

Vodafone Group plc

Q1 Trading Update

Analyst and Investor Conference Call

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Commercial Review

Vittorio Colao

Group Chief Executive

Thank you very much, operator. Good morning, everybody. Welcome to our trading statement for the first quarter 16/17. Today, I will take you through the highlights and update you on our commercial developments, and then Nick will focus on financial performance in the six key markets and, after that, as usual, we will have Q&A.

So, I will start with slide 4, the highlights for the quarter:

- Overall, I'm satisfied that we have made continued progress, consistent with our expectations for the business when we met last time in May.
- Group organic service revenue grew 2.2% by €12.3 billion. This follows an underlying 1.8% growth in Q4. In Europe, we increased revenue 0.3%, similar to the prior quarter, despite the leap-year benefit in Q4 and regulated roaming price caps in Q1. Adjusting for these, the underlying growth improved as our more-for-more propositions boosted ARPU, with good performance in Germany, Spain and Italy offsetting ongoing challenges in the UK and the Netherlands.
- Good growth in AMAP at 7.7% with excellent performance in South Africa, Turkey and Egypt.
- Data volumes grew 63%, supported by 4G adoptions, with our 4G base more than doubling to 53 million customers.
- In fixed, we had another quarter of strong customer growth, particularly on NGN users, taking the total fixed-broadband base to 13.7 million customers.
- And in enterprise, we delivered service-revenue growth of 2.6%, supported by continued progress in the strategic areas of VGE, machine-to-machine, and cloud and hosting.

So, let me go into the details with slide 5. So, these charts show the underlying themes in our recent performance: an improved customer experience translating into stronger commercial KPIs and higher revenues. This specific chart shows the progress we are making in differentiating customer experience with Vodafone, aided by our much-improved network performance due to Project Spring, with EU 4G coverage now at 89%, which is up 14 points year on year. This is reflected in our consumer Net Promoter Scores, where we have widened the gap against the next best competitor. But most importantly, we have also established clear water between ourselves and the third player who typically competes on price. Overall, we are now the NPS leader in 12 out of 21 markets, which represents around 370 million customers and over half of our revenues.

The momentum in our commercial KPI is demonstrated in the middle chart, where we added more contract customers and fixed-broadband users than this time last year. I'm also delighted to say that, thanks to good early acceptance of our more-for-more propositions, contract ARPU in Europe increased quarter on quarter and has nearly stabilised year on year. And as a result, we delivered our sixth quarter of service-revenue growth across the Group and the second in Europe. And although the headline level of 2.2 is slightly lower this quarter, it is important to remember that Q4 included a leap-year benefit, while Q1 has the roaming-regulation drag, and Nick will talk

about the exact numbers here. So, underlying momentum has been maintained and continues to be driven by our three key engines of growth: data, enterprise and fixed. Let's have a look at each one of them.

So, slide 6 shows the data growth. 4G adoption is clearly a key driver of data growth. In the quarter, we added nearly 3 million 4G customers in Europe and 3 million in emerging markets, taking the total to 53 million. This is twice the level of a year ago. And although 4G take-up continues to be rapid, only 30% of our European customer base is taking a 4G service, providing us with a substantial opportunity to continue to grow. In emerging markets, the story is about both 3G and 4G and, in total, we now have 89 million users here. This is around 60% of total data users.

The average usage also continues to grow; it's now 1.3 GB across the smartphone base in Europe and 0.8 in AMAP. Smartphone penetration is still low but rising across our base, creating, again, further opportunity to grow. Combination of customer growth and increase in usage has driven a 70 PB increase in data traffic in Q1. This is the largest ever quarterly increase in overall traffic and a 63% increase year on year. So, we continue with the trends that we discussed in May.

'Data story is good, but what about data monetisation?' will ask some of you. The chart on the right shows the initiatives that we have put in place to deliver this. The strategy is simple: we charge a little bit more and offer a lot more value, whether it's more data, worry-free roaming, better services, extra options for the customers, so much more for more. The German example here is an interesting one. We reduced new customer discounts by €5 in April, capitalising on the premium position in the high end of the market, together with the other big operator, and there we provide superfast 4G on the Red brand. In the low end, which is instead dominated by 3G, the MVNOs and the second brands have been cutting prices, and here we have responded tactically online with offers that use the otelo sub-brand. So, the solid early momentum we have seen our Red tariff since this pricing change reinforces the point that these markets are distinct, and we believe that our two-tier strategy is working. Nick will also talk in his section about what has happened after the end of the quarter in pricing. So, this seems to be an area of our strategy that works.

