

Vodafone Group Plc

Q3 2019 Trading Update Analyst and Investor Conference Call

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Q3 Highlights

Nick Read

Chief Executive Officer, Vodafone

Good morning, everyone, and thanks for joining us for this Q3 trading update. I'll take you through the commercial and strategic highlights, and then Margherita will concentrate on the trading performance in our major markets.

So starting with the highlights on slide 3, overall we have executed at pace this quarter as the organisation focuses on delivering the strategic priorities that I laid out in our November update, with momentum across our value drivers. This has not yet translated into better financial performance, with service revenues growing by 0.1% in the quarter, slightly lower than in Q2, given a slowdown in South Africa. However, we improved the consistency of our commercial performance in the quarter, with clear improvements in Italy and Spain in particular. As we look to deepen our customer engagement, selling more products to our existing base, I view churn as an increasingly critical metric. In Europe, our mobile contract churn declined by 1.4 percentage points in the quarter, which is a good start, although there is still significant improvement to target. This supported good European contract customer growth of 201,000. Our success in fixed-line continues, with 226,000 broadband net adds and 188,000 converged net adds in Europe. In our Rest of the World segment – formerly AMAP – data users and usage continue to grow strongly, up 8%. And for the overall Group, we maintained our leading IoT position with 27% growth in connections.

My second priority was to accelerate our digital transformation and, as part of this, to move the organisation to a radically simpler operating model. We are making good progress, as demonstrated by our restructuring announcements in Spain and the UK, and we are very much on track to reduce net European opex by 400 million this year.

My third priority was to improve our asset utilisation through partnering. We've announced two exciting partnerships in the past two weeks, extending our existing network-sharing agreement with O2 in the UK to include 5G, and a strategic commercial agreement with IBM for cloud services. I will touch on each of these later in the presentation. Given our progress, we are confident we will deliver our full-year guidance objectives of around 3% underlying EBITDA growth and free cash flow of around €5.4 billion.

Moving to slide 4, I would like to highlight the improvement in our mobile contract churn this quarter. We now have single-digit churn rates in a number of our markets, which is testament to our leading network quality and customer service, our focus on driving convergence, and the use of big-data analytics to drive effective personalised offers. As you can see from the chart, the improvement is broad-based across our major markets. I have excluded Italy, given that it is predominantly a prepaid market.

Turning to our European Consumer segment on slide 5, which represents 49% of service revenues, the chart on the left shows that our European commercial momentum improved during the quarter, led by a much-improved performance in Spain. Fixed share gains remain a key driver of European revenue growth, with 226,000 net adds in the quarter. This includes 414,000 new NGN customers, while a further 188,000 customers adopted converged plans. The right-hand side of the page shows the improving quality of our fixed broadband base compared to last year. 14 million of our 19 million broadband customers are now on NGN, up by 1.7 million year on year. Crucially, we now have 10.7 million customers on our NGN infrastructure or in our strategic partner's footprint, both with highly attractive economics. Our speed advantage versus incumbents remains an important driver of our share gains, with 73% of new customers in Germany now choosing plans with at least 100 Mbps speeds. And last but not least, over one third of our broadband customers are in converged bundles, which is one of the drivers of our improved mobile contract churn.

Turning to slide 6 and the Business segment, which accounts for 30% of service revenue, here we continue to outperform most of our global peers as we take share in fixed and capitalise on our leadership position in IoT, growing by 0.5% year to date. These growth opportunities are offsetting ongoing price pressure in mobile, both from contract renewals in large corporate accounts, and in the SoHo segment, where lower

consumer prices have an impact. As you can see in the chart on the left, mobile revenues have fallen by 0.9% year to date, as a 5% ARPU decline offset customer growth. IoT revenues continue to grow strongly, up 10% year to date, with 17% growth in connectivity offsetting the impact of a slowdown in the automotive market on our hardware-related revenues. Fixed, which represents 32% of segment revenues, grew 3.8% year to date, supported by a strong performance in our cloud business.

Cloud services are a key opportunity to deepen our customer relationships with large corporates moving forward, which is why the IBM partnership announced this month is so important. Under the terms of this eight-year managed-service agreement, we will retain the end-customer relationship, and our customers will immediately have access to all of IBM's leading multi-cloud offerings. This multi-cloud concept is important because it enables corporates to access the best of AWS, Microsoft and Google's public-cloud services, as well as the benefits of IBM's leading private-cloud services. From a business-model perspective, there are significant benefits for Vodafone. We will reduce our exposure to capital-intensive legacy data centres and will instead move to a capital-light variable cost model, driving substantial long-term cash savings. This is a good example of improving our customer offering through partnering while simplifying our operating model and improving our asset utilisation.

Moving on to the Emerging Consumer segment on slide 7, which accounted for 16% of Group service revenues and grew at 6.4% during Q3, here we continue to see good momentum in contract net adds. However, in South Africa, prepaid gross adds were impacted by initiatives to reduce the one-off use of SIM cards. On the right, you can see how data continues to be the key growth driver for this segment. Data users grew by 8% to 79 million, and 4G customers grew by 48% to 38 million. This supported strong data growth of over 50% in the quarter. However, looking at the bubbles below the chart, you can see that we still have a lot of opportunity ahead. Only 69% of customers use data services, and only 33% of customers use 4G, although this is increasing rapidly, up 10 percentage points year on year. We are successfully monetising this growth in all markets, bar South Africa, where we are in the middle of a pricing transformation to lower the unitary cost of data, which Margherita will talk about shortly. Another significant growth driver is our African payments platform, M-Pesa. Active customers grew 14% to 37 million.

On slide 8, I want to describe the exciting opportunity I see ahead for the Group to improve asset utilisation through 5G active and passive network-sharing partnerships. As we approach the rollout of 5G services, the industry has a window of opportunity to unlock significant industrial savings. Therefore, we have been actively engaged in discussions across multiple markets. On the left side of the page, I describe the key principles which are shaping our approach.

First and foremost, this is about realising material opex and capex efficiencies through sharing both the passive tower grid and the active 5G network element. Second, we want to work with partners who share our focus on high-quality services, maintaining a network differentiation versus value-focused players. Third, we want to share active equipment outside major cities, which we broadly define as cities with less than 100,000 population. As we have discovered in the UK, traffic management in dense urban areas is highly complex, and this is especially the case where one partner takes a different commercial approach to the other. Typically, this approach still leaves scope to find efficiencies across at least three quarters of the total sites in each market, while leaving the scope for differentiation in cities, which is important for the business segment.

Finally, this approach naturally dictates a market-by-market perspective when evaluating different tower-ownership scenarios. It also means that any monetisation opportunities must wait until active-sharing negotiations have concluded and there is clarity on the planned shape of the newly combined network grid. The announcement on Wednesday of our intention to extend our existing network-sharing agreement with O2 in the UK meets all of these principles. We will share 5G services across 14,000 sites based on our existing combined passive infrastructure. We will also explore the scope to share fibre-transmission networks, driving further savings. At the same time, we will unwind existing 4G active sharing arrangements in around 2,500 sites in the major cities outside London. Once the active sharing agreement has been finalised, which typically takes around six months, we will be able to start exploring the potential monetisation of CTIL, the joint venture which owns our passive-tower infrastructure.

Let me finish on slide 9 by giving an update on our broader thinking on towers. Clearly, given our focus on driving industrial efficiency through active and passive sharing on a market-by-market basis, followed by the potential monetisation at a country level, we are no longer considering monetisation options at a pan-

European level for our towers. This approach also recognises the fact that, through our due-diligence work, in some of our markets there are frictional costs in setting up new, independent tower legal entities, such as capital gains tax, as well as different strategic considerations. However, on top of the market-by-market sharing arrangements, we continue to see a material opportunity to unlock efficiencies and drive improved tenancy ratios through establishing a Virtual TowerCo across our European markets, with dedicated management focus.

During the quarter, we have progressed our detailed due diligence on our towers, although there is still much to do, given the volume and complexity. What we can conclude at this stage is quite encouraging. While our average tenancy ratio across the towers we control is around 1.4 times, there is a significant difference between urban rooftop towers, which is typically harder to add new tenants, given space, emission constraints and landlord-leasing issues, and masts, where there are fewer restrictions. In general, we have done a reasonable job of leasing up our masts, which an average tenancy ratio of 1.7 times, including two times in Germany. However, in all markets, we are convinced that there are still further opportunities to improve, given dedicated management focus.

And with that, let me hand over to Margherita to review our trading performance in the key markets.

Financial Review

Margherita Della Valle

Group Chief Financial Officer, Vodafone

Thank you, Nick, and good morning, everyone. I will start by summarising our overall service-revenue performance on slide 11, before getting into the main markets in more detail. As the chart on the left shows, on an IAS 18 basis, our organic service-revenue growth, adjusted for UK handset financing, slowed quarter on quarter to 0.1%. This slowdown was primarily driven by Vodacom, which reported negative data trends in South Africa yesterday. The chart also shows our growth on an IFRS 15 basis. As you know, we will be fully transitioning to the new standard next year for our management reporting. Based on IFRS 15, our growth will be slightly higher in the quarter, at 0.4%. Ultimately, the differences between the two accounting approaches are small, as you can see from the prior quarters.

The chart on the right shows that growth in Europe remains stable quarter on quarter, at -1.1%. An improvement in Italy was offset by slightly lower growth in Germany, with the UK and Spain broadly similar. In the Rest of the World, which is effectively the same perimeter as the former AMAP region, we continue to see good growth in Turkey and Egypt, which partially offset the slowdown at Vodacom. Looking ahead, we expect Group service-revenue growth in Q4 to be softer, and this reflects a number of factors, including ongoing ARPU dilution from the commercial reset in Spain and the tougher prior-year comparison in UK business revenues. However, Q4 is expected to be the low point for European service-revenue growth, given our improving commercial momentum as well as easier comparisons ahead in Q1.

Now moving on to the individual markets on slide 12, with Spain, when we last met in November, there were a lot of questions about our performance in Italy and Spain, so let me start with an update on our progress in these two markets. In Italy, the decline in service revenue moderated to -4.6% in Q3 compared to -6.3% in Q2. This reflected a number of positive dynamics which are summarised on the slide. Overall, competitive intensity reduced significantly quarter on quarter, primarily because the main mobile-network operators reduced their promotional offers. As a result, total mobile-number-portability volumes in the market were a third lower quarter on quarter and, in December, monthly volumes were 50% lower than at their 2018 peak, almost returning to pre-new-entrant levels.

As you can see from the chart on the right, our commercial performance in mobile improved throughout the quarter, with minimal port-outs in November and December. Our second brand, ho, launched in June to specifically address the low-value segment of the market, continued to enjoy good momentum, and we have

now reached around one million customers. This is worth maintaining a €2 premium compared to Iliad's current offer. Only around 10% of new ho customers are now coming from the Vodafone brand, well below our fair market share. Our improved performance also reflects last quarter's more-for-more actions in prepaid mobile, which helped to mitigate the ongoing ARPU dilution, as higher-value customers trade down to cheaper plans. Additionally, we maintained our strong momentum in fixed, adding 78,000 customers in the quarter, despite a €2.50 price increase at the beginning of October.

Turning next to Spain on slide 13, service-revenue declines were similar to the prior quarter at -7.4%, as the impact of our commercial repositioning continues to flow through into our financials. However, we have seen a stabilisation of our commercial performance in the period, which is highlighted in the right-hand chart. During the quarter, competitive intensity reduced, as the aggressive summer football promotions ended. Typically, the duration of promotional offers has reduced to three to six months, compared to 50% discounts for 12 months in the summer.

While net ports in October remained challenging, due to a lagged effect from the summer offers, our performance improved during the quarter and we achieved broadly stable porting ratios in both mobile contract and fixed in December. Our porting performance against MásMóvil remained in line or better than our targeted level of acceptable losses. And we actually recorded the fewest port-outs to MásMóvil of all operators in Q3. Ports versus the incumbent also came back to a neutral position during the quarter, as the summer football promotions ended.

As a result, our customer trends improved, with broadband losses reducing to 6,000 from 69,000 in Q2, and TV customers growing by 13,000. However, the adoption of new commercial offers across our customer base is driving an ongoing ARPU dilution of -4.9% year on year. We will begin to lap easier prior-year comparisons from Q2 next year, when we fully annualise the impact of our commercial repositioning. Within this challenging competitive context, the Spanish team has been focused on radically simplifying our operating model and have engaged with unions on a reduction of up to 1,200 FTEs.

Turning now to Vodacom on slide 14, service-revenue growth slowed sharply in the quarter to 1.5% compared to an underlying performance of 4.6% in Q2. As you can see in the right-hand chart, this slowdown was principally driven by South Africa, which declined by 0.9% in Q3 after a long period of steady mid-single-digit growth. This was driven by the impact of our ongoing pricing-transformation strategy, which aims to lower unitary-data prices, drive data usage and reduce our exposure to out-of-bundle revenues, which are now only around 5% of service revenue. As part of this strategy, we offered generous data promotions during the summer period. However, in the current recessionary macroenvironment, customers chose to optimise their spend rather than increase their usage. Consequently, data-revenue growth in South Africa was slightly negative in Q3, having grown at 3.9% underlying in the previous quarter.

Although our summer promotions have now come to an end, improving our underlying performance, new out-of-bundle regulations will be implemented on 1 March, with a full-quarter negative impact of around three percentage points on growth, so we expect South Africa service revenue to be broadly stable for the next few quarters. Longer-term, however, we remain optimistic about the potential for significant growth in data usage, which is now only 1.1 GB per smart device. In this context, the upcoming spectrum auction is important, as it will unlock significant additional capacity, allowing us to further reduce the unitary cost of data. In addition, the international markets, which now represent over a quarter of service revenues, continue to grow at a double-digit pace, supported by data growth and the ongoing success of M-Pesa.

Moving on to Germany on slide 15, growth slowed to 1.1% in the quarter compared to 1.7% in Q2. Our retail-revenue trends remain robust, as you can see in the right-hand chart, with growth of around 2%. However, declining mobile and fixed virtual-network-operator revenues from 1&1 have become a meaningful drag on our headline growth. As their customers migrate from our wholesale DSL to DT's VDSL, and from our 3G mobile network to Telefónica's 4G network, this drag will continue.

Focusing on our retail revenue growth, the quarter-on-quarter slowdown was principally driven by the business mobile segment, which can be lumpy from quarter to quarter, depending on large deals. However, we maintained good commercial momentum, adding 165,000 mobile contract customers and 73,000 broadband customers in the quarter. Our converged customer base also increased by 95,000, and we now have 1.3 million converged customers. This has helped to drive a further notable reduction in mobile contract churn, which was down 1.8 percentage points year on year. During the quarter, we also continued

to announce our fixed-line capabilities. We have successfully switched off analogue-TV services for over 70% of our cable customers to support the efficient rollout of DOCSIS 3.1. We are now offering gigabit speed across six million homes, and we aim to reach over eight million homes by our fiscal year-end.

On to the UK on slide 16, you can see a consistent performance in the UK, which grew 0.9%, excluding the impact of handset financing, similar to the 1.1% reported in Q2. We maintained good commercial momentum across both mobile and fixed, which supported robust consumer service-revenue growth of 2.1%. As you can see in the right-hand chart, our customer performance in mobile continued to accelerate, with 109,000 contract net adds, supported by a 2.3-percentage-point year-on-year improvement in contract churn. This momentum is the result of several successful commercial initiatives.

In November, we launched a new loyalty programme, VeryMe, which is accessible via the MyVodafone app. Initial take-up has been encouraging, with 1.2 million customers currently accessing the broad range of benefits available. Mobile contract ARPU was stable year on year, as the impact of RPI-linked price increases was offset by the introduction of the new spend-capping regulation in October. Around a quarter of our customer base has elected to allow zero monthly average. Additionally, mobile ARPU remains under pressure in the business segment. However, business fixed revenue continued to grow, supporting a broadly stable overall business performance. Looking forward, in Q4 we face a tougher comparison in our fixed business, but the UK remains on a growth trajectory, given our good commercial momentum and the record NPS.

I would like to conclude the market review on slide 17 by touching on the consistently good performance of what I would call our fifth European operating company: the Europe cluster. In aggregate, the cluster markets represent 12% of our service revenues, which means that they are collectively bigger, for example, than Spain. Service-revenue growth continued to be very healthy, at 2.2% in the quarter, similar to Q2. Customer growth also remains robust across both mobile and fixed, and we have now reached single-digit mobile churn in four of our markets.

And with that, I will hand back to Nick for the summary.

Strategy

Nick Read

Thank you, Margherita. If we just turn to slide 18, overall this has been a quarter where we have executed at pace on our strategic priorities. While this is not yet evident in our near-term financial performance, I am confident that we are building the commercial foundations for recovery. We have begun to deliver more consistent commercial momentum, particularly in our key southern European markets, and churn is starting to come down. In South Africa, data-pricing transformation will weigh on our performance over a few quarters, but I am confident in the medium-term revenue-growth outlook.

We are accelerating digital transformation and are on track to deliver out targeted €400 million in net European opex savings this year, and to sustain this performance over the next following two years. The announcements we've made in Spain and the UK, where we are radically simplifying our operating model, also support this objective.

And we have now announced important partnerships to improve our asset utilisation, with more to come. This progress means we are very much on track to deliver our full-year guidance.

So with that, let me hand over to the operator for your questions. As always, please restrict yourself to one question, holding that temptation for a follow-up, so that we can now cover more questions from everyone.

Questions & Answers

Akhil Dattani, JP Morgan

Good morning. Thanks for taking the question. I just wanted to touch on the comments you've made around the service-revenue outlook from here. You said Q4 will be a bit soft and you've called out why. When we think about the message thereafter, is the message thereafter that we start getting a structural rebound and, if there is, what's driving that? What markets would you call out in Europe that support to that? Linked to that, in Germany, I think you mentioned some B2B pressures you're facing. What exactly do those relate to? Is that a specific contract? Is that more broad? And I guess it's just linked to the whole message of European revenues: do we see Germany getting better too? Thanks.

Margherita Della Valle

Thank you, Akhil. I will probably start from the second question. Just very simply, B2B in Germany: we see this – I mentioned it before on the slide – more as a lumpy movement. We have had a slowdown in Q3 versus Q2, driven by business mobile but it is more related to specific deals and, therefore, we expected this to be, if you want, an up-and-down type of trend. At the moment, I wouldn't extend it further.

To your earlier question: how do we see the future revenue trends? From a European perspective, as I mentioned, we feel that Q4 should be the bottom. Clearly, you can always think there could be changes in the competitive environment but what we see at the moment in our business is encouraging trends. We did mention the commercial performance. As you have heard, we are talking about good commercial performance, in particular supported by positive churn trends, and this should be the precursor of better revenue performance but, of course, very importantly also from an ARPU perspective, what we see is that, as we get into next year, between Q1 and Q2, we should see southern Europe ARPUs lapping. In Spain, in Q2, we will lap in full the commercial repositioning that we made last year – you may remember we announced it in May – and, in Italy, in Q1, we will lap the impact of the 28 days. So generally speaking, encouraging customer trends combined with lapping ARPU trends is what we are looking forward into next year in Europe.

Robert Grindle, Deutsche Bank

Good morning. Thank you. I'd like to ask a question about capex. You flagged today, Nick, on your strategy for greater asset utilisation and your progress there: more network-sharing, asset-light cloud with IBM etc. On the other side, you've got an issue with Huawei. I think you're on the tapes this morning saying you've suspended use of them in the core. How are you feeling about capex looking forward with these initiatives? Is the Huawei issue a risk at all? Are you comfortable with a better outlook for capex, given all your initiatives? Thank you.

Nick Read

Robert, thanks for the question. I would say that I really do believe that this – as we approach 5G, there is this window of opportunity and, therefore, we are really moving at pace with many players, predominantly around Europe, to understand where there is an opportunity to more passively share and actively share, and I think we have the right formula in our mind now as to what that looks like and we're seeing some good alignment with a number of other operators. So I think all that just underpins the fact that, as we move into a 5G world, we feel very confident in our mid-teens capital-intensity guidance.

Specifically on Huawei, what I was really trying to make clear is I think we need to move to more a fact-based conversation. I think, at the moment, it is at a simplistic, political level, and there is a big distinction between radio and core. We are predominantly using Huawei in radio. We are continuing to use them in radio for 5G. However, in the core, we have put them on pause. They are not significant in the scale of our operations in the core and, therefore, it's not a big financial implication, though, if we were having to replace them in the core, that would take a couple of years to execute. So it's more an execution complexity more than it is a financial consideration. Clearly, if there was a complete ban at the radio level, then it would be a huge issue

for us but it would be a huge issue for the whole European telco sector, and Huawei have probably, what, 35% market share through the whole of Europe.

So, look, I think that is a totally different consideration but we now need to make it a lot more fact-based conversation, and I think you're going to see more and more operators doing that. We are putting the core on pause. We are not replacing at this stage because now is the moment to engage with the security agencies, with politicians and with Huawei to improve everyone's understanding and make clear the steps that Huawei are doing in terms of the engineering processes that they are committing to for the security agencies.

Nick Delfas, Redburn

Thanks very much. A question on towers: could you just explain a bit more on the timing of monetisation in the UK? Also, you don't list the split between masts and rooftops. I just want to understand what scope you see for increasing tenancy in the UK and where you think those tenancies would come from. Thanks very much.

Nick Read

So, Nick, just in terms of specifically on timing, we've gone with a non-binding heads of terms. I think we have very strong alignment between us about the various aspects of what we want to agree. However, we do need to now convert that into a detailed contract between the two of us. Typically, going through all of those details takes up to about six months to do that. Once you're at that stage, you really have a very clear, if you like, inventory, MSA understanding of where you're setting anchor-tenancy fees, what control points you want, and, therefore, we can have a more informed conversation on the monetisation side.

Just broadly, I'd say, rather than just the UK, in terms of tenancies, rooftops, masts, I would say, from the presentation, you can definitely see the opportunity to lease up further, so this is why we still want to go with the virtual tower company in Europe.

Georgios Ierodiconou, Citi

Good morning and thank you for taking my question. It's around Germany. Yesterday, we had some news that one of your main wholesale partners would be participating in the auction and is looking to morph into an MNO. I was wondering if you could share with us what are your existing contractual obligations, what are your thoughts around these kinds of moves, whether it encourages you more to be generous with your MVNO terms or not to be there at all, and if you can share on that, it would be great. Thank you.

Nick Read

The current contract is commercially sensitive and confidential but I would say, broadly speaking, it is a 3G-only contract. We are able to serve notice at any time on that contract. And then there is an orderly transition period because we wouldn't want to disrupt their business or ours. So I would say it's a contract that has the right terms and conditions in it. More broadly, I think, for Drillisch to go and change to an MNO, I think, is more a question for them. I think important considerations they will be going through is the coverage obligations that they will have to meet; the fact that there is no firm obligation from existing MNOs to offer national roaming.

Clearly, I can imagine that MNOs may engage at right commercial terms but whether that ends up meeting the financial requirements is a different thing. And this is a big move for them to go from what has looked to be a very successful asset-light strategy into a slightly less predictable, asset-heavy strategy and, therefore, what type of returns they can get as a fourth infrastructure going in. So look, I think these are early days. Let's see how the spectrum auction turns out. Clearly, at this point, we can't engage ahead of the spectrum auction.

James Ratzer, New Street Research

Good morning. Thank you very much. A question on Spain, please; in particular, the commentary you're making around Q4 getting a little bit softer. I want to understand a bit more behind that. The reason I'm asking is, if I look at your Spanish trends, I'm trying to disaggregate between what's happening with losses on football customers at the high end and then what might be happening across the broader base, because it looks to me, if I strip out the impact of the football losses, your trends this quarter have improved maybe by up to 100 basis points, so I'm trying to just get a better understanding on what specifically it is that then is causing more of a slowdown in Q4 that didn't happen in Q3. Thank you.

Margherita Della Valle

Well, James, in Q4, we will, effectively, continue to see the impact of the pricing realignment that we did back in May last year and we will continue to see the impact of the football-customer losses. The impact on football should be seen in two ways, by the way: we have the customer losses on one hand, but we've also had also the specific, if you want, revenues coming from football on certain customers that have been impacted.

Looking ahead to Q4, at the moment we do not see materialising in the market the widespread more-for-more trends that we had last year at this time and, therefore, we would expect to see, if you want, an inflection in trends with the visibility we have now more into Q2, where we will lap in full the prices of last year.

James Ratzer

Are you able to give us any steer on the magnitude of the slowdown you might see, therefore, in Q4?

Margherita Della Valle

We're not giving specific market-by-market guidance on a quarterly basis, I'm afraid.

Maurice Patri ck, Barclays Capital

Thanks very much. Just on the UK market, if I'm not wrong, you added about 46,000 fixed-broadband customers – another strong quarter. I saw CityFibre recently talking about accelerating their build and talking about a very strong 2019 build. Can you share with us early thoughts in terms of the uptake in the CityFibre areas? The loyalty penalty appears to be a major issue in UK pricing right now. Your thoughts about UK growth going forward and CityFibre would be helpful. Thank you.

Nick Read

Yes. Look, we're pleased with the progress on CityFibre. Look, they're building in 10[Cities]; we are live in three. Quarter four, we'll be live again with another two. But in terms of actual commercial performance, it's just too early to comment, but I'd say we're pleased with the collaboration. So I can confirm, I think, that they are doing a decent job and now we need to commercially ramp up behind them.

Wilton Fry, RBC

Hi. German manufacturing PMIs have been steadily falling from 62 in early 2018 to pretty much breakeven most recently. How can we be confident that the miss this quarter in Germany is just lumpiness, as you said it was? If it isn't, is there any scope to adjust the purchase price of the German assets you'll be getting from Liberty? Thank you.

Margherita Della Valle

I can take the question, thank you. I think, if you look at our trends in Germany, clearly, we have continued pressure in Enterprise in Germany, as we had in previous quarters, in terms of two areas particularly: the SoHo market, where there is a degree of competitive pressure; and the large corporate customers, where there is continued competition on re-signing. But in terms of the change in these trends which have been present in the market for a period of time, this is not the driver of what we have seen in the quarter, as I was explaining earlier.

Now, this being said, I think, looking forward and talking about a manufacturing slowdown, I think it's important that we remember that our business is increasingly resilient. We have a large proportion of our revenues, more broadly, if I look at Consumer and Enterprise, which are now coming from fixed-line and even more so after the Liberty deal, and an increasing proportion of the customer base is also converged, so the mobile is linked to fixed. So I think it's important to keep this trend in mind when you look at the economic evolution.

Nick Read

And just to build on the Unity acquisition: look, the Unity asset continues to perform very strongly in the marketplace and this is about a penetration execution. Customers want high-speed broadband and you can see that we are winning – and they are winning – share in the marketplace off the back of a superior product in the market, and our product is a very resilient product because, effectively, it's the superior one in the marketplace. So we remain very confident on the assets, on the process and on the synergies and business case that we're holding.

Polo Tang, UBS

Hi. I've just got a question about the joint venture in the Netherlands. Does it make sense to divest of the asset in order to reduce Group leverage or is the asset strategic? Are there any other levers that you have to reduce leverage? Thanks.

Nick Read

Polo, I'm very pleased with the progress in the Dutch JV. I think that, as they move into a growth profile now going forward, clearly, I can't talk about their results – they're due out shortly – but pleased with the momentum they've got. We have another important year ahead in terms of synergy-realisation, so we're not at the full run rate. They're tracking well and I'm sure that they will update on the results. So look, I think this is a very strong asset in a strong marketplace – clearly, the marketplace is now going down three players – and we're very pleased and we think that it plays a good role in the portfolio we have, and so we're happy with status quo.

Jakob Bluestone, Credit Suisse

Hi. Good morning. I had a question on Spain and Italy together. I guess, in both markets, you're in the process of migrating customers across to new commercial offers. Can you maybe just give us a feel for how long you are with your back-book repricing? So what percent of subs have you migrated across to new offers, just to get a sense of how long we should be modelling our ARPU drag? Thank you.

Margherita Della Valle

Thank you, Jakob. I would say very different dynamics across the two markets, first of all. If I think about Italy, clearly Italy is a prepaid market with, I would say, ongoing price movements which are both positive and negative, so as much as we are seeing within our base still the drag of, if you want, the migration to the more competitive environment that we are seeing at the beginning of the fiscal year after the entrance of Iliad, we are also seeing the opposite. And when you look at our service-revenue profile in the quarter, which is better than the one of the previous quarter, it is very much driven by the fact that there have been more-for-

more initiatives in mobile in Italy over the summer. We have had a €2 more-for-more ARPU increase in mobile. And then, on the fixed side also, there was a €2.50 price increase. So I would say, in Italy, we work on a net which is highly flexible on that basis.

Spain is different and, in Spain, we have, effectively, the dynamic that you were describing, which is gradual adoption of the new offers in May. It is also a very faster movement, I would argue, than compared to other traditional contract markets, simply because, in Spain, you do not have long-term contracts and, therefore, the customers are freer to move than they would be, for example, in the UK. We do expect, as I was mentioning before, to really see the difference in that evolution once we lap the repricing in May.

Jerry Dellis, Jefferies

Thank you for taking my question. It's a follow-up on Italy, really, and I really wanted to try to understand exactly what it is that might cause the revenue trend to inflect from next summer onwards. Based on your disclosure, it looks like the retail ARPU of your mobile customers, including VAT, would be between about €15 and €16 at the moment. Iliad has a price point of €8. So even as you lap the 28-day-billing point, what really is there to stop back-book customers continuing to drift down to lower price points for really quite some time to come? I'd be grateful if you could explain that, please. Thank you.

Margherita Della Valle

So first of all, let me say that, thinking about timing and movements, really, we are in a prepaid market, once again, so I need to make that caveat upfront. In terms of confidence in the trends, we are seeing the impact of our own pricing initiative and, when we look at the migrations that we see towards our competitors, first of all we have seen that, in the last couple of months, if you take November and December, we're talking about a position which is, effectively, net-neutral from Vodafone towards the rest of the market. And then, when you think about the customers that are moving in Italy, you need to think that there is a tranche of the base which is particularly – how can I say – sensitive to the competitive dynamics. There is a certain degree of recycling of customers across operator in the same price brackets. For us, if we look at the ones which have been more sensitive to the movement, we look at the €7-13 part of the customer base. So this is the dynamic part. Then you have, at the other extreme, less movement.

Nick Read

Just to build on Margherita's points, I'd just make a couple of things. I think the point she's making about segmentation is really important: don't be generic on the base. You have SoHo; you have high-value consumers. They very much care about the quality of the network and there is a huge difference in network quality between us and Iliad. And frankly, Iliad's quality of network experience has been deteriorating as, basically, they've loaded up with very high allowances. So I'd say just think about more the value-seekers that tend to move around the market. It is very interesting that Iliad is really just experiencing now churn themselves of value-seekers saying, 'I can't tolerate this quality of network and I could go to second brands', like ours. So I think this is why our net ports are also improving.

I think our positioning in the second brand has been really effective in the marketplace. And one of the important things is we've been managing, if you like, cannibalisation from our main brand over time and now, in the most recent months, it's down to about 10%. So 10% of, effectively, our second-brand customers are coming from Vodafone, so I think we've managed that.

And then, finally, I'd say Iliad's sustainability at that current price point has to be questioned, given the fact that they're not doing any network builds. So they're on a wholesale variable model at the moment and, given the usage profile of their customer base, I think that this must be painful for them.

Andrew Lee, Goldman Sachs

Good morning, everyone, and thanks for taking my question. I wanted a question on your visibility on the top lines. You've given us great visibility on your cost outlook and on your capex outlook. And on the top

line, I guess what the market's saying today is it's not confident in your assertion or views that Q4 is the trough. So you've mentioned customer trends and lapping ARPU as giving you that confidence but you also mentioned that competitive cycles can change, so I just wanted to ask you or test your confidence level in calling a structural trough in 4Q. You've mentioned that churn reduction aids that. What other factors have improved to give you satisfactory confidence in the top-line outlook? Maybe if you want to refer specifically to Spain and South Africa, which are the biggest uncertainties for investors, how can we share your confidence structurally that things are improving rather than just lapping into FY20? Thank you.

Nick Read

Can I do the simple version and then Margherita will correct me and do the proper version? Look, I think we have called out, really, the pluses and the minuses, because you look at it that we've got good commercial momentum. We said that we would compete more consistently in the high, the mid, the low, and I think you're starting to see evidence of that. You've got the technical lapping effect of Spain and Italy, so you can see that we're on an improving trend in those markets, ultimately, commercially. And once we start lapping the pricing and the commercial actions that we took last year, you'll start to see – whether you want to call that easier comps.

We have several markets that have been performing robustly, whether that's Germany, whether it's UK, whether it's Other Europe, so I'd say that's on the plus side. And then I'd say we've got Germany wholesale, which will continue to decline moving forward. We've got macro in emerging markets, which can be more variable, given the uncertainty and the climate. So these would be the big ones I'd be calling out. I don't know, Margherita, if you've got more – okay.

Margherita Della Valle

Good summary.

Nick Read

Okay.

Stéphane Beyazian, Mainfirst

Thank you. It's a bit speculative but, in the event of a merger of networks in Italy between Telecom Italia and Open Fiber, I was just wondering if you can make any comment on possible implications for you. I guess what I'm trying to ask here is what sort of guarantees you have in your contract regarding the access to the network at the attractive pricing that you've been able to sign with the company and for how long. Thank you.

Nick Read

What I'd say is – I can't really go into the specifics of a confidential agreement but what I'd say is we've got the right protections, provisions in the contract that make us comfortable. I would say that, really, if you look at the subject generally – i.e. are you in favour of the combination going together – what I would say is, fundamentally, you would be because you'd say one network, open access to all players on a level playing field is a positive development. However, I'd have a lot of question marks about how it would be executed. I think we'd have to be very careful on the governance. Would it be true separation?

And then the second one for me is: would there be any artificial loading of costs into the wholesale business? In other words, you're transferring economically, benefiting TI, and loading the wholesale at a disadvantage, with higher wholesale costs for the rest of the marketplace. So I think there's a lot of work that needs to be done on what looks like a simple – and I think it would be a very, very long process as well, which is clearly distracting. So we stay focused on driving with Open Fiber. Let's see how it develops.

Okay. I think we're on to our last question.

Adam Fox-Rumley, HSBC

Thanks very much. I had a question on South Africa. I wondered if you could talk about ways that you might be able to mitigate the out-of-bundle data-revenue loss, which, I guess, we assume will come in Q4 as the new regulation comes into force. And then Vodacom management yesterday made it clear that their assumptions were premised on an economic recovery in South Africa, so I wondered if you could talk about potential downside risk, if South Africa doesn't see a recovery in the next 12 months. Thanks.

Nick Read

Look, let me just take the high – look, our view is South Africa has challenging macroeconomics at the moment. However, I would say that, from the president's perspective, I think they are pulling the right levers to improve the situation. Whether we call an economic recovery is another thing, but I think we're seeing the right conversations taking place. A good example would be the WOAN as an example. I think that really is getting re-discussed as to whether it's the right thing, the right formula going forward.

In terms of South Africa itself, look, we have been really good at doing transformations on pricing. We did this in voice for five years. We did it in a way that we improved the unitary costs whilst holding well the ARPU. We are going through that for data. Out-of-bundle data, yes, is an element that we have to manage through. We have to give more value. The most important thing we could get as a management team in dealing with the issue is more spectrum because, if we've got more spectrum, it allows us to have a more efficient cost base and, therefore, we can move the propositions quicker for the customer, which helps on that transition. So we're actively working on that spectrum. We hope for good news this year that we go ahead with an auction and we get enough at an appropriate price.

Margherita Della Valle

Just a couple of builds on South Africa – just one short-term: the summer promo has now terminated and that was a significant impact on our growth. And then, longer-term, I think, supporting the trends, commercial momentum there as well. And then, very specific to South Africa, the roaming deal with Telkom which is building at the moment and will come into fully fledged impacts at the beginning of next year.

Closing Comments**Nick Read**

Thank you very much. Just to close, I'd say, look, I think it's clear from the Q3 results we are executing at pace on the strategic priorities we outlined. It's not yet evident on the near-term financials but we are confident we're building those commercial foundations for recovery going forward and I'm sure that there will be news flow over the coming quarter. So I look forward to seeing you all soon.