 2015, accelerated and enhanced through Project Spring, so that we have a solid base from which to spring forward.

Before opening to Q&A, I would like to take this opportunity to say a few words on Andy Halford, who is sitting next to me. Today is the last announcement led by Andy as CFO, as he retires from Vodafone in April. Andy has been a great CFO for this company, first in operational roles and then clearly with a Group leadership role. I believe that we all have appreciated throughout the years Andy's professionalism, his very sharp and quick intelligence, and really extreme clarity of thoughts and expression. Personally, Andy, I have really appreciated throughout the years your judgment, your calm approach to problems and your advice to me on strategic matters. I would like to take today's opportunity to thank you in front of this audience, which for us and for the company, Andy, is very important. Of course, having said all of this, I will pass to you as many questions as possible.

Andy Halford

Good, thank you. Nothing changes there then.

Questions and Answers

Vittorio Colao

We are joined by Philipp, Nick and Steve for the questions.

Nick Delfas, Redburn Partners

Best wishes, Andy, for the future. It's been great working with you over these years. It's a question about fixed line. In Italy specifically, you say that you've been given a good price for the sub-loop and access to the cabinet, but realistically how long will it take to actually build lines, given the need for municipal approvals? Are you philosophically opposed to doing a German-style *Kontingentmodell* deal with TI as an alternative?

Vittorio Colao

First of all, I didn't say that we have been given a good price; you said it. I think the price is outrageous and actually too high. We will always try to get a lower price. I said that we are enabled to reach 37 cities and that we now work hard to connect the cabinets with our own fibre. We are open to all possible agreements, as I indicated in my chart and discussed many times with you. We see, quite frankly, different approaches to fixed line in different markets, depending on the presence or non-presence of a cable company and depending, quite frankly, on the strategy of the incumbent.

Nick Delfas

If I could follow up, how many homes connectable do you think you might have in Italy or Spain by March 2015?

Vittorio Colao

In Spain, we will reach – three plus three is six – three [million] by September 2015, and then there's an agreement with FT to go up to six. Philipp, for Italy, about six?

Philipp Humm, Regional CEO, Europe

About three in Italy.

Vittorio Colao

Three in Italy as well.

Nick Delfas

That will be back-end-loaded in terms of the rollout.

Philipp Humm

It's Philipp here. We can reach the households pretty early based on the rollout of TIM. What we're obviously doing is we're building our own FTTC reach to the households on top, which is a far bigger cost saving and quality improvement.

Nick Delfas

Thanks very much indeed

James Britton, Nomura

Hi, gents. Good morning. Two questions please: firstly, is commercial partnership your preferred solution to position yourself for convergence in the UK? Perhaps you can flesh out the options you've got in the UK. Secondly, on the enterprise trends, you've referenced a little bit more some pressures of enterprise. Can you just clarify whether the enterprise trend does deviate significantly from the headline trend for any of your European markets, and perhaps can you just highlight what might bring more a bit more rational pricing back into this segment of the market?

Vittorio Colao

Let me take the first question on the UK, and maybe, Philipp, you answer on enterprise in Europe. You used the words 'preferred solution'; we don't have a preferred-solution mindset. We have an economical and operational best working solution. Quite frankly, the success of a commercial partnership depends on the economic conditions you can establish with the partner, whether the partner is an incumbent or something else – it could be a metroweb in Italy – does not make any difference, first.

Second, how genuine and genuinely good are the operating conditions attached to a commercial partnership, in terms of access, maintenance, interventions, intervention times, the ability to manage our own services, quality of bandwidth and so on? All these things have to be part of a package and, in the end, if there is an alternative which is an M&A alternative, of course we will also consider the M&A alternative. We are not in the preferred alternative; we kind of look at all the alternatives, market by market. As you have seen, we can end up with a cable company; we can end up with a fibre build of our own; or we can end up with a Kontingent deal, like in Germany.

James Britton

Just to follow-up on that point, would you rule out organic fibre in the UK?

Vittorio Colao

Alone, probably I would but, again when talking about the UK, it depends what you're talking about – which areas of the UK, which parts, which vertical builds versus horizontal. The UK is expensive and it's mostly horizontal. Therefore, it's a horizontal housing development, which is more expensive than, say, Madrid, Lisbon or Porto. It is more expensive, so I wouldn't rule it out, but I would say the business case is more difficult.

Philipp Humm

Let me just address the second question on enterprise. You asked for the development of enterprise in Europe relative to Europe overall. Enterprise is a little bit better in service revenue than Europe overall. The number's 1.2% better. The key driver really was ARPU decline due to companies with the economy buying at a significantly lower rate. We expect recovery as the economies are recovering. As you know, most of our European economies are in positive GDP next year, and we also expect recovery as we continue to be successful in winning market share at the fixed line side in the countries where we have fixed offerings.

James Britton

I think you called out Germany and the UK as the real markets where there is enterprise pricing pressure. Can you perhaps give us the enterprise numbers for those markets?

Philipp Humm

If you want Germany, overall in service revenues in enterprise, we are at -5%, and in the UK we are at -7.8%.

Akhil Datani, JPMorgan

Morning. It's Akhil from JPMorgan. Firstly, just a follow-up, Vittorio, on your comments earlier about the grounds for optimism in Europe, I just wonder if you could maybe flesh out particularly what you feel more optimistic about. Andy mentioned the easing MTR drag; is that the predominant factor here or are there also operational and macro factors? When we think about that, do you start to feel confident that we see sequential improvements going forward near term or is that really more about the medium-term message that you're focused on?

Secondly, if I can just ask a question on MVNOs, it seems over the last couple of months that you've taken quite a few major decisions with regards to MVNOs in Europe and parted company with some fairly meaningful MVNO players in some of your markets. I just wondered if you could update us and how you think about the roles they play and how your strategies might be differing, market by market, particularly noting that that doesn't seem to be the case in terms of what you're doing in Germany. Thanks a lot.

Vittorio Colao

Let me start from the second, because it's an easier and quicker answer. We are determined not to stop working with MVNOs, but to work with MVNOs that are willing to recognise the value and the cost of spectrum, particularly 4G, and which are truly complementary to our offer. In other words, there's no point in paying spectrum whatever – £1 billion per market or whatever is the number, depending on the size of the market – and then saying, 'Well, that's sunk cost, now I'm going to give it to somebody else for free and they're going to undermine my own offer.' It's something not very smart that our industry has done and, to some extent, continues to do, which backfires.

Secondly, when you are investing massively on network quality and, as I said, early 4G evidence is very positive, again you can share it with a partner if the partner is willing to share some of the cost, otherwise why would I do it? Why would I invest in Spring? Why would I have the biggest capital spending plan ever to then give it away to somebody else not bearing the same cost? It's not a strategic kind of shift away that justifies why, in some cases, in some markets, we might still stay with MVNOs, but it has to be a true partnership, not a way to give up capacity at the very marginal and not fully costed level.

On grounds for optimism, I would say I'm always looking at operational stuff. Yes, there is an MTR ease off coming. There is also a worse MTR situation coming in South Africa, but I would say that our grounds for optimism, as Andy has said on contract performance, are good, so Red and Red 4G are getting more traction in a number of markets. We are investing more in some markets where we under-invested - maybe Germany was one of the cases. I am really convinced that 4G data and high-speed 3G is becoming a very good experience. The role of content here is very important. We see customers starting to go around 2 gig per month; some of them are 3; some of them are 4. I cannot say that we are where America or Korea are, but there are good signs once you get spectrum. As we said, 'Give us the spectrum; give us the time to invest; then usage will go up.'

Then of course there is fixed line and convergence also. Again, some people like to portray this as a threat to Vodafone. The way I see it is we used to have 30% market share in mobile; now we have only 16% in total comms or 17% in total comms, so it's an opportunity. In enterprise, in large enterprise, in some of our markets – Italy and Spain – it's turning into an opportunity. Those are the underlying reasons that lead me to say we see signs that can lead us to be optimistic. Of course, there will continue to be headwinds and an impact on new pricing on the customer base and all these things, but that's my more business-oriented thing. Let me turn to Andy. Andy, do you want to add something more financial?

Andy Halford

It is small individual parts. MTR is a part of it. The contract net adds growth picking up is a good lead indicator that, over time cumulatively, does build. 4G customers are 2 million, but building nicely, with the ARPUs being higher. Red is continuing to take off and fixed revenues are now going positive. Each of them is small individually – MTRs may be somewhat bigger – but they are all directionally heading in the right sort of space.

Nick Lyall, UBS

Morning. It's Nick at UBS. Can I ask two, please? Firstly on the slides, Vittorio, it seems as if you're a bit more positive on linking with content providers. Could you just update us on your views on owning content, please?

Secondly on the UK, a little bit like James's question, it still stands out a mile that there's no UK consumer fixed offer from Vodafone, no broadband offer, which seems to leave the door open for BT with its quad-play offer later in the year. Can you update us on why there's no fixed offer yet in the UK, and when and what would push you to do that, do you think?

Vittorio Colao

The first answer is easy and the second also is going to be short. The easy answer is I don't think you need to own content. You need to facilitate and make content easily testable by customers. Once they test it and they like it, and there's plenty of content that is already available in various ways, the issue is just to distribute it in a better and easier way. Again, we are seeing a nice pick-up in that.

On the UK, as I said, we're looking at different options. Today there's not a huge or super-strong converged market. It could be different in 6 or 12 months in the UK and our position could be different in 6 or 12 months, but we are still looking at different ways of doing it.

Paul Marsch, Berenberg

I have a couple of questions as well. I just wondered if, given what's been going on with MVNOs in various markets, you could perhaps quantify for us what you think the drag from losing MVNO contracts in the UK and Italy might be over the next few quarters, as they start to come into the equation. In the UK, do you see BT with its 2,600-megahertz femtocell strategy or potential strategy, which everybody seems to think they're going to announce, as a threat?

Vittorio Colao

I see BT as a possible new competitor. They have already been here. They have already tried a mobile MVNO strategy. They well probably strengthen it with Wi-Fi and 2,600 but, at the end of the day, yes; I see it as another factor of the strategic landscape in the UK. Calling it a threat, we'll see; it depends on what others will do. The whole industry will evolve. We recognise that there could be or there will be a new factor in the UK landscape. Philipp, do you want to take the first one?

Philipp Humm

On the MVNOs overall, if you look at Europe for the quarter, MVNOs account for about £150 million for us and have been declining a bit more than the average service revenue decline we had in the region. This was mainly due to one or two MVNOs that we did not continue, particularly in the Netherlands and in Spain.

Paul Marsch

Are you able to see anything about the potential impact that losing BT and PosteMobile in Italy may have, I don't know, over the next year? Is that 1 percentage point of drag or half a percentage point of drag?

Philipp Humm

We all have a very strong basis with the MVNOs, so whatever deal we discontinue, but we also started some other deals, will have a very gradual impact on the negative and on the positive side. Right? There will be a little bit of drag there, but we can't quantify it at this point.

Tim Boddy, Goldman Sachs

I'd like to come back to this question of the underlying ex-MTR trend. Obviously there's the 1 point benefit to come in the fourth quarter but, I guess pressing the same line as Akhil, are you optimistic that there's an underlying improvement coming through in the near term or is that more a longer-term comment? I guess that leads to thinking about your comment around ARPU dilution starting to flatten out, as you showed on the slides. It would be really helpful if you had any data on a like-for-like basis of a customer who was 3G going to 4G – obviously there's a risk that 4G users are all the higher spenders anyway – just to give people increased confidence that we are indeed, having effectively repriced the base to deal with the technology risk and some of the competitive factors, we are indeed finding the floor. Thanks very much.

Andy Halford

Tim, honestly the answer is pretty similar to the answer to Akhil earlier on. The MTRs, clearly as I said, have a percentage point of gain that will come through from there, which will be helpful. The rest, we've said, are just gently starting to point in the right direction. I think its timeline is difficult to predict with huge accuracy but, with the customer growth coming through, the evidence is that the customer growth and then the pull-through in the revenue happens in that order. It's something that will happen progressively over a period of time. On the ARPU dilution, we've included some stats in here on 4G and 3G and, as we get more body of evidence on 4G, no doubt we'll share that with you as we go forwards, so that you've got more like-for-like comparisons.

Tim Boddy

Just a quick follow-up if I may: could you help us think through more explicitly the pros and cons of your strategy in Spain, in terms of building versus acquiring?

Vittorio Colao

I'm not sure I can explain to you the pros and cons, other than that we have a model that is a cost for acquiring assets. There is a time value for acquiring assets and there is a cost for building, and there is a much longer time for deploying and activating commercially. At the end of the day, there is a breakeven point at which you say, 'This one I would prefer, but at this price it's too expensive. The other one is a lot of hard work but, at these conditions, it is cheaper.'

As I said, the real difference that we are finding when you talk about fixed and broadband versus mobile is that, while mobile has economics and models that are pretty similar across countries - apart from the cost of labour if you want, and a little bit the geography - fixed is dramatically different. Cities could cost completely different levels, because of the way they are built, whether you access the sewage or not, whether somebody has rights of way in old infrastructure or not. It is, at the end of the day, a model and you have to assess one and the other.

Simon Weeden, Citigroup

Thank you very much for taking the question. I do have a couple. One is coming back to one of the earlier questions. You made some comments about the impact of MVNO losses and the drag on the growth rate this quarter. I wonder as well if there is a fairly near-term impact from the migration to the Red tariffs as well, and if you could quantify that in terms of the impact this quarter versus last quarter to get a sense of how big that is and to work out for ourselves perhaps when that might fade out.

The other question was around M&A. There's been a fair amount of speculation and your name often comes up, partly because of your size and partly because of your financial position. I wondered if you had any comments about talks about interest in Spain and Italy, whether or not there might be some assets that could be sold and whether it would be fair to characterise that as getting stronger where you're strong or digging deeper where you're deep, or something along those lines. Thank you.

Vittorio Colao

Simon, on the first question, I don't think I will go into commenting on the impact of migration, because then you get into an amazingly complicated market-by-market-segment enterprise versus consumer type of thing. It is detailed and, to be honest, I'm not even sure I could do it in a short answer.

Let me, however, pick the side of the MVNO part. Yes, when an MVNO disconnects there is a loss of revenue, but you have also to factor in a couple of things. First, some customers eventually decide to stay with the operator, because of the quality, the coverage and that kind of thing. Given the rates that MVNOs typically give us, in theory, you would need only 30% of the customers staying with you to be breakeven. Now, they don't stay 30% with you to give you breakeven, but that gives you an idea of why Philipp was saying the impact was smoother.

Second, you have a much better capability of managing your own brand and your own services. That's an advantage that goes to the Vodafone customer. That's why I was saying, if MVNOs are willing to recognise the value of it, good. Otherwise, fine, but it means that there's a different type of positioning that they want to take in the market.

On M&A, you wouldn't expect me to make specific comments on countries or things. As you would expect, as we have said many times, we want to become deeper; we want to become a scale data company, i.e. a company that brings data at a cost-efficient level through a variety of screens and pipes. Therefore, you would not be surprised to hear that, from time to time, we look at opportunities in the countries which are important to us. It's not surprising that the rumours that you have seen in the newspapers tend to be in the important countries for us and not in the less priority ones, but I wouldn't comment on specific situations.

Simon Weeden

Would you say you're done with sales or disposals?

Vittorio Colao

How can I say that? If somebody comes tomorrow with a good offer for a non-priority market or a better-value-delivering offer for a market where we have a different perception of the value, how could I say that we are done?

Justin Funnell, Credit Suisse

Just firstly on the Italian markets, how quickly do you think that will turn around? Obviously there have been some dramatic moves on the marginal price points going into Q1 as well, but is it going to take a while for it to really come through in the numbers or would you hope for improvement quite quickly?

Secondly, on the whole experience of buying a cable operator in Germany, are you getting any lessons learned from that at all? Is it making you more positive about the potential for integrating mobile and cable assets as you start to work through that whole project?

Thirdly, Brussels – do you think this 'roam like at home' thing is going to happen or do you think Neelie Kroes package is so delayed now it's probably dead? Thank you.

Vittorio Colao

Why don't we do Philipp for the first question and Steve about the integration of cable and mobile, and then I'll take the Brussels one?

Philipp Humm

Let me start with Italy. The good news in our eyes for Italy is that the price war right now is over on the gross adds side, so we have no different price level in the market. We are focusing ourselves on a €15 price level, which is significantly higher than what we were before so, in that sense, we are positive. We're not the only one, but also Wind and TIM are now on similar price levels, so the market is going to recover. With that being said, we will still have a certain drag on our base, as the price decrease washes through in the coming quarter and then probably the quarter thereafter, and then we should see some positive trending coming through.

Steve Pusey, Chief Technology Officer

Good morning, Justin. It's Steve here. Just on the integration question, the cable assets offer very nice depth of fibre, so there's a great synergy on in the integration of the two core networks, metropolitan fibre, which is traditionally very difficult to dig, especially in city centres, and the capacity needs of both properties. In addition to that, we can extend very economically the existing fibre of a cable operator to our own base stations, which is of course part of the plan, and then of course a consideration of using the fibre assets to reach enterprise customers where we don't currently have reach. From a physical point of view, it's a great set of assets. Of course, then you get the opportunity for the quad-play and multi-screen delivery of content and services, which is something we can easily extend to. Yes, we're very happy about it, very pleased, and it is as expected in that regard.

Vittorio Colao

On Brussels, let me say I am not sure that I would define that as you did. The package has some very positive aspects and some aspects that I wouldn't call 'positive', but I would say are still to be clarified and complicated. The clarifications and the final direction have to come from interactions between the Commission, the Parliament and the local countries, member states, which are complicated, especially in an end-of-term phase. I don't know; there is a possibility that they might rush through. There is a probability that it will have to take a longer time and go into the next Parliament.

Having said that, on the key aspects of it, on roaming, we are moving ahead anyhow. We have more than 10 million customers using our roaming packages. Roaming is going up 130%. We are including roaming more and more in our own packages. On access to fixed line, we are fighting our battles locally. We have had some nice wins in places like Italy. As far as Vodafone is concerned, our match is played in many different stadia and we continue to play there. If the package goes through earlier or later, we will simply adjust our game to that, but I don't think that will impact our strategy implementation, whether it is this side or the other side of the new Commission.

Jerry Dellis, Jefferies

Good morning. I've got two questions, please. The first question is on Europe. I wondered to what extent the stronger contract net adds that you've been reporting in Europe have been supported by higher A&R spend, and should we be expecting margins to be trending down a bit more sharply in the second half than we saw in the first half, as a result?

The second question is really on the emerging markets. Your organic revenue growth is typically trending below inflation in several markets, like South Africa, Turkey and Egypt. You've also got weakening currencies to deal with there and I presume that inflation is putting some upward pressure on the cost base. The question for the emerging markets is really: what flexibility do you have to cut harder into the cost base in some of these countries? In particular on labour costs, what flexibility is there in that area? I'd be interested in whether there are any particular countries like South Africa perhaps, where the unionised proportion of the labour force is particularly hard, which might reduce your flexibility.

Vittorio Colao

First question for the CFO, second question for the head of emerging markets who is becoming a CFO.

Andy Halford

Yes, we are spending a little bit more on A&R. When we talked in November, we said that that was what we expected to do, particularly in Germany. Consequently, yes, the margin will go down a bit more in the second half, but all of that is within the guidance for the full year, hence the unchanged profit guidance.

Nick Read, Chief Financial Officer designate

Good morning. It's Nick. Just on emerging markets, what I'd say is you've summarised the challenge nicely. Obviously with currency devaluations you do tend to get pressure on inflation in markets. We've worked very hard to drive a number of efficiencies in channel management around our A&R and use of technologies. We don't particularly have big unionisation that we face, and you saw in our first-half performance margins moving strongly up. It's a balance between cost efficiency and also we take selective actions in terms of hardening pricing, which you see in India, as an example. Quarter over quarter, our pricing was up 1.5%.

Robert Grindle, Espirito Santo

Morning, gents. It sounds like on the KDG transaction the domination agreement is coming shortly. Will we hear then about the timetable for the execution on the synergies or does that come later in the year, when you're fully in there?

Just on South Africa and the MTR cut, if the cuts do go ahead at the proposed level, roughly what is the impact on the growth of that South African business? Thanks very much.

Vittorio Colao

I would say again Andy and Nick.

Nick Read

I'll take the first one in terms of South Africa. Obviously you know that we are going to legally challenge, and we're challenging because we feel that there was a very specific process laid out under the Electronic Communications Act to determine the MTRs, and we don't think this process was followed. We think we have strong grounds for a challenge. However, to your point, what's the impact, it is about ZAR1.9 billion service revenue and about ZAR1 billion at the EBITDA level, if they were to go through.

Vittorio Colao

I'd better have Philipp answering this question, given that it's a German regulation thing.

Philipp Humm

Thank you, Vittorio. Robert, on KDG we expect the DPL to be voted positively by the shareholders on 13 February, when we have our EGM, and then it still needs to go through the registry, which should be somewhere in May/June timeframe. Once that is done, we can obviously give you an update then on the synergy timetable.

Robert Grindle

Thanks very much. That's very clear.

David Wright, Deutsche Bank

Good morning. Just a question on Germany really. Obviously that was the standout disappointing number in the quarter. You did announce good contract adds; should I be assuming that they came late in the quarter with a bit of fight-back? Are your new tariffs and products in place right now to go more head to head with Deutsche Telekom and, as such, should we be expecting a recovery this very next quarter or is this something that might take a little time to get traction back? Thanks.

Philipp Humm

Thank you, David, for your question. Overall, we see now an improvement in net adds quarter by quarter. We started being positive on contract in the first quarter and now we're significantly ahead, with 123,000 net adds in this quarter gone. We want to continue that and so expect that to continue overall. That being said, we still have a drag on ARPU, as we still have price pressure there. The two things need now to net out over time, but we will still have pressure on our overall revenue.

David Wright

Is this something that you'd go us far to guide us to going worse before it gets better? Are you able to do that?

Philipp Humm

We should be pretty much bottoming out right now, so we should see over time a step-by-step recovery.

David Wright

I see. Andy, thanks again for all your help. It's been a pleasure working with you.

Andy Halford

Thank you.

Andrew Beale, Arete Research

Hi. It's a question around the exit capital that you might have post the Verizon transaction and your large investments in Project Spring. I guess I'm just asking at a high level where you currently foresee that you might get the highest return. Is it from doubling down to protect or enhance the big European markets, or is it from expanding or consolidating your assets in India? How are you going about weighing up the competing requests for that capital that I imagine you have from your individual country operations and thinking about those against buybacks?

The second question is just going back to your stricter view of 4G access and MVNOs. What is your view on your competitors' attitude to 4G and MVNOs? Do you see that changing such that you think you can be confident in sticking to your values and not losing out, or are you still seeing worrying deals being done?

Vittorio Colao

Let me start with the second question and then move to the first one. Maybe Andy can take the first one, given that it's really about benchmarking returns and discipline in use of capital. Andrew, I cannot give you a completely uniform answer and I don't want to be judgmental on my competitors' strategies because, at the end of the day, everybody has different shareholders, reasons, thinking and whatever. What we have seen is that some competitors have taken, I would say, what I would call a healthier approach. At the moment when we are all talking about investing, or at least some of us are talking about investing, some of us are paying for spectrum very expensively. Some of us are really doubling down on 4G. We are maybe at Vodafone doing it a little bit more than the others. We are talking about bigger retail investment and bigger online investment.

My vision for the future is that every country or market will have a couple of quality players. Those couple of quality players will probably be more up in the high end of the market or in the higher end of the market than the merely technologically oriented part of the market. Therefore, they should be able to get that recognised in their own returns. Some MVNOs do that; others don't. They're cheaper, which is fine. It means that our industry is getting to a more mature stage, where you don't just put people in the same box where they just look at their strategies and their things. I would say that some of my competitors have reacted they same way. You look at who is ending up where and you have pretty much a picture, but it depends a lot market by market.

At the end of the day if you take the UK, from a network point of view we're sharing with O2. The other big network is EE. It's not surprising that EE is taking more of other people. At the end of the day, you end up with two big networks, strong networks, and then a third one that is kind of smaller and partially hosted in another one. In Italy, you will end up, I assume, with us and Telecom Italia having a stronger, bigger, more fixed, more converged reach and a third one that probably will be hosting others. I think it's fine. It's different by market. You cannot have a completely uniform answer across the piece.

Andy Halford

A big mix there. Firstly on Spring, we've gone through with each of the businesses in a considerable level of detail as to where, if they had extra money, where they would spend it and what sort of return we would get. We did not predetermine the answer to that. The answer has varied by country. Sometimes it's been putting more into 4G; sometimes, 3G; sometimes, fibre rollout; sometimes, retail. We have then stack-ranked those and we have gone through them. Where the money is now directed is very much aligned with where we can get the greatest return.

On the M&A side, if that was also a part of your question, clearly we have been very thoughtful and we have been very selective about that over the last few years. That same integrity and approach will apply to anything that we do, going forward. Yes, we do look at the returns on that against doing buybacks and I think the evidence over the last few years has been that we've got a good mix there of returns, both to shareholders, and capital returns and investment returns within the business, organic and inorganic. I see no reason why that shouldn't continue going forwards.

Andrew Beale

At a high level, do you think that you have more opportunity in M&A terms from doubling down in Europe or in the emerging markets?

Vittorio Colao

This is Vittorio. How can I say that? With M&A, we are not talking about a fluid commodity type of market that, every day, you watch a price on the screen. It depends on circumstances. It depends on what's available. It depends on so many things. In Europe clearly there is a trend towards consolidation. How much this trend will be allowed or actually even helped by the regulators is still to be seen, but clearly the industry is talking about consolidation, mobile to mobile, fixed to mobile, cable to fixed and cable to mobile. Clearly things should move there. In emerging markets, there are places like India that clearly need to have consolidation. There are places like Africa, where clearly some operators are not having the returns that they were thinking about, and so maybe they will sell. Then will they sell at a reasonable price or not? I don't know. It's difficult to give an answer for one against the other.

James Ratzer, New Street Research

Good morning. I had two questions, please. The first one relates to uplift to ARPU from the migration to LTE. I was just trying to get a little bit more handle on what is actually happening on an underlying basis. You've shown some numbers in the UK: ARPU of £32 going to £38. Are you able to give a steer on what the migration is on a like-for-like customer? Is there a similar ARPU uplift? What are we also seeing in markets like Germany and Italy as well?

The second question was regarding your guidance. You've kept guidance for operating profit and cash flow intact. My guess would be the underlying revenue trend might be slightly weaker than you'd pencilled into your budget at the very beginning of the year andyou said you're spending more on A&R. Does that mean we can impute that you've been more aggressive at taking out operating costs in Europe? I think you'd initially guided to £300 million. Is there upside to that number for cost reduction and what does that say about ability to reduce costs going into next year as well? Thank you.

Vittorio Colao

Philipp on ARPU trends, and maybe Andy on guidance.

Philipp Humm

James, to answer the question, it's right now a bit difficult, because we're still in the early phase and we need first the ARPU to stabilise so that we have a full comparative number. Next time would probably be a better time to give you a very solid answer. Let me just give you directionally two answers then. If you look at the UK, we see that we seem to have a good ARPU uplift right now, by being able to upgrade customers into 4G with content and with additional data. That seems to work out. In other countries, what 4G helps us to do is simply to protect our richer Red plans and, by doing that, we are able to sustain these price points in the market. That's the example of Germany, where we have LTE included in our Red plans, but not included in our entry plans, which we call the Smart plans in Germany. There it helps us sustain a higher ARPU, so it's a little bit different market by market, but bear with us for probably another quarter for a good answer on the UK.

Andy Halford

James, on the guidance, you will understand trying to guide across 30 markets 12 months ahead, there are many, many moving parts that go into that. Yes, European revenues and when they're going to pick up was one of the conundrums at the start of the year. Conversely, the AMAP businesses have been performing very well. Yes, we're absolutely chasing out every bit of cost that we can in the business. We are putting a little bit more into A&R, but we're comfortable that we're within that range overall for the exit for the year.

James Ratzer

Many thanks and, Andy, many congratulations for everything you've done over the years at Vodafone.

Andy Halford

Thank you.

Stephen Howard, HSBC

I had a couple of questions relating to Project Spring and also back to this MVNO issue. On Project Spring, what signs are you detecting about the likely responses of your rivals? Do you see indications of counter investment projects, for instance, or any other signs of response from perhaps those who can't afford to spend more?

Just returning to the issue of MVNOs, what I suppose I'd really like to know is what has happened specifically to those MVNOs that you have in effect declined to host going forwards? Have they been able to obtain the terms that they originally wanted to get from you from someone else instead or not? Thanks very much.

Vittorio Colao

Let me take the second question. In order to answer the second question, I should have visibility on the contracts that the MVNOs have got from others. I can only tell you the last point when we broke the negotiations. I cannot tell you whether the others were 5% or 30% better. Clearly, they must have obtained something from others that we were not willing to give, in terms of price, in terms of access to LTE, in terms of speed or in terms of maybe of conditions, or bulk versus per SIM or whatever, but I don't know. I don't know how to answer the second question; it would be difficult.

On Spring, I would turn it to Steve. The one thing that I can say is I am pleased and, to some extent, I have strong comfort on the good response that we have got from the vendors, the existing ones, and to be honest from possible others. The equipment world is alive, kicking and competitive, and this of course is a great opportunity for us to renegotiate existing things. For me, Spring was also a great opportunity to take a little bit of dust off our price books, not that we had a lot of dust, Steve.

Steve Pusey

Thanks, Vittorio. It's a little early to see if there's any competitive response other than previously announced programmes for competitors. We haven't seen anything unusual or different that's notable to my observation. Of course, we're forging ahead and the magnitude of the programme really kicks into gear in April. We forged ahead in some countries, India and Germany particularly, but nothing unusual thus far.

Stephen Howard

Vittorio, just to return to that question on MVNOs, obviously I appreciate you don't have sight of your rivals' contracts, but you might be able to infer something from the pricing structures of the MVNOs in question.

Vittorio Colao

I don't know; it's difficult. Let me say again what I said was what was important for us was, one, there is a new technology called 4G and there is a higher speed that we are enabling for our customers, thanks to the 60% of high 3G that we now have. If you want to part of Vodafone and access those, please pay your ticket for the lunch; don't try to get the free dessert, just because the dessert is already on the table. Some of them are happy to do that and others say 'no'. That's one side of the story.

The second side of the story is conditions. This is very strategic for the sector. The conditions at which you wholesale have to be built in a way that allow your own retail pricing to be effective. If you give away contracts that allow risk-taking, betting and strange things that completely undermine your price then, quite frankly, for £50 million, £60 million or £70 million per year, even £100 million per year sometimes, it's not worth it. We are running markets that are billions in revenues. We cannot, for £50, £60 or £100 million in MVNO revenues, undermine the whole thing and this is the most strategic long-term aspect. It's hard for me to say what others agreed to, because I don't know. Clearly they didn't agree with us.

Stephen Howard

Are the MVNOs in question advertising their free dessert? I guess to use your language that would be the question.

Vittorio Colao

It's not mine, for sure. If somebody wants to say the same quality as Vodafone, but for a much better condition, they will not be able to do it now.

Ottavio Adorisio, Société Générale

Thank you very much for taking the question. Good morning. I have a couple of questions, if I may, and a clarification. The first one is a follow-up from a previous question on Project Spring. In the past, you've been very vocal about Vodafone's ability to invest and willingness to invest significantly during the downturn, when a number of your competitors in Europe had to restrain the budget to the balance sheet constraints. However, by looking at your current growth trends, I've not seen that past investment efforts have yet provided pricing power as pricing pressure accelerated, where your market shares in a number of countries are reducing. I was therefore wondering if you can share with us what gives you confidence that Project Spring might have a different outcome.

The second one is basically on the fact that, in the press release, you mention a few times the negative impact from pricing pressure in Europe. I was therefore wondering if you can comment if the launch of the Red tariffs may have triggered, or at least accelerated, that pricing pressure. What may alleviate this pressure, going forward? In terms of the clarification, ex-MTR, it looks like service revenue may have deteriorated from the second quarter into the third quarter. This quarter is around 7%. I estimate that last quarter that was between a 5.5% and 6% fall. I would be grateful if you could confirm that was the case or not. Thanks.

Vittorio Colao

First of all, a clarification on the clarification; you're talking about Europe, right?

Ottavio Adorisio

Yes, Europe.

Vittorio Colao

My colleagues can have a look at your numbers while I take the first question. Maybe, Philipp, you take the Red question. What gives me confidence that this time is the right time, first of all, is there is a big discontinuity. Data, as I said, is picking up and data is much more quality-sensitive than before, especially with video and with music. These are experiences that require continuity and require ubiquity, because they are more linked to the entertainment part of our lives.

Secondly, I'm not sure you can completely link the fact that we invested in the past with pricing pressures and things like that, because the reality is that these things play out in the long term. Keep in mind that a lot of our investment also went into emerging markets in the past years. Not you personally, but some people were doubtful that our investment in India, for example, was a good investment. Now we are all here saying EBITDA margins were higher than Europe, growth is double digits and amazing customer loyalty and performance. Not all the investment went into Europe actually. A lot of it went into emerging markets, but also these things take time. The same conference call four years ago was, 'Why on earth are you putting money into Turkey and into India?' We are a long-term sector; these investments pay out in the longer term. I am really confident that, three or four years from now, people will say, 'money well spent'. 3G high speeds; 4G – we will start talking about 5G probably in those days – fibre, money well spent. Fibre quadruple play in Portugal, in Spain, possibly in Italy will be seen with different eyes, but we need to take longer timeframes in our sector. Philipp, pricing of Red was the nuclear bomb in Europe or not?

Philipp Humm

Let me come to the question in a second. First on the MTR clarification, we go from a -7.3% to a -7.8%, so a slight worsening, but not really of significance. On the question of the nuclear bomb, as Vittorio just said, on Red, it's strategically very important, because it increases our share of in-bundle revenue and thus makes us more protected going forward, from a rate plan point of view. We saw, as Vittorio has shown on his slides, some migration pressure, in particular in the early months of Red, which is easing right now. The difficulty in answering your question really thoroughly is that, in every single market, the whole thing is overshadowed by so much bigger pricing moves we have in the market. Take Spain or Portugal, where we have very strong converged offers in the market and are being very, very aggressive in the marketplace. Take Italy, where we had a very aggressive price war on prepaid, which now has eased off. Take Germany, where we have price pressure coming from the MVNO and the price entry areas. There are many other factors that are simply overlaying, which makes it very difficult then to give you a proper analytically sound answer.

Ottavio Adorisio

If I can follow on that one, in the previous question, you went through the fact that of course you had to reprice the base. That was pretty straightforward. My question was referring to the competitive response and the fact that, since you launched Red, you have seen in a number of markets a response from your competitors in bringing their own pricing down. That's what I was really asking.

Vittorio Colao

Can I tell you the issue is not the pricing down? Let's face it: we were or are still partially – in emerging markets we are still – in a metered voice SMS world. We all know – you know, I know, we all know in this call – the technology underlying is going in a different direction, which is going to be data and undifferentiated data packets determining different forms of communication. Customers actually want this. The collapse in SMS that we are seeing is clearly indicating that the time of SMS has gone.

Now, what we wanted to do with Red was react before the same happens to voice. Actually, the increase in voice usage that we have on the Vodafone Red plans proves that, once you take away this arbitrage opportunity, people are pretty happy. It is really a change in pricing model. Some competitors have followed; other competitors followed in a different way. To be honest, some markets were already there like the UK. The UK was already at rather unlimited levels, so I do not think Red is dragging down or triggering more competition. Of course you have in some markets more dilution than in other markets, but this is a big evolution, a big transition and, as we said, we already have a vast part of our revenues in Europe coming from bundles, whether they are prepaid or postpaid. That's healthy, because it takes away a lot of interest to move to VoIP and to other communications. If they do, we are not hurt. If people with free SMSs actually use WhatsApp, so be it; we don't care.

Ottavio Adorisio

That's very clear. Thank you very much.

Mandeep Singh, Redburn

Thank you for taking the last question. I just have a couple of quick ones – one on Spain, one on Italy. On Spain, you're seeing some contract net adds. Can you say if that's really down to your improved commercial performance versus the market or do you think the market is somewhat bottoming out? That's the first question.

The second question is regarding Italy. Obviously we've seen some improvement in the low end of the pricing environment. It's going to take some to wash through the base, but I'm more interested in the consolidation outlook. Would you be willing to facilitate consolidation in Italy? Let's say hypothetically there was a merger or merger proposal and Wind and Hutchison; would you help facilitate that in terms of buying spectrum, buying towers and things like that? Thank you very much.

Vittorio Colao

The answer to the second question is rationally and at the right price levels, yes. The answer to the first question is probably more articulated.

Philipp Humm

To the first question, it's a little bit early to tell right now. We believe that we made some inroads this time within the quarter, in particular in the last month, in December, so we are quite positive that our commercial activities are paying out in a positive way. We will have to see when the numbers are published over the coming weeks whether that is really fully the case.

Vittorio Colao

I will let Andy close this conference call this time.

Concluding Remarks

Andy Halford

Chief Financial Officer, Vodafone Group plc

Thank you. I think this is my 35th close or 35th involvement in a quarterly or half yearly results, so I do appreciate all of your questions, which have kept us well on our toes. The summary for me would be yes, Europe is still tough, but there are a number of reasons to be a little bit more optimistic going forward. The demand for the product is clearly very strongly there. Data volumes are going up; minutes are going up, etc. You've seen the customer growth improving, 4G now starting to come through, not just network build but customers and revenues, and the MTR effects starting to lighten as we go forwards.

In AMAP, the momentum that we've had for the last several quarters is really continuing and we are still very much at the early stages of the whole data experience in many of those countries. Looking forwards, we have grounds for being very comfortable with our positioning there. Unified comms progress in a number of markets there. Once KDG is fully on-boarded, there will be a lot more opportunity in that space. Finally with the Verizon deal closing, the considerable re-profiling of our balance sheet, the improvement in our dividend cover going forwards and particularly the £7 billion that we can now spend to really improved our position as we go forwards, I think, are all very solid reasons to be very confident about the future. Thank you very much.