Let's move to enterprise, slide 7. This is very important. This accounts now for 28% of Group service revenue but already 32% in Europe. Here, we are a market-leader with a clear competitive advantage arising from our scale. We have leading NPS scores, a large Internet of Things network, and an IP VPN network that now reaches 72 countries and 270 points of presence, only for Enterprise, clearly.

These assets have enabled us to deliver 2.6% revenue growth in Q1. And as you can see from the chart, a lot of this comes from fixed-line, which is 28% of enterprise and growing at 5% – clear outperformance versus peer. In mobile, our growth is more modest – it's 2%. Despite healthy customer growth, with 36 consecutive months of positive net ports, here we see price pressure across many markets, but still we are growing 2%.

So, last part of the chart, strategic areas of growth. Here, I would say nothing new to communicate. We continue to have success with VGE, with Internet of Things and with Cloud and Hosting growing respectively 6, 20 and almost 14.4, 15 points respectively. Today, we have 41 million IoT connections – Internet of Things connections – which is, to my knowledge, one of the largest bases in the world. So, also enterprise, after data, I would say, continues to go in the right direction.

And finally, slide 8: fixed and convergence. Our fixed business represents 21% of Group revenue, and service revenue increased 1.9% in the quarter. The NGN coverage is now 74 million homes, including wholesale lines. This represents 48% of the households in Europe, which is comparable

to all of the incumbents' NGN footprint. We reach 30 million homes with our own infrastructure, which is up 4 million on last year, as we have built in Spain, Italy and Portugal. And as we indicated in May, we will continue our self-build programme and augment this with deals like the Ziggo one in the Netherlands and Enel in Italy, which I will come back on the next slide.

If we go to the middle part of the chart, it shows our strong continuing momentum in NGN in Europe. This quarter, we added 362,000 NGN customers, and the majority clearly are high-margin on-net, which is important for us. As a result, the total NGN base increased to 6.8 million, half of all of our broadband users. We are also progressing rapidly on TV, with our base growing nearly 100,000 in the quarter to 9.6 million, while our high-value, fully converged customer base rose by 200,000 to 3.3 million. So, good momentum.

Quite frankly, there is a lot more growth opportunity ahead of us, especially on the 30 million on-net homes, as you can see on the right part of the chart. 5.8 million on-net NGN customers equals what I would call a good but still low, around 20% penetration in Europe. And therefore, here again, we have an opportunity to significantly grow over the next few years. There is a clear value story here because, with on-net NGN, we avoid the wholesale fee and we can charge a higher ARPU. Including TV and fixed-voice customers, the revenue-generating units per unique subscriber for our on-net footprint in our largest market is now 1.9 times, compared to an industry-leading level of around 2.5. So, also on the RGU front, we have an opportunity.

Turning to slide 9, I said we would always say we take a market-by-market approach, given the substantial differences between the countries, and our agreement in June to merge with Sky New Zealand is here another good example of why this makes sense. Strategically, we prefer to remain distributors of content and focus on network assets, but the New Zealand incumbent has been structurally separated, so NGN access is not an issue. Sky in New Zealand owns valuable content rights in this unique situation and merging will allow us to create the leading integrated operator in the market, capturing attractive cross-selling and cost synergies. As well as owning 51% of the new entity, we will also receive one billion and a quarter New Zealand dollars in cash upon closing, which is expected to take place by year end.

In the Netherlands, again, another country-by-country approach, our joint venture with Ziggo is progressing well. As part of our integration planning, we recently announced that our current CEO in the UK, Jeroen Hoencamp, and the existing Ziggo CFO, Ritchy Drost, have been appointed to lead the joint venture once we get all the approvals. As part of the phase 1 review process, as you know, we have offered remedies to address the competition concerns raised by the EC and other parties. Today we cannot provide more details.

And finally, another country-by-country approach, wholesale agreements, Enel. The deal is signed in Italy. The first 500 homes have been passed, in Perugia, and the speeds here are up to 1 GB per second. In Germany, another different situation, we have secured improved conditions in vectoring, although more needs to be done to mitigate the incumbent re-monopolisation risk. And next year, we will hear from Ofcom on its proposals for Openreach. Here, we see a need to reform, to create a truly independent and neutral openreach and, at the very least, we expect complete access to passive infrastructure, ducts and poles, much better terms for wholesale access, and much higher quality in service provisioning and repairs.

Turning to slide 10, our customer experience programme, this programme has become our core marketing strategy for brand and service differentiation, building on the leading network quality created by Project Spring. Connectivity is for us the main route to differentiation, with the goal also to ensure that all the other aspects of the customer experience with Vodafone are outstanding. And to ensure this is achieved throughout the company, we have confirmed this year that customer-experience metrics will constitute 40% of the annual bonus award for all of us. And again, this is the second year where we will do this; we already did it last year.

The strategy, which really will take the place of Spring in all the conversations we have internally and with investors, is summarised by the acronym CARE. The foundation of the strategy is excellent Connectivity, the C of CARE. 91% of our data sessions are today at 3 Mbps or higher, enough to provide high-definition video, enabling us to give network guarantees to our customers, which you have seen in many of our advertising. Our 4G roaming footprint now in over 100 markets is another clear area of the differentiation of the C area.

Second, we want our customers to be Always in control, the A of CARE, to help to manage communication costs. Here, a key KPI is the penetration of the My Vodafone app for real-monitoring of usage and spend. This reached 35% and we are aiming to take this to 60% in two years. But the app is also our digital window to promote the best offers directly to the customers. The example is roaming, where half our European customers now use our worry-free roaming offers.

Third, we aim to Reward loyalty, the R of CARE, through individual offers to recognise tenure, encourage usage and, ultimately, lower churn. Early progress has been made with EU customer-contract churn improving 1 percentage point since last quarter.

And lastly, Easy access to customer service is the E of CARE. This is live services, app services, but also through a 24/7 live chat platform. While the average first-call-resolution rate across the company still is too low to be called world-class, in some of our best businesses and OpCos we are now over 80% for that metric.

So, we will cover more the CARE strategy area at our H1 results in November. I would, before passing to Nick, say a good quarter, a Vodafone strategy at work, and now, Nick, let's dive into the countries.

Operational Review

Nick Read

Group Chief Financial Officer

Thank you, Vittorio, and good morning, everybody. If we turn to slide 12 and our service-revenue growth by market, as you can see by the green bars we are now growing in most markets, reflecting our strong operational and commercial execution, despite the regulatory drags from roaming in the quarter. Three markets had negative growth in the quarter: the UK, which I'll come to later; the Netherlands, where we continue to see increased price competition; and Greece, where we transferred carrier revenue to Group, so underlying year-over-year performance was flat.

Turning to Germany on page 13, under the Spring programme across the Group, our goal was to achieve network co-leadership and open up a performance gap versus the second-tier players. The chart on the left shows our NPS lead of seven points versus the third player, whilst, at the same time, materially closing the network gap to the incumbent. In terms of the mobile network, we have been leading voice quality in the market and strong 4G coverage at 89%, an 11 point increase year over year. We are marketing the quality of our network through our Gigabit campaign and we will be looking to make further 4G enhancements by utilising the additional 1800

MHz spectrum acquired in last year's auction. And in Fixed, we recently launched the premium 400 Mbps cable offer.

The middle chart covers our commercial performance. Mobile-contract net adds were a modest 8,000 in the quarter, due to our actions on channel mix, with lower indirect commissions, at a time when the incumbent seems to be actively increasing commissions. As a result, we reluctantly had to follow the incumbent and raised commissions in June. Clearly, we remain focused on balancing the channels and, hopefully, we will see competitors follow suit. As Vittorio mentioned, we refreshed our tariffs in April, adding more for more, and, consistent with this, in July we rebalanced the commercial structure, lowering the monthly service fee by €5 per month whilst increasing the monthly handset fee by €5 per month, leaving the overall economics unchanged for a handset-and-service customer, but, importantly, enhancing our value perception for our own service, including SIM-only propositions. It's been positive to see that both DT and ourselves have reduced upfront handset subsidies in the month as well. On the Fixed side, it was another strong quarter, where we achieved net broadband additions of 108,000, including 92,000 in cable and the remainder in the DSL business.

The chart on the right shows service-revenue trends with KDG now included in all quarters, with Q1 growing at 1.6%. The performance was flat quarter over quarter, despite absorbing the negative impact of roaming revenues, given the continued underlying progress in consumer mobile and fixed. In enterprise, service revenues fell 1.3% due to ARPU weakness, but we are seeing early signs of competitive pressure easing.

Turning to Italy on page 14, the chart on the left shows that our NPS lead over the third player is significant and we have established overall network leadership in the market, as demonstrated by our 4G footprint coverage at 96%. Again, we are reinforcing our leadership through our network guarantee, which offers compensation for customers that are not completely satisfied with their 4G experience. This network leadership allows us to maintain a price premium in the marketplace, along with the incumbent, versus the tier-two value players. However, the market has witnessed an increase in promotional pricing, with 3 being particularly aggressive.

As you can see in the middle chart, our positive net adds in mobile consumer contract have not offset the losses in prepaid. In enterprise, the customer base declined amid intense price competition in the SoHo segment. In the fixed business, we increased the broadband customer base by 46,000, mainly driven by new fibre customers, taking us to over 2 million.

The chart on the right shows how our strong network and commercial execution has translated into a growth of 1.2%. We benefited in the quarter from our move to a 28-day billing period for prepaid customers. In the fixed business, we returned to revenue growth, due to the higher customer base, but increasingly aggressive price moves from competitors are likely to act as a continued drag throughout the year.

Turning to the UK on slide 15, as you will be aware our customer service in the UK has been impacted by operational challenges following an IT billing system migration. The chart on the left shows that we are beginning to return to normal customer service call volumes, although more work is required to improve the performance of our IT systems. In addition, we've made significant progress on network enhancements. Our 4G coverage now stands at 95%, up from 76% last year. Based on this improvement, we've launched our 30 day money-back guarantee for new customers.

As can be seen in the middle chart, contract net additions improved to 26,000. Consumer-contract churn improved significantly quarter-over-quarter to 15.5%. We continue to achieve strong growth in 4G, adding half a million new customers, taking the base to 7.5 million. As our service stabilises, we were able to accelerate our broadband service, adding 28,000 new customers in the period. Field trials for the TV service are underway.

The chart on the right shows the 3.2% decline in service revenue in the period. This compares to an underlying decline of 0.8% in Q4. Mobile revenue declined 3.6, driven by several factors: firstly, the IT challenges; secondly, out-of-bundle as we flagged previously; and finally, the regulatory impact of roaming and a small MTR cut. Fixed revenue, which is mostly enterprise-related, declined 1.8% compared to a growth of 5.5% in the prior period. This slowdown was due to tough comps in prior periods, including the strong carrier-revenue contribution in Q4 and the lapping of a large contract win in Q1 last year. As stated in May, we expect to see an improved top-line performance in H2.

Rounding off the major European countries, Spain, on page 16. Starting with the chart on the left, Spain is a little unique, with three strong, converged players, so the key is to ensure we have network co-leadership, which has been achieved with a four points NPS lead over the next best competitor. This reflects our leading 4G coverage at 92% and an extensive fibre footprint reaching 8.9 million households. Building on this and to differentiate further on service, we recently launched worry-free tariffs with integrated roaming, which are already used by 60% of roamers.

As the middle chart shows, the more-for-more tariff changes announced in April had a negative impact on churn in April/May, leading to a slowdown in mobile and fixed customer growth. I am pleased to say that mobile churn returned to more normal levels in June but remains elevated in fixed, due to aggressive competition in the low end. We now have 3 million fixed-broadband customers, with 1.9 million Vodafone One converged customers and 1.1 million TV users, with the latter supported by the launch of our new DSL TV proposition.

The chart on the right shows the service revenue trend, which now includes Ono in all quarters. The reported figure is in red, which is now positive for the first time in eight years. Excluding handset financing, shown in black, underlying growth was very strong at 4.9%. This was driven by two factors: firstly, the more-for-more value enhancement for both new and existing customers that Vittorio mentioned; and second, growth in the fixed and mobile customer base over the year. When considering Q2, you should note that last year was very strong due to the launch of an out-of-bundle proposition, which was then capped from Q3 onwards as part of our CXX programme.

Moving to Vodacom on slide 17, which reported its results yesterday, here you can see that our NPS lead over the next best competitor is 16 points and is the highest of our large markets. We have maintained our clear network leadership overall, with 4G network coverage at 65% and 3G at 99%. Building on this differentiation, we remain focused on the successful Just for You targeted, personalised offers launched last year to drive further growth. We continue to drive good KPI performance on the back of our network leadership and focus on customer service. Customer growth remains strong, with contract churn now at a record low of 5.3%.

As the middle chart shows, data usage is rising rapidly, with the number of bundles up over 50% year over year, and the 4G customer base up half a million in the quarter to 3.6 million.

The chart on the right shows the service revenue trend for Vodacom, with South Africa in the red bars and the international business in black. Growth in South Africa was 5.7% in the quarter, stable quarter-over-quarter after taking into account the leap year effect in Q4. Trends remain strong, driven by good customer growth, stabilised voice revenue and strong data adoption, though clearly the economy remains fragile. Vodacom's international operations outside South Africa account for around a quarter of service revenue. Here, a growth of 4.4% was significantly below the previous quarter, due to a new customer-registration process in Tanzania, DRC and Mozambique. This impacted the customer base in Q4 and Q1, and reduced service-revenue growth by around 8 percentage points in Q1. Over the next few quarters, we expect the rate of additions and headline growth to normalise.

Finally, India, on page 18. As the chart on the left shows, we have achieved overall co-leadership and, clearly, there is a material gap to the value players. Our 3G coverage targeting urban areas is now 96% and our 4G service is on track to reach over 60% of data revenue in nine circles by the end of the fiscal year with our existing spectrum. As you are all aware, a new spectrum auction is expected to take place in September/October. This is an opportunity to further enhance our network but, as previously indicated, we will continue to adopt a disciplined, circle-by-circle approach. To enhance the customer experience and give comfort when using data for the first time, we launched a 'no questions asked' waiver for those customers who experience first time 'bill shock'.

Moving on to commercial KPIs, the chart in the middle shows how data customers are rapidly migrating to 3G/4G. Though our 2G customer base fell 16% year-on-year, our 3G/4G users increased by 46% to 32 million, with data usage per 3G/4G customer three to four times that of 2G.

Turning to service revenue, as shown on the chart on the right and the bars in red, our reported growth increased to 6.4%. The green bars exclude the impact of various negative regulatory impacts and on this basis, underlying service revenue grew by 7.7%. The vast majority of the 2 percentage point quarter-over-quarter slowdown was due to the reversal of the leap year benefit in Q4 and the lower intra-circle roaming revenue, as Airtel, Idea and ourselves roll out additional 3G circles with our own spectrum. Data revenue growth slowed to 22% as a result of continued data pricing pressure and moderating active data customer growth. And, in light of recent market developments, we announced an increase in data-bundle allowances today, in line with the market, which may weigh in the near term but should see strong elasticity over time. Voice revenues recovered slightly, as competitive pressures on prices eased, but average usage continues to fall.

So, to summarise, on page 19, we continue to make good progress. As Vittorio covered, we are focused on building differentiation through the four pillars of our Customer eXperience eXcellence strategy. That focus is maintaining top line momentum, despite absorbing the roaming regulation impact in the quarter, with positive performances in Germany, Italy, Spain and South Africa, as well as Turkey and Egypt, coupled with the steady improvement in India, whilst we work hard to improve our performance in the UK. Our more-for-more propositions have helped to drive ARPU improvement in the quarter, and we maintain our strong momentum in fixed-line, with a focus on highly profitable growth in our under penetrated on-net footprint of 30 million homes.

Looking forward, we expect to make continued underlying progress in the remainder of the year. In May, we said that we expected H1 to have a flattish reported revenue trend on the 1.8% underlying Q4 exit points. While we have slightly outperformed that pace this quarter, we face a further roaming impact in Q2, along with tougher year-over-year comps, particularly in Spain, where we had a large, non-recurring, out-of-bundle data-revenue spike last year, and South Africa, which benefited from the launch of our successful Just for You proposition. Beyond Q2, we continue to expect to make steady progress on our underlying top-line growth in the second half of the year. And as we begin to lap the higher opex space created by Project Spring, and our Fit for Growth initiatives accelerate, we expect this improved growth to translate into higher EBITDA growth. So, for EBITDA, expect a higher weighting of growth in H2 versus H1. As a result, I'm pleased to reconfirm our full-year guidance of 3-6% organic EBITDA growth, and greater than €4 billion of adjusted free cash flow.

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

Questions and Answers

Polo Tang, UBS

Thanks for taking the question. I just have one question – a bigger-picture one – on cyclical. If you look at your business today, how cyclical do you think your business is?

Vittorio Colao

Polo, it's the usual question that is asked when people don't know what the environment is. For sure, we have a certain dependency for the third of the business which is enterprise on the general state of the economy. Therefore, I would say, for that third, we clearly depend a lot on the state of things around us. On the consumer front, there are several different forces at work. There is the big evolution towards data and data expansion, which is not that cyclical. But of course, in negative cycles, price pressure and competition tend to overcompensate, with price reductions the natural increase of our business.

So, it's hard to give a mathematical answer to your question. I think we are well protected by the circular trends towards digitisation in consumer. We are more exposed to the enterprise fluctuations. We have put in place recently, again, a number of measures. We're going to track on a fortnightly basis a number of key operational indicators to detect early signs if there is a slowdown in the economy. For the time being, it's too early to give you an answer.

Nick Read

Polo, I would just do one build, which is, referring you back to the May presentation and the chart I showed around resilience, the fact that the composition of the Group over the last three/four years has really shifted. Obviously, you've now got consumer contract, in-bundle, fixed, a major part of that business – 40%. So, I'd say, though, obviously, as Vittorio said, we're going to face some cyclical aspects, I would say it's a more resilient profile.

Akhil Dattani, JP Morgan

Hi. Morning. A couple of questions, please, if I may. Firstly, just on Germany, Nick, you mentioned the various changes you've seen in the competitive environment through the quarter, and I guess specifically we've seen quite a bit of competition at the low end of the market in the no-frills segment. You mentioned Deutsche Telekom's moves within the indirect channels. Just more broadly, how are you feeling about the way those competitive dynamics are shifting at the moment in the context of the weaker adds you've seen? Is that something you're worried about or not, or do you feel very happy remaining quite disciplined? So, just a broad question around competition in Germany.

The second thing is on more-for-more price changes. In Spain, you've had a pretty unique situation where you've put the changes through on the entire back book, so we've seen a pretty dramatic change in the way that's impacted your growth performance, but I wonder if you could help us understand, firstly, how you think about the read-across to how these changes could impact your other markets, but also how you're seeing customer perception change. It's quite interesting that to see in your KPIs that both your data-traffic and your voice-traffic trends in Spain have accelerated a lot this quarter, so does it give you a lot more confidence in the sustainability of these sorts of trends?

And then just the very last thing was just on Italy. We've had, obviously, the remedy process formalised, or at least we've got some idea of what the remedies are likely to be. Just any comments around that would be very interesting. Thanks.

Nick Read

Somehow, Akhil, you managed to do a question that asks about every country in Europe. So, if I just take Germany, if I was going to just summarise the overall competitive landscape, I'd say a couple of points. First of all, it's very much a two-tier marketplace. So, you've got ourselves and DT, high-quality 4G market, and what you're seeing there is more-for-more pricing moves going through. So, I would say a healthy dynamic. I would say then you're saying the second tier, which is more 3G marketplace, with value players and a degree of competition. As Vittorio said, we are deploying otelo as second brand to remain competitive in that area.

I'd say the second dynamic you see is look at Germany as a little bit unusual. There's three levers, if you like, commercially: one is commissions, one is subsidy upfront, and one is core pricing. So, core pricing, I would say more-for-more increasing. I'd say subsidy upfront in July is coming down, so the upfront charge is going up in the marketplace. And then the third area is commissions into indirect, of which we have tried several times to bring that down. DT seems to be quite actively promoting into that channel. We would hope that that would moderate over time.

Vittorio Colao

And then, Akhil, a couple of comments on Spain and Italy. First of all, Spain is... you cannot really do a read-across easily. Don't forget that Spain is a market where there has been massive price reduction, so now this ARPU increase in the context – which is not a price increase – in the context of much more for more is helping recover some of that. We had a little bit of slowdown in acquisitions. Quite frankly, it's also a quarter where, typically, you have students' stuff and other kind of more seasonal effects that would make the quarter, in any case, slower. We think the situation is now stabilising. We got a little bit of a hit in NPS at the beginning but now it's coming back again. We are again leader, as Nick said before, so I think it's a rather stable situation but I cannot extrapolate that we are going to do the same everywhere else, to be clear.

On Italy, I would say we are waiting to see what happens. Italy, we had a good performance in a market which is becoming again very promotional, and I have to say not necessarily because the number three and number four only are promoting; also the number one is – or the co-number one – is sometimes going down the path of excessive promