

Vodafone
Analyst and Investor Conference Call
24 July 2015

Information in the following communication relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments. This presentation does not constitute an offering of securities or otherwise constitute an invitation or inducement to any person to underwrite, subscribe for or otherwise acquire or dispose of securities in any company within the Group.

The communication contains forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 which are subject to risks and uncertainties because they relate to future events. These forward-looking statements include, without limitation, statements in relation to the Group's financial outlook and future performance. Some of the factors which may cause actual results to differ from these forward-looking statements can be found by referring to the information contained under the headings "Risk management" and "Additional Information – Forward-looking statements" in the Group's Annual Report for the year ended 31 March 2015 which can be found on the Group's website (vodafone.com/investor).

The communication also contains non-GAAP financial information which the Group's management believes is valuable in understanding the performance of the Group or the Group's businesses. However, non-GAAP information is not uniformly defined by all companies and therefore it may not be comparable with similarly titled measures disclosed by other companies, including those in the Group's industry. Although these measures are important in the assessment and management of the business, they should not be viewed in isolation or as replacements for, but rather as complementary to, the comparable GAAP measures.

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.

Vodafone, the Vodafone Speech Mark, the Vodafone Portrait, Vodacom, Vodafone Connect, Vodafone One and M-Pesa are trade marks of the Vodafone Group. The Vodafone Rhombus is a registered design of the Vodafone Group. Other product and company names mentioned herein may be the trade marks of their respective owners. All rights reserved.

Q1 Highlights

Vittorio Colao

Group Chief Executive, Vodafone

Good morning everybody. Welcome to our trading statement for the first quarter of 15/16. I will take you through the highlights and update you on our strategic and commercial developments, and then Nick will update you on our financial performance and take you through the trends in our six key markets, and then we will open up for Q&A.

So, I will start with slide 4: the highlights for the quarter. Group organic service revenue was up 0.8%, which is the second consecutive quarter of growth after the 0.1% of Q4. Excluding mobile-termination rates, it was up 1.4% in Q1. I am pleased to say that we are now growing in most of our markets. We continued to see strong growth in our emerging markets, driven by continued customer growth and by data adoption. Growth in AMAP was 6.1% compared to 5.8% in the prior quarter. We added 4.3 million customers in the quarter to take the total to 328 million, which is three quarters of the total Group, and total data volumes increased 97%.

In Europe the trend in organic-service-revenue growth continues to improve. Revenue fell 1.5% in Q1 compared to -2.6% in Q4 and -3.5% in Q3. This improvement reflects, essentially, three things: ongoing stabilisation in many of our European markets; the benefits of Project Spring; and higher data usage.

Project Spring continues its momentum. The mobile-build programme is now 71% complete and we remain on track to conclude by March of next year. Our European 4G coverage increased to 75%. This is up 23 percentage points over the year, and 43 percentage points since we started the programme in September 2013. We expect to reach 91% by March next year.

Project Spring is beginning to support our commercial execution, as the rise in data and 4G take-up has helped to reduce churn and to stabilise ARPU.

Data traffic growth remains strong, with growth of 78% year on year across the Group. This is driven by a 15% rise in users and a 54% increase in usage per customer. Across the Group, we now have 24 million 4G customers and, therefore, we are clearly, today, the market leader in this space.

Moving to Enterprise, the business has grown for the second consecutive quarter, with service revenue increasing now 1.8% – this is compared to 1.4% in the previous quarter – supported by improving customer growth, higher data usage, despite some ARPU pressure.

And unified communication: we continue our good progress. We added 264,000 fixed-broadband customers during the quarter, taking the total to 12.3 million. We also expanded our offers with our first fully converged service – Vodafone One – in Spain, and the beta launch of our fixed-broadband in the UK. Our organic fibre-build programmes are also progressing well, bringing the total number of households reached to 26 million, or 62 million if we include wholesale agreements.

And finally, let me add that, a few weeks back, we announced that we are in early discussions with Liberty Global regarding the possible exchange of selected assets. Today, I have no further

update for you on this and, for that reason, I'm sure you will understand that we will not be taking any questions on the subject.

So, let's go a little bit into the details now. Overview of the growth in business – it's chart on page 5. It shows revenue-service growth, with AMAP countries in blue and the Europe markets in red. As you can see, AMAP remains strong: service revenue up 6.1%, as I said. Our leading network quality, distribution and customer service continue to attract customers, with the base up 6% in the year, driving both voice and data usage.

This slide also shows that revenue continues to decline 1.5% in Europe. However, we are seeing a more stable pricing environment in many markets and, as I mentioned earlier, better commercial performance and higher data adoption, which have helped to improve churn rates and stabilise ARPU in some markets. We had a very strong quarter of 467,000 contract net additions in Q1. The same number a year ago was 77,000. I will say more on our commercial performance a little bit later.

I'd like now to turn to progress against our key strategic initiatives, four: Spring, data, unified communications and Enterprise. Turn to slide 6, please. Top left, you can see that we have made good progress on our Project Spring programme, and we are at 71% through the mobile-build programme. 13,500 new base-station sites were added in the period, including 8,500 in Europe, 2,100 in India and 1,000 in South Africa. We are well on our way to having a modernised and cost-efficient network. 85% of sites in Europe now have high-capacity backhaul able to carry more than 1 Gbps of data, and 28% of sites have fibre to meet the higher needs in urban areas. Based on various internal and external measures, we either lead or are co-lead in 17 out of 20 of our markets for data-network quality.

Now, top right of the chart, as you can see here, the build programme has had a positive impact on our customer experience. Our outdoor population coverage in Europe is now 75% for 4G, up from 52% a year ago, and 82% for 3G or 4G in AMAP. We remain on track to meet our coverage targets for the end of the financial year. 89% of our data sessions are now in excess of 3 Mbps. This is the speed that typically is required for watching HD video.

A reliable network is crucial for customers. We also have reduced our dropped-call rate in Europe to 0.6%, and less than 1% in AMAP. When we commenced the programme in September '13, the rates were 0.9% and 1.3% respectively.

Fixed-network deployment is shown on the bottom left of the chart. Here, we have extended our own high-speed network generation coverage by 1 million to 26 million households in Europe. This reflects builds in Italy, in Spain and in Portugal. With the launch of the broadband in the UK, we added 19 million premises to our wholesale reach, so our total NGN coverage is now 62 million, which represents around 40% of the households existing in Europe. Going forward, our existing self-build plans will increase the number of homes reached by a further 7 million over the next couple of years.

Let me now turn to the commercial part of Spring. This chart – slide 7 – shows, overall, that we are maintaining our good progress. Starting from the top left, we have increased our 4G customer base. The red bars show that we are at 22 million with a 4G smartphone and plan. This would be 24 million including other devices. The chart also shows that the proportion of customers who have a device and a plan is up to 76%, compared to 53% last year. Despite the growth in 4G, it is still only used by 15% of our customers in Europe, and it only accounts for 35% of data volume. A year ago, these figures were 4% and 19% respectively, which shows both the progress we have made and the potential to grow 4G.

Moving to the top right, you can see here that the average data usage per customer on a smartphone is rising rapidly, with 54% growth over the year to over 800 MB. On the very high-end devices, the usage is 2.3 Gigabyte. This trend is helped by the uptake of 4G, as its usage is twice that of 3G. We continue to push content combined with 4G to stimulate data usage. During the quarter, we improved our content offers. We launched Napster in the Netherlands, Netflix in New Zealand, and Spotify in both Portugal and Ireland. So, with more take-up of 4G and smartphones, and usage, the growth opportunity remains, in our view, significant. Growth in users and usage has driven overall data usage up 78%, comprising 64% in Europe and 97% in AMAP.

And finally, as can be seen in the bottom-left chart, our better mobile network and commercial focus on 4G has led to a reduction in churn in all major markets. This is important. The average reduction across Europe has been four percentage points over the two years, and two points in the last quarter alone.

Bottom right, you see the other side of the story: consumer contract ARPU is stabilising quarter on quarter in a number of our main markets. This, combined with customer growth, is leading to better revenue trends. Clearly, ARPU is still down year on year overall, and particularly in Spain, and Nick will cover the trends a little bit later.

Slide 8, Enterprise: Enterprise business has grown for the second consecutive quarter, with service revenue increasing 1.8%. The rate of growth is now positive in most of our Enterprise markets. This results from continued growth in the fixed segment of Enterprise, which now accounts for 28% of service revenue across the Group, and of course better trends in mobile.

Our Enterprise business is, on the whole, seeing good customer growth, but this is being offset by continued ARPU pressure, as we come up against stiff competition to retain and to attract customers.

In terms of the strategic growth areas of Enterprise, IP-VPN networks expanded to 64 countries now and to 251 points of presence.

The Machine-to-Machine segment, we increased the number of connections to 22.9 million, and we won a number of significant new contracts. Revenue here grew 22% compared to 28% in the previous quarter.

Our Vodafone Global Enterprise business grew 3% on an underlying basis, which takes into account the phasing of revenues. This area continues to benefit from more companies wanting a single provider of services across multiple borders.

And finally, Cloud and Hosting revenue increased 10.5% against 16.8% in Q4.

And on the fourth area of our strategy – unified communication, on page 9 – this is an area where, again, we have made significant progress during the quarter. Fixed is now 25% of our revenues in Europe – and there are a quarter in Enterprise revenue.

The top-left chart shows that fixed revenue has now grown for the second consecutive quarter in Europe. This reflects continued momentum on fixed-broadband net additions in Q1, with around 264,000 across the Group, of which 216,000 were in Europe.

Vodafone has today 12.3 million fixed-broadband users globally, and 11.5 million in Europe, including 5.3 million NGN customers, mainly KDG and Ono. And our TV customer base is now 9.2 million. Integration of KDG and Ono continues to proceed in line with our overall business plan, and we remain on track to deliver the expected synergies as targeted.

As I said earlier, our NGN coverage is now 62 million homes, so our penetration of customers, at 9%, is still low. We are pushing hard to provide new converged propositions to drive this higher with a launch of new offers in the UK and Spain, with more markets to follow by the end of the year.

And now I turn to Nick for the details.

Financial Review

Nick Read

Group Chief Financial Officer

Thank you, Vittorio. Good morning, everybody. Before getting into the detail, I'd like to make a couple of housekeeping points:

- Firstly, as a reminder, the results for each country have been restated to remove the volatility of international carrier services. You can find the details for this in the web spreadsheet that accompanies the results.
- Secondly, we've included KDG and Ono in Q1 of this year but not restated previous periods. The contribution of these businesses adds 0.2 percentage points to growth in Q1 for the Group.
- Finally, from this quarter and for future Q1 and Q3 announcements, we will no longer disclose free cash flow, capex or net debt, as a result of changes to disclosure requirements in the UK.

Let me now turn to the individual key countries in order of their revenue contribution.

So, turning to Germany, on page 11, the top chart shows service-revenue trends, with the old Vodafone-only basis in red and the new basis, including KDG, in black. KDG added around 1.5 percentage points to the quarter's growth rate. Therefore, the underlying performance improvement in growth between Q1 and Q4 was around 0.7 percentage points.

As you will be aware, our performance in Germany over the last couple of years has been impacted by three factors: network issues, the re-pricing of the back book, and the need to rebalance our channel mix. The mobile-network issues are behind us. We added 300 4G sites to increase 4G coverage to 78%. Over 1,300 sites were modernised with single RAN in the period, taking the level of modernisation of the network to 85%. And dropped-call rates improved by 30% year on year to 0.54%. The back-book re-pricing has been ongoing for around 20 months and still has another three to four months to go. As Vittorio has already shown, consumer contract ARPU was broadly stable quarter on quarter. The channel mix for new customers is also improving, with an increased share of customer additions coming from direct channels, delivering higher intake ARPU. We have also gone back into indirect channels in a more balanced way.

Turning to performance in the period, mobile-service revenue fell 2.1%, due to the ongoing re-pricing, driving consumer contract ARPU down 6.6% year on year. The Enterprise segment is still competitive but our customers net additions performance remains robust.

We continue to see growth in the contract customer base, up 104,000. Contract churn fell to its lowest in three years, to 13.8%. Fixed revenue grew 0.2%, with net broadband additions of around 70,000, comprising modest declines in the DSL business and 100,000 additions in KDG, including migrations.

As a reminder, we strengthened our competitive position with the purchase of spectrum in the recent auction, which was paid in the quarter. We were particularly pleased to gain more 1,800 MHz spectrum for 4G services, where we were previously spectrum-constrained, taking our holding to 25 MHz of paired spectrum, up from 5.4 MHz.

Finally, we look forward to Hannes joining the German team as CEO from 1 October.

In terms of the outlook, we remain in line with previous statements, with Q2's performance similar to Q1, followed by improvement in the second half.

Turning to the UK on slide 12, the UK achieved 0.2 percentage-point growth in the period, up from a decline of 0.6% in Q4. The mobile segment continues to drive strong growth, with revenue up 0.7%, led by a 3.4% increase in consumer contract, driven by continued good traction of 4G bundled-with-content packages, which is helping stabilise ARPU.

Enterprise revenue fell slightly, as growth in mobile was offset by declines in fixed, as prices remain under pressure. However, the trend in fixed Enterprise is improving, with Q1 down 1.3% versus Q4 down 5.7%, due to a higher win rate following more investment in our sales teams.

Contract net additions improved to 83,000, reflecting a reduction in churn to 15.8%, with consumer contract at 15.1% – a three-year low. We are making good progress on our strategy to increase our direct channel mix, with nearly 60% of gross adds coming from direct channels, compared to 40% a year ago. We now have 4.7 million 4G customers at the end of Q1, compared to 3 million in Q4.

We continued to enhance the network. 800 more 4G sites were added, delivering 76% population coverage on Ofcom's basis. In London, we have almost full 4G coverage, at 99%. Our national dropped-call rate fell 21% year on year to 0.75%. So, good progress but still more to do.

During the quarter, we launched our consumer broadband offer. We have opted for a targeted soft launch in selected areas. We currently cover 19 million premises, which is around 83% of the incumbent's footprint. We expect to reach nationwide coverage by the end of the summer and to move to a full quad-play offer with the launch of TV later in the financial year.

Moving on to page 13 and India, as you can see from the top-left chart and the bars in red, service revenue increased 6.9%, driven by continued customer growth and acceleration of 3G data usage. This includes a 4.6 percentage-point impact from a combination of factors: a 3.7% percentage-point impact from MTR cuts and a 1 percentage-point impact from roaming price caps and higher sales tax. Excluding these factors, underlying growth slowed due to continued pressure on voice pricing.

Turning to performance in the period, mobile customers increased by 1.6 million during the quarter, giving a closing customer base of 185 million. The pace was slightly slower than in previous periods, given changes to commissions and promotions, to improve the quality of connections, given recent trends in churn.

While the customer base and total minutes are expanding, average outgoing minutes and prices are seeing additional pressure from the twin factors of increased competition and increased penetration in rural areas.

Total data users increased by 23% to 67 million, driving usage up 79% and browsing revenue up 65%. The quality of data users continues to improve, as shown in the bottom-left chart, with the proportion using 3G increasing from 18% to 33% over the year. Data now accounts for 17% of service revenue, compared to 11% a year ago.

Turning to India's Spring programme, we've developed over 1,000 new 3G sites in the quarter, taking 3G coverage in our targeted urban area to 91%. Following the spectrum auction earlier in the year, we are beginning to expand our 3G network in a further seven circles, and will be launching 4G in five circles.

Finally, we continue to expand our M-Pesa service to India, where we now have 94,000 sales agents nationwide and around half a million active customers.

Turning to page 14, Vodacom's organic service revenue grew 4.5% in Q1. The South African operations returned to growth, with service revenue up 2.8%, following the lapping of the MTR cut last year, which was a negative four-percentage-point impact. In addition, price competition in the market has eased, although we continue to proactively reduce unitary prices to stimulate higher usage. We saw an acceleration in data-revenue growth to 35%, driven by the increased take-up of data bundles and higher data usage. We sold 70 million bundles during the period, up from 33 million a year ago. This has also been supported by the rise in the penetration of smartphones and tablets to 43%.

In terms of Project Spring, our 4G coverage has increased to 41% and 82% of sites have high-capacity backhaul.

As you will be aware, we have received conditional regulatory approval in relation to our purchase of Neotel. The final hurdle is a ruling from the Competition Tribunal, which is expected later this year.

Vodacom's international operations outside South Africa account for around 25% of service revenue. All of the businesses here are growing, delivering overall service-revenue growth of 10.7%, compared to 5.3% in Q4. This was mainly driven by customer growth and higher data adoption through the penetration of low-cost smartphones. Data is now 22% of service revenue, and a third of our customers are active data users.

Finally, M-Pesa continues to perform well across all of Vodacom's international operations, with over 5.6 million customers actively using the service.

In Italy, on page 15, the service-revenue trend continues to make good progress. Service revenue declined 2% in Q1, compared to a fall of 4.1% in Q4. The improving trend has been supported by price stability in the consumer-prepaid market. However, the market still remains competitive, due to continued below-the-line discounting, which accounts for around 25% of the market.

Mobile service revenue declined 3.2% – nearly half the rate of Q4. The customer base has now stabilised, supported by a significant reduction in churn, with consumer-prepaid ARPU now growing 8% year on year.

The momentum in the Enterprise segment remains positive, with mobile customers up 3%, and churn down one percentage point year on year. Data usage continues to grow, and the number of data add-ons sold in the quarter doubled year on year. 39% of data users now use more than 1 GB of data per month, compared to 27% a year ago.

In contrast to mobile, fixed-line revenue grew 4.4%, as the broadband customer base increased by 43,000 to 1.9 million. We continue to rapidly expand both our mobile and fixed network as a

result of Spring. 4G coverage, at 88%, exceeds our nearest competitor by some margin. During the quarter, we installed over 3,500 cabinets as part of our fibre deployment, taking the total to 8,600. Our household coverage in Italy now stands at 1 million, and we anticipate taking this to 6 million over the next couple of years.

Last but not least, Spain on page 16: here, the basis of reporting has changed, as Spain now includes Ono. This added around 1.5 percentage points to the quarter's growth rate. However, there was an offset in drag of around 1 percentage point quarter over quarter from a higher negative impact from handset leasing, which was an impact of 2 percentage points in the period. Therefore, the underlying growth rate for the quarter is negative 3.3%.

Reported organic service revenue declined 5.5%, due to price competition over the past year in the convergence market, leading to contract ARPU declines of around 11% year on year. However, there are positive indications that the market is beginning to stabilise, with operators enhancing their offers at slightly higher price points. Although not on this slide, the mobile-service-revenue trend in Q1 was similar, with a fall of 9.5% in Q1, compared to 9.3% in Q4, as price declines experienced to date were offset by improved commercial performance.

We delivered a 1.5 percentage-point reduction in contract churn to 18.1%, and increased the pace of contract net adds to 54,000. We have seen continued take-up of 4G, with 3 million customers at the end of June.

Turning to our fixed business, this continues to show strong momentum. Revenue increased 4.2%, supported by 41,000 net broadband additions, including 80,000 new cable and fibre customers in the quarter. We now have 1.8 million fibre users and 0.8 million TV users in Spain.

In terms of Project Spring, our 4G coverage is now at 78%, and 7.9 million households have access to our fibre.

During the quarter, we launched Vodafone One – a fully integrated offer with Ono – and now have 290,000 customers on these plans.

So, on slide 17, to summarise:

- We see a continued steady recovery in Europe, with ARPU stabilising quarter on quarter, and significant improvements in churn.
- Strong continued customer growth and data take-up in emerging markets.
- Good execution on the network build, which, combined with the drive on 4G and data, is delivering better commercial performance.
- Continued acceleration in our Enterprise business, led by customer growth, and our key strategic areas of expansion, namely Global Enterprise, Machine-to-Machine, and Cloud and Hosting.,
- Rapid progress on our unified communications footprint, progressing NGN builds in Italy, Spain and Portugal, with good customer-acquisition momentum.

Looking forward, we expect Q2 to be similar to Q1 in terms of growth, before a further improvement in H2.

So, on that, Vittorio and I will now be happy to take your questions.

Questions and Answers

Tim Boddy, Goldman Sachs

I wanted to ask a little bit about the encouraging trend in consumer contract ARPU, which, as you point out, in Europe is stabilising. I guess, given the strength of data growth that you're pointing to and the fact that only 15% of customers in Europe have 4G, you'd imagine there might be scope for ARPU to grow rather than merely stabilise, so I wondered if you could talk about the downdrafts that are dragging ARPU and if there's some sort of natural reason why we're going to come to an end of some of those factors that are dragging on ARPU.

I also wanted just to ask, on a broader basis, about consolidation in Europe. We've seen the first time in Spain where there's been concessions required for a fixed/mobile combination, and what you think of that those concessions, and is that a new precedent looking forward. Is something unique happening in Spain on that front?

Vittorio Colao

Tim, why don't I take the consolidation question and I leave the ARPU answer to Nick? I think you're right. I think I have been a little bit more aware or cautious on consolidation. Consolidation is still very positive because, if nothing else, it brings better return on capital, because there's more capital rationalisation, and that's what we are seeing, quite frankly, ourselves, with KDG, with Ono, or even in other smaller cases. Every time we buy, we have cost synergies on capex and opex, which are very visible. The market effect of it, quite frankly, depends a lot on what has happened before in the market. I can mention Spain as a positive, but Spain comes after a heavy discounting phase. I can mention Germany as something that we are watching, because there is an offer out from Drillisch, which might or not trigger competitive reactions.

The requests from the regulators to reserve capacity for MVNOs to open networks more and more have to be seen one by one and in the context of what I described before. So, yes, there is a little bit more of that. We clearly don't like it. We say that it should be more open, and the real conditions that are important are the structural ones on consolidation, so spectrum fairness and spectrum availability, and a balance in the resources that the players have. But there are some cases where we are seeing concessions or remedies going in directions that could compete away some of the revenue synergies. At the cost level, it's still positive.

Nick Read

Building on conversations we've had previously on ARPU trends, of course we've talked about the fact that, in a number of markets, we still have re-pricing moving down in certain markets over the last couple of years. We've talked about Europe being more stable over the last 12 months. So, some markets still have back-book pressure; namely, a little bit, obviously, in Germany. We talked about a degree in Spain, somewhat offsetting the obvious trend of data monetisation that's going on. It's very interesting, if you list the European markets side by side and compare year over year versus quarter over quarter, you can clearly see that most markets are starting to stabilise. There's a few that are starting to increase quarter over quarter, like Ireland, like Romania, and others are significantly down over where they were on a year-on-year basis.

I would still point to a couple of mechanical effects we still get. So, Enterprise suffers sometimes from a lot of SIM-only, lower ARPU. So, therefore, as we sell in more SIMs, that can reduce the ARPU. And also, out-of-bundle data is another component, where we're spending a lot of time, from a customer-experience perspective, making sure it's a good experience and people don't

accidentally overspend on data and that they make a conscious act to trade up. And of course, that can cause a bit of decline on out-of-bundle.

Simon Weeden, Citigroup

I wondered if you wouldn't mind elaborating on your plans and, indeed, what you've done to date regarding the change in mix amongst the German channels. And could you touch on the rules that require you to support service providers and how you see them fitting in the broader mix going forward?

Vittorio Colao

I don't think we are touching service providers. Service providers are a requirement of the system, and it's not what we refer to when we usually talk about change of mix. What we talk about is really direct versus indirect, as in shops, as in controlled channels versus non-controlled, open-market channels. And as Nick said, we are shifting. We are not completely there yet. We have some early positive signs. It's something that you have to do in a delicate way because, otherwise, the risk of loss in market share is there. But it does not include service providers. The service providers are a different thing.

Nick Read

And just to add to that, Simon, just in terms of our gross-add performance in our direct channels on our brands – i.e. Vodafone and otelo, our two brands – the actual volume is up about 35%. So, it's more about strengthening our direct.

Maurice Patrick, Barclays

Building on the Drillisch comment, Vittorio, you made, the investments in Spring are driving data usage, ARPU stabilisation, hopefully growth as well, but you are seeing some MVNOs being more aggressive on data; so, Drillisch, for example, offering large bundles. TalkTalk, more recently, in the UK has an unlimited data offering as well. Do you think it's sustainable and do you think this could undermine some of the investments being made in your data networks?

Vittorio Colao

Maurice, sustainable for us or sustainable for them?

Maurice Patrick

Well, both, really.

Vittorio Colao

Apart from the joke, I think this is the point. First of all, the question is: is it sustainable for them? I don't know. It depends on the conditions. This links a bit to the question that Tim asked earlier. It might be sustainable or not. That's why the remedies or the regulations that are imposed upon us are important. And again, in any consolidation case, going back to my earlier answer, we – and, I hope our competitors – should look also at the consequences of mitigation. If mitigation is excessive and changes the industry dynamics, clearly then one should think whether consolidation is a good thing in the end.

In the case of Drillisch, again I'm not 100% sure I'm completely updated. There is an offer at €25 for 3GB. I think, at €30, United Internet offers 2GB. And probably we are at 1.5GB at €30 or something like that. So, is it really enough to move the market? I don't know. It's more the reaction of the competitors. For the time being, our quality, our perceived service and superiority, which is not where I would like it to be but it's clearly better than others, I think is enough to keep the differentiation.

If, of course, as a result of a Drillisch €25 3GB, United or O2, which is the network where they are hosted, actually goes down, then, of course, we have to ask the question, but this is what I also said when I did the roadshow in May: it's never really just the difference between yourself and the MVNO; it's also the difference between yourself and the others, if the others react. And that's the key point. So, it's more industry dynamics.

I am confident that our quality is good. Our customers are telling anecdotally and in the market research, 'Wow, 4G is a different thing.' I hear more and more people turning Wi-Fi off and using 4G. So, €5. We do focus groups. I go personally to focus groups now a lot. And they all say, '€5, €10, for good-quality 4G, justified,' but then the question is not versus the MVNO; it's versus the other big competitors, how they react. And that's where I would put TalkTalk. TalkTalk can do what they want. That's not the point; the point is more EE and, to some extent, O2 in the UK.

Nick Delfas, Redburn Partners

I've just got regulatory questions. The first one is on the UK. Obviously, backhaul looks like it will be regulated one way or the other, whether via the Business Connectivity Market Review or as a remedy in BT/EE, but there's a bigger question: BT/EE will benefit from huge cash flow from Openreach, which might be a distortion to the retail market. So, do you think that Openreach will be separated? Is it something you'd like to see? Could it be negative for cable in the UK?

And then my second question is: do you think that the Danish deal will be blocked? I'm just interested if you have your ear closer to the ground than we do in Brussels.

Vittorio Colao

Let me say, first of all, if I had the ear closer to the ground than you, Nick, on a Danish deal, considering that we don't have operations in Denmark, I would be surprised. So, I think you probably know about the Danish deal specifically more than me. Again, my ear is on the ground more on the previous, the Maurice question: on what type of thinking is going on relative to consolidation in general. And yes, I hear the concept of mitigation and remedies coming back. I don't hear the opposition to consolidation as such coming back but I cannot comment specifically on the Danish deal.

On Openreach, the other is a strong and solid 'yes': it should be split. And it's strong, Vodafone's position is that this country should not allow the re-monopolisation, through two deals, of mobile and fixed-data traffic, with potentially 75% of the mobile traffic going into EE's network and potentially 90% of the backhaul being into BT's hands. So, definitely that will have to be regulated. Ideally, it would be good to split Openreach. If Openreach is not splittable, then the price, the access conditions and access to content, which you didn't mention but is also another important thing, should be looked at very carefully.

Nick Delfas

Would you hazard a chance on Openreach separation or what you think the probability is at this point? Do you think it's more likely it won't happen or that it will?

Vittorio Colao

I think they should have a serious look at it, because this country... Even the position that BT is taking on fibre, essentially it is missing FTTH and trying to go for VDSL and G.fast, which I understand, because it's a classic position that would strengthen their hold on the market and limit competition. That position itself, in a moment where you talk about cloud and in which you talk about the need for fibre, I think that position indicates a low willingness to really modernise and, at the same time, preserve competition. So, I think the regulators should have a serious look at the possibility of creating a true modern infrastructure company to serve the country, and Openreach could be that one. And ideally, Vodafone could even be an investor in fibre, like we are in other places, if it was a genuine thing. But exactly like in other places, like in my home country, in Italy, the incumbent plays the game only up to a point and then starts threatening legal action, which is typical incumbent behaviour.

Polo Tang, UBS

I've got two questions. The first question is really just about costs and margin development, because in the press release, you made a reference to further cost efficiencies. So, could you expand on this, and how should we think about the margin evolution for Vodafone going forward? So, specifically, if your churn is falling across all markets, shouldn't this lead to falling SAC? But also, with regard to margins, how should we think about operational gearing and margin evolution when you're actually seeing top-line growth rather than top-line declines?

My second question is really just on the churn. We've seen very material improvements in recent quarters, but how much room is there for further improvement in the churn going forward?

Vittorio Colao

Why don't I leave the question on margin to Nick and I'll take later the churn comment?

Nick Read

I think, Polo, just in terms of when thinking about our margin evolution, so our guidance said EBITDA was a growth of 1-5%. I think you should look at that very much as broadly stable in the first half and then increasing year over year in the second half. And as I reinforced at year-end, when we were talking about guidance, I don't see that we would get margin expansion this fiscal year, given the continued investment in Spring but, after that, there would be an expectation in terms of operational leverage.

Vittorio Colao

On the churn question, let me give you a little bit of a philosophical answer, and then the practical one. The philosophical answer is that you shouldn't necessarily link churn and commercial costs, because one could have, in theory, zero churn giving away iPhone 6 Plus to everybody. So, you can have zero churn and very high cost. And therefore, we are managing the two things as separate, so I really am pleased by the churn performance. Forgetting for a second South Africa, which is an exception, we have some outstanding results: in the Netherlands 12%, in Portugal 9.8%, in Ireland 10%, and then again, as I said, 14% in Germany.

I always thought that the American level of churn, which is around 1% [monthly churn], is kind of the ambition, and I see that, more than a cost-reduction thing, as a loyalty indication and as an opportunity to increase ARPU indication more than the cost side. The cost side, for me, is more

managing the experience in the shops, allowing customers to choose and, eventually, trying to move the customers on what is right for them in terms of cost of device and hardware, and not necessarily on the most expensive or the ones where Samsung or Apple make more money. But I would de-associate the two things. I am pleased. I think there is still room to go. I still have Spain at 18% or Italy at 20%

, so there is more room to go.

Robert Grindle, Deutsche Bank

First, you've done a lot of heavy lifting with regard to the German network, but your largest competitor just acquired rather a lot of new base stations from the third player. Does this raise the bar again? Did you look at these assets or is it more about them catching up with you a bit, if you like?

Vittorio Colao

Listen, I leave to Nick the details by country, but, again, philosophically, I'm not concerned. I always said: I'm not concerned if Deutsche, if EE, if Telecom Italia invest. I'm happy when I'm ahead; like, for example, in Italy, we have 10 percentage points of 4G coverage, but that's good because it pushes the market into the direction of high quality, better ARPUs, lower churn –back to my earlier answer to Polo – and, eventually, healthier long-term relationships. So, this race thing: financially, Nick Read needs to make sure that things make sense but it's a positive if our main competitors invest in quality, because it gives an opportunity to improve ARPUs and reduce churn.

Specifically on the German deal, Nick?

Nick Read

Just on a specific point, TEF are trying to release about 14,000 sites, so a proportion have been acquired by DT. They needed the urban metro capacity. One of the things we were trying to resolve was incremental spectrum in the last auction, so, in one way, we have covered that. We're also engaged in talking to TEF about additional sites as well.

Robert Grindle

Many thanks for that. I did have a second question. Would you agree that the massive uncertainty of UK regulation with regard to Openreach, which we've just discussed, and potentially lower future wholesale rates makes it really impossible to judge the fixed-line opportunity at this time or, indeed, the value of fixed-line assets? Is this leading to a bit of hesitation still pushing your broadband product in the UK? By the way, I think it sounds excellent.

Vittorio Colao

No, your question is absolutely right. Is there uncertainty in the UK about the future landscape of fixed line? The answer is 'yes', absolutely. There are big decisions that the regulators have to make on access, on broadband, on fibre, potentially on cable. This is why our entry into this space, which is a decision, so I'm not going to walk back, and I said this very clearly also to the regulator in the UK, Vodafone is going to sell broadband. Vodafone is going to be on TV. For the time being, we need to be on TV on a cloud-based solution, using some of the assets that we have and some of BT's assets. It's not a massive investment in terms of capital for us, but it will

be a serious commitment. Of course, depending on how the decisions will go, it could be good news, better news, potentially bad news for others, but again I agree with you it's uncertain but, commercially, we will be there.

Robert Grindle

If I could control my kids' mobile-phone bill the same way that you would allow us to control kids' Wi-Fi access on our new broadband product, I'd be a very happy customer.

Vittorio Colao

You can. I'm not sure we want to completely disenfranchise the youth and teenager segments, however, so please do it but moderately.

Jerry Dellis, Jefferies

I have a question just on data usage, please. It looks relatively polarised trends across your European footprint: extremely strong in the UK, where you bundle in content, but the quarter-on-quarter trends are perhaps a little flatter in places like Germany and Italy. Given the strong appetite for 4G services that you're talking about on the consumer side, I just wondered why data usage is so flat in these key markets.

And then the follow-on question would be: looking ahead to the Bundesliga rights auction in Germany, maybe Easter of next year, do you think that it might be sensible to be investing directly in content at the Vodafone level and, specifically on Bundesliga, is participating in that process something you would definitively rule out at this stage?

Nick Read

Jerry, I'll answer the first one. Just in terms of quarter over comparisons on some of the markets, you just need to bear in mind we did some quite aggressive promotions both in Germany and Italy on 4G in quarter four, so that just makes the comparisons tougher. I think you'll see the evolution for the rest of the year.

Vittorio Colao

I will not comment on specific auctions, because, as you would expect, it's not a smart thing to do. Let me say, however, I'll give you a broader answer on content. Clearly, in a market where we have broadband, which is becoming more and more the norm, Vodafone will need to have content, and here there's two models. One model is the model, let me say, that people like, for example, Liberty traditionally have used, which is you get content, you distribute content, you make a relatively small margin on it but, essentially, you see yourself as a distributor, which is, if you look at it, what we do today mostly in mobile with Netflix or with the others. Or a model of exclusivity, where you buy the content.

It's obvious that the bigger our customer base, the more an exclusivity model can be considered. I still believe that exclusivity, in the end, turns to higher prices, and so I think good news for the football teams and good news, eventually, for the football players, but not necessarily good news for the distributors. If you look at the evolution of content costs in the US, for example, I would say that it supports my point. Having said that, if somebody starts bidding for content, when you have a big customer base, you have to be there.

It can also be used as a restrictive measure against competition. We completely disagree with the decision in Spain on how content costs should be allocated in resale agreements. We will challenge it. We are challenging it in Spain; we will challenge it in Europe. Clearly, if there are big players who want to use content to restrict competition on broadband, we think it's not in the interests of the customers, it's not in our interests, and we will act legally. But philosophically, we prefer to be distributors at decent conditions rather than exclusive owners.

James Ratzer, New Street Research

I had two questions, please. The first one was just regarding Germany again. You've given quite a positive message that network issues are now behind you, the Project Spring stats you give all look pretty encouraging. And then, at the same time, you've now just invested considerable amounts in new spectrum in that market, so I was wondering if you could talk to us specifically about what you think the new spectrum in Germany will allow you to do that you haven't been able to do already.

And then, secondly, on to Spain, please: starting to see some encouraging trends there. How do you see that market playing out for the rest of the year? Do you plan to match some of the price increases that Telefónica has been putting through? Do you think that is a market that can also return towards stability by the end of this year?

Nick Read

James, I think the short answer to the Germany spectrum: we buy spectrum for the long term, so we've taken a view as to how we see data growth develop over the next three, five, 10 years, and we're buying spectrum to accommodate that and keep that co-leadership position. You know that we had a slight disadvantage in terms of the lack of 1,800MHz, and that caused our speed throughputs in the urban areas to be slightly below DT. So, in the short term, that's really the gap that we're making up, just to make sure that we stay co-best on all components, even though we're already number one on voice.

Vittorio Colao

And again, just to reinforce that this is linked to my earlier question: for us, our key markets having good spectrum positions, having a good existing network and having a competitor like DT who invests as well in quality, in the end, is a great reassurance that the market structure or industry structure will be good.

Now, on Spain, unless you want to see me in jail, I don't think I will answer in a detailed way to a pricing question. What I can tell you is that we just launched our own services. Clearly, Spain has suffered from a very steep decline in ARPU, linked, essentially, to convergence, and, therefore, we see an opportunity, now that the market is consolidating, to re-bring value back into the offers, give better offers, and possibly lift up prices. That we see, but I wouldn't comment specifically on what we do as a reaction to anybody's price move. But yes, the Spanish market has the opportunity to regain some of the ground lost.

Nick Read

James, it's probably just worth me building just on the evolution point that you were making. So, when you're looking at Spain's service revenue, it was, quarter over quarter, an improvement of 2.3ppt, but as I mentioned, handset financing has acted as a drag of 1.1ppt. So, underlying, the improvement is really 3.4ppt. That handset-financing drag continues to run for the next couple of

quarters, and it's only by quarter 4 that we start to annualise on that. So, it's quarter 4 onwards that you start to see the more significant year over years.

Paul Marsch, Berenberg

You gave us the volume uplift of direct versus indirect in Germany. I just wondered if you could give us the percentage of gross adds through direct and indirect channels, and how that developed compared to last quarter?

Also on Germany, the Red tariffs are still offering quite aggressive promotions. I think you took the promotion off for a week or two in early May, and then you put it back on again in a slightly different guise later in May. But it basically puts your price curve in Germany right on top of Telefónica Deutschland's price curve, if I include the discounts and promotions that you're offering. So, I'm wondering if you can shift the gross-adds mix back even more to direct, without further reductions in the price curve and without impacting on the pace of contract additions in the German market.

Vittorio Colao

I'm not sure we can answer a detailed question on specific promotions in specific weeks. I would be concerned if we did. But on the mix, Nick?

Nick Read

Just in terms of the mix, if you went to quarter 1 of last year, if you take our Vodafone brand and otelo brand through direct channels, you're talking roughly – roughly – 35-40%. That's moved up to, this quarter, around about the 50% mark.

Vittorio Colao

And the pricing question, again, as I said, I'm not sure I can comment on price with promotions in specific weeks, but our intention is to be above O2, clearly, and to be more similar to Deutsche. You also have to keep in mind the difference between profitability of direct versus profitability of indirect channels. Indirect channels might have a perception of being higher priced, but then, once you take away all the costs, they are actually, for us, maybe sometimes less profitable than what they look. But again, this is a very much in-country, fine balance of movement that has to be orchestrated in order to achieve a positive financial outcome. So, I cannot really comment on the specific promotion.

Paul Marsch

Maybe I could ask an alternative for Italy then, where I think your prepaid ARPU looks like it was up 16%, but you said on the slides that the consumer prepaid ARPU was up 8%. So, what explains the difference there? And when does the focus switch back in Italy from ARPU and price to stabilising the customer base, which still seems to be declining on prepaid?

Nick Read

If I could just cover... So, first of all, the reason why you're saying the difference is because we launched the Enterprise Zero tariff, and that is effectively registered as a prepaid tariff, so that's

why you're getting that disproportionate uplift, which is why you see contraction on the contract base, because we're moving out of contract and into prepay, even though it's the same customer.

And sorry, the second question was...?

Paul Marsch

When does the focus switch back from ARPU and price to stabilise the customer base?

Nick Read

If you noticed in my script, I did say the prepaid base had stabilised, and what I was referring to was the active base. So, in a prepay market, you've got to be a bit careful with registered, because clearly people have second SIMs etc. So, what we're seeing is that the market is contracting a little bit from a gross-add-spin perspective, so, therefore, the number of registered customers will drop. So, we monitor the active base, which has stabilised.

James Britton, Nomura

My first question is on MVNO contracts, and really just a clarification. Have all the headwinds from losing MVNO contracts – or the material ones anyway – washed out of your growth rates, particularly in the UK and Italy?

And then, secondly, a question on 4G pricing. I just wondered: is the premium you charge for inclusive content running the risk of making you less competitive in the mass market, where price is still going to be really the most important consideration when buying a contract?

Vittorio Colao

The MVNO impact has been a bit less, probably, than what we expected – the MVNO loss – which means that the migration is slower, which could also imply that there is more opportunity for us to retain customers under the Vodafone brand because, in the end, the switch of the network is not always a positive experience for the customers.

On the 4G pricing, I wouldn't share that concern. Usually, our offers inclusive of content deliver great value, so, as a result of good negotiations, we can allow customers to pay a price which is perceived less than the sum of the components, and usually it is seen as, as you can see in the UK, which is possibly the most prominent example, the right one. In other markets, where the dynamics of content don't work exactly in the same way, and especially because the availability of content is not there yet, we have straight and pure competitive 4G pricing.

My guess is that we'll end up with both in all markets – again, Italy is the next one, with the launch of Netflix – where you will have some customers willing to spend more for having a good package with bundled content that otherwise would cost more, and some offers – more naked broadband – at competitive rates, still at a premium versus MVNOs versus others. And that's healthy because you start segmenting the market into low end, into mid end, mid-end naked, mid end with service, and then high end. And then, in the high end, we will start including roaming and other stuff. So, more segmentation could lead to better ARPU accretion rather than a straight comparison, a brutal comparison of headline pricing.

James Britton

Can I just a follow-up on the UK? It seems that you've doubled the rate of 4G adds this quarter relative to the previous two quarters, but I didn't really pick up anything in the market that would have justified that move. So, commercially, what might have changed to drive faster growth?

Vittorio Colao

You need to see the results of competitors. Unfortunately, this quarter is the quarter where any competitive comment in market is more difficult because we don't have the details of competitors. So, unless, Nick, you have more intelligence on the UK...

Nick Read

No, I just think it's momentum.

Vittorio Colao

It's momentum but it's difficult. Let's see what the others announce and then we will have a better answer.

San Dhillon, Royal Bank of Canada

My question is on the evolution of organic service revenue growth. Nick, I think you mentioned, in Germany, that you don't expect to see an improvement Q on Q going into the next quarter. Does that include the fact that you'll have a bigger drag from handset leasing? And given the fact that there was a one-off in the current quarter, by saying that you'll be around the 1.2 percentage-point level, doesn't that indicate that there is an underlying improvement?

Secondly, at the end-of-year results I think you indicated that, again, at a Group level, you shouldn't see much improvement from Q2 versus Q1 and then a rally in the second half of the year. Could you confirm that's still true?

Nick Read

Let me start at the Group level. So, Q2 over Q1, there's about a half a percentage point of what I would call technical drag: so, Italy price increase that we did last year, we're lapping; South Africa, there was big provision release, which we announced Q2; and then you've got the full-quarter impact of India. So, these are a half-a-percentage-point drag, so, therefore, we're saying, 'Yes, we'll get some underlying improvement.' It'll be roughly around the same level overall, with those factors taken into account.

In terms of Germany, as you rightly say, there was a degree of provision release in Q1. There'll be a slight underlying improvement but, broadly, we're saying a similar performance.

David Wright, Bank of America Merrill Lynch

I don't think we've had a question on India yet, and I was just looking at some of the trends there. I think it's possibly the one number today that has just come in a little bit below our collective forecasts. It does look like there's a bit more pressure on voice yield now, and the minutes of use also continues to deteriorate. How should we think about this trend moving forward, and

especially with regard to the margin? You're adding solid data revenues and solid data demand, but it would seem like a lot of the voice revenue is the higher margin. How should we think about that margin development over the next 12 months or so?

Nick Read

We're still comfortable that we can make progression on India margin, because we have invested heavily on Project Spring and 3G rollout, and I think you're seeing it through the stats and the revenue that we are monetising it very quickly, so the payback periods are a lot shorter than some of our other investments. So, definitely, in India, we see margin expansion. You are right to point out we've had a little bit of price pressure. I think it's been a combination of some of the value players in certain circles being a bit more aggressive, and also Idea has been a little bit more aggressive across the board and trying to drive a little bit of elasticity, and we're just deciding to what degree we follow them on some of their pricing.

Andrew Beale, Arete Research

I just wanted to come back to the German usage question. You've got very encouraging data-volume trends more generally in Europe, following all the network investments, and I heard what Nick said about the prior-period 4G promotions in Germany, but the data-volume growth slowed to below 30% this quarter on already very low per-sub levels. I'm just wondering if you could perhaps address how much of this is a Vodafone issue versus the wider German consumer. And more generally, what ideas you have to stimulate usage in Germany, given that there's a fairly limited appetite for content there as far as I understand it?

And then, secondly, on the Italian fixed line, we seem to be heading to three or possibly four parallel unbundled street cabinets in perhaps 40% of the market. I'm not quite clear where TI gets to with Enel, but I was just wondering if you can give a perspective on how you think Metroweb plays out, how it might get capitalised via your and Wind's partnership to build and, ultimately, how you ensure you have economic fibre access in the broader Italian market.

Vittorio Colao

Do you want to take Germany and I take Italy, or vice versa?

Nick Read

Andrew, you've pointed out, we've often scratched our heads a little bit on Germany usage, on data, on trends, because they do seem a little lower than you would expect. We continue to roll out a very wide-coverage, high-quality network. We're launching content. We're enhancing the propositions. I think we're pulling all the levers that we pull in the other countries. So, at this point in time, we don't see it that it's a Vodafone issue; it's more a German...

Vittorio Colao

Let me add: this is going to be one of the first things that we will ask Hannes Ametsreiter to have a look at, because it has been puzzling for a while. I don't have hard evidence with Deutsche Telekom's data and, if any of you have, why don't you have a conversation with Peregrine? But it seems to me that there is historically a lower level of usage in Germany, a little bit across the piece on everything. It is also possible that we have a Vodafone self-selection of segments that is not correct. We have tried to stimulate with content. It has worked less well than everywhere

else. It is one of the things that we need to put under focus, but if you have evidence or comparisons that are based on public information, we would love to get them.

On Italy, Italy is a very fluid situation, as everything there. I think we are pleased with the performance that we have. I think the regulation in Italy is conducive to, in the end, good FTTC deployment, provided that not too many people deploy. The current position of Telecom Italia does not make a lot of sense. It could lead to the scenario that you describe of overinvestment in the same places and underinvestment in the rest of the country. Enel is very open to share their project with others, and my sense is that that could be an interesting trigger for a different position on Telecom Italia's side.

I think I said many times Vodafone is investing but we are a rational investor. We see a payback period on this investment which is fairly long. The more people invest and duplicate, the longer this return becomes, so I personally would encourage and do encourage the Italian management team of Vodafone to try to find ways of sharing the capital investment with others. With Wind and with Enel, I think it's possible; the question of Telecom Italia is more for them. They need to come to accept that, eventually, they're not left alone in the country and they will have to be competitive, but not just try to be a monopolist. It's a not very different topic from Spain or from the UK, potentially.

Stephen Howard, HSBC

I was wondering if I could ask for some of your thoughts on Ofcom's recent strategic review document, and there are two areas in particular I'm interested in, because I guess we've touched on some already. Firstly, I'd be curious as to what you thought about the comments on the mobile market and Ofcom's seeming continued preference for four network operators in the UK.

And secondly, Ofcom makes some rather startling claims for the mobile operators' return on capital employed in the UK market, albeit that's after they've made a variety of adjustments, cutting things like spectrum values. So, what I would like to know is whether you think that you're generating excess returns in the UK, and how do you think the UK stacks up as compared to your other European and global markets when it comes to deciding between them as to where you're going to allocate the incremental pound of investment?

Vittorio Colao

Stephen, thank you for asking this question – I'm smiling. In a very polite and very friendly way, I personally told Ofcom that they really get their maths in a bizarre way. So, it's very easy to demonstrate that, after taking away all the write-off and all the adjustments they make, the return is 28%. If you take out all investment, the return is infinite but, unfortunately, the investment was made. So, it's a classic regulatory technical or technocratic view. I had the same discussion in Brussels, where, again, they were trying to demonstrate to me that, taking away this and taking away that, the return on capital is very good. I asked them 'Great. Give me your pension fund and I will put the money of the European Commission into my stock then. Why don't you do it? If it's so good, we just give you shares of Vodafone UK.'

So, the honest answer is 'no', the return on capital is not where it should be, if you include everything, of course, and that's why, to the first point, I don't think the discussion should be on four versus three operators but should be on a balance across the remaining one of the competitive opportunities. So, our position expressed to them was return on capital employed should be calculated the way financial analysts do, not the way regulators do. And if you look at that, UK is not a fantastic market.

And second, the issue of going from four to three is really more linked to spectrum, and so reallocating spectrum in a fair way, and to concentration of power into EE/BT, which, as a consequence – or potential consequence – of the deal and of the network-sharing agreement, could become excessive. So, don't allow Hutch to stay on EE and open up the ducts and provide better backhauling conditions to the others, to me, is the real topic of the discussion, not the four to three per se. Now, of course, if you don't solve these issues, then the four to three becomes very problematic.

Stephen Howard

Could I just follow up? What did you sense the reception to your argument was at Ofcom? It does seem that they're throwing down the gauntlet here in terms of that ROCE number that they quote. I would imagine the acid test is your being able to say, 'Look, I can generate better returns elsewhere.' Is that something you think they recognise?

Vittorio Colao

Listen, again, we have a very friendly and cooperative relationship with them. So, we make our points and we show our papers, and then it's up to them to make their decisions. In the end, we have to respect institutionally what they think. We clearly pointed to them that there were some perceptions on some calculations that we don't believe reflect reality. It's up to them now to think about our comments and decide which use to make of them.

Guy Peddy, Macquarie

Just a couple of quick questions. Firstly, on your M-Pesa in India, you've been signing up a lot of agents but not many people seem to be using the product, so can you just explain what the barriers are or what your expectations are there? And whilst we're on mobile money, Apple Pay has launched in the UK very recently. Are you basically going to throw in the towel on your Vodafone Wallet developments, given that's likely to be superseded?

And secondly, on a small technical question on return on capital, from your comments there, Vittorio, can we assume that you are using the entire purchase cost of Kabel Deutschland in your return on capital calculation when you look at the improvements in Germany?

Vittorio Colao

I leave to Nick the answer on return on capital and KDG. Apple Pay, we are reviewing our position on the Wallet and we will tell you what we will do later on. Wallet and payment instruments are not exactly the same thing, but yes, we recognise that the speed of take-up of our Wallet – not everywhere, I have to say – might be something that we have to review. So, nothing further at this stage.

On M-Pesa, it's a product that has a lot of potential but also a lot of complexity in the operation and implementation. In a way, it's a beauty, because, once you have it working well, like we have it working well in Africa, it's very hard for competitors to emulate. And even when we have to open up to interconnection, still the presence of the physical network, the amount of people who interact with you, the number of utilities or third parties that you can pay determine a lot of success.

We are pushing in India. We are doing a more focused effort in certain geographical areas and we are improving and simplifying the customer experience, but it will take time. Don't forget that it has taken, what, five years in Kenya, Nick, to really become –

Nick Read

Yes. Tanzania was definitely five before we got –

Vittorio Colao

Tanzania was five, so it is not something that, operationally, it's easy to deploy. The technology solution is only part of it, but the operations on the ground require a lot of focus, and a lot of small things can easily go wrong. So, we are encouraged by the more focused approach. We have elevated the organisational position of M-Pesa within the Indian management team, so that there is, again, more senior, more dedicated people, but it will take time. I have no doubt that it will take time.

Nick Read

Just to build on Vittorio's comment on India, we launched with a semi-closed Wallet, which allowed us to do person-to-bank transfers or pay your utilities, as Vittorio said. But what it didn't allow you to do was person-to-person with cash-out facility, and the cash-out facility is critical for gaining scale. That was because there was a regulatory hurdle. So, now, that regulatory hurdle is getting eliminated, if you go get a new payment banking licence, which we are going through the application process, that will conclude in the next 12 months. So, it's an important part of the model that we need to develop.

Vittorio Colao

But it will take time.

Nick Read

Yes, it will take time.

Vittorio Colao

Let's be honest.

Nick Read

Multi years.

Vittorio Colao

It's a multiyear, really good, very profitable seeding for the future, but it will take time.

Nick Read

And the simple answer to your return on capital employed is 'yes'.

John Karidis, Stifel

Two subjects, please. The first one is handset financing. So, handset financing is a drag on service revenue, but it certainly helps EBITDA, so do you think the benefit to EBITDA in H1 this year is likely to be comparable to what it was in H2 last year?

And then, secondly, you've already talked quite a lot about the discussion document of Ofcom and the strategic review on Openreach. You did, Vittorio, however mention content ever so briefly. I wonder: do you think Ofcom is doing a good job on giving you access to the content that you want? And if they could do better, could you try and paint a picture of what you'd like to see done?

Vittorio Colao

Let me get the content question, and Nick gives you the impact of handset financing. I think Ofcom will do a good job on content. The content issue has been very complicated for them, from the Sky days, if you want. It is very clear – and we are making very clear to all regulators in Europe, and we did it also with Ofcom – that, if somebody holds rights and says, 'Of course, I'm going to sell the rights but the minimum guarantee that I want is' whatever, 50 million, whoever wants to get new customers, the first customer costs 50 million, the second 25 and so on, so it's a clear barrier to good competition. So, minimum guaranteed is my enemy in the UK and, in general, everywhere, and we will need to convince regulators that minimum guarantees are anti-competitive. I think, in Europe, the sensitivity to content – you saw the news this morning – is going up, and the behaviour of the content owners will be under a lot of scrutiny in the coming years. So, it's an area where, yes, there will be more attention, I think, from Ofcom.

On handset financing, the answer to Nick, I just want to simply highlight that we do handset financing not for short-term, whatever, financial benefit, whether it's positive, or for short-term financial, whatever, harm. We do it when we think that the markets, the customers or the competitors are making behavioural changes that require the split of handset versus service.

Nick Read

And so, therefore, to Vittorio's point, the main market this is really impacting is Spain, and we launched in Spain in November, so, in H2 of last year, you don't have a full six-month impact, where we will have a full six-month impact in H1. So, for Spain, you would expect it to be a slightly greater impact.

John Karidis

So, it will benefit H1 EBITDA – is that right?

Nick Read

Yes. In Spain, versus H2, it will be slightly higher, just for the fact it's six months. The run rate is similar.

John Karidis

I'm sorry, Vittorio: just coming back to the content very briefly, Sky has had Ofcom tied in regulatory knots for the last, I don't know, five, 10 years. Do you feel comfortable that they will do

the right job in time for what you have in mind? Do you think they have a sense of urgency on this issue?

Vittorio Colao

I think Ofcom is aware of the importance of their role, and they have strong, how do you say? Not strong opinions but strong views and a strong awareness of their role in this area. So, I think, both in the UK and in Europe, the topic of content is more and more on the desk of regulators, which I think is fine and it's also fair, because content should be really used to be distributed and to reach more and more customers and, eventually, to generate more value for both the industry, the distribution, telecom industries and the creative industry, not used competitively by one of the two to, basically, reduce competition.

Emmet Kelly, Morgan Stanley

I've got two questions, if that's okay. The first question is on soft SIM. I just read last week that Apple and Samsung are again stepping up their efforts to develop soft SIM and e-SIM, not just in iPads but also in phones as well. But I also read that you and other European operators like Deutsche Telekom are also party to some discussions. Is this something that we need to keep an eye on that could change the business model, you believe, in mobile, or do you think it's more of a storm in a teacup?

And then the second question is coming back to fixed-line regulation again. I know you've signed up for Kontingent-Modell in the areas where you don't have cable coverage in Germany and, in the past, you've seemed very happy with that agreement as well. However, you seem very unhappy with the situation in the UK with Openreach. Forgive my lack of regulatory expertise but can you just say what the difference is between Kontingent-Modell and what's available to you in the UK?

And on a similar theme, a cynic might suggest that you want access to fixed line networks across Europe but, at the same time, your cable networks in Spain and Germany remain closed, and also you're hosting less MVNO traffic on your networks. What's your view on offering wholesale access on those cable networks? Is that something you see creeping on the agenda on a European basis, in particular given what's happened in Belgium?

Vittorio Colao

So, the easy answer is the soft SIM answer: I don't think it's neither a storm in a teacup nor a massive revolution. It's a convenient thing. We worked not just with the European operators, as you said, but with worldwide operators to define a standard which has been developed within the GSMA, and this involves AT&T, involves the Chinese, involves everybody, essentially. And that is a standard that will give all the benefits of a dematerialisation of the SIM but also preserve the security and the identity management of the customer in the hands of the operators.

Apple, Samsung are part of these efforts, they are aware of these efforts and, again, I think it's neither one nor the other. There could be some business changes, it could be easier to switch operators, but it will also be easier to activate, for a month or for a day, an iPad or a connected device. And the more you think about connected devices in a broader sense, the more I think that this is an opportunity and, yes, there could be some areas of discomfort on traditional devices but, defined in the right way, this is a good thing more than a bad thing.

Fixed-line/cable cynic: you can be cynic if you want. I just say that I cannot make all situations the same. There's a lot of competition in mobile. There's some countries where there are regulations

that impose MVNOs. As I said in my earlier answers, I don't think it should be imposed. It should be a free choice and it should be a commercial choice, because there is a lot of competition in mobile.

If you move instead to the fixed-broadband access, the situation is very different, and when I say 'different' I don't just mean different because there are different players, but also different because the countries are physically different from a topology point of view. And therefore, what seems what could be a good deal in one good country could be, actually, very uncompetitive in another one.

The difference between a contingent deal and the regulated access is the contingent deal is a commercially negotiated deal, where you get certain conditions, certain service-level agreements and certain access guarantees, in exchange for a commitment. And usually, you are taken as a customer for that. Now, not all the contingent deals are good, but some are commercially better than others, but at least there is a commercial relationship between the companies.

What we don't like of the UK is, clearly, the price level, clearly, the level of service and the percentage of disservice that can come to us, but most importantly is the concentration of power after the EE/BT transaction and, potentially, the O2/3, if they want to take the network deal into one single infrastructure. So, plurality of infrastructure and competition opens up. If you concentrate, then you're better off with a split model like an Openreach.

In places like Spain, you said 'You don't open your cable.' It's not true: we open to Orange and we share capacity with Orange, but again we do it because we are aware that we are competing against a very hard fortress represented by Telefónica and, therefore, we cooperate with Orange and, therefore, we also give roaming deals to some smaller mobile operators. Everything has to be a function of the level of competition in the market.

Closing Comments

Vittorio Colao

Thank you very much. I think it's been a very rich set of questions. I really summarise in three words: we have continued a steady recovery in Europe and I'm pleased to see emerging markets continuing to deliver good growth. We didn't discuss Turkey, 15% growth; we didn't discuss Egypt, again 6% and back in a good space. Project Spring continues to deliver good 4G coverage, good execution also on the fixed side. We continue to grow in broadband, and Enterprise, finally, 1.8% growth, it's clearly more and more a strength and a unique feature of Vodafone.

Thank you very much for your questions. I look forward to seeing you at some conferences in September, and then our full results in November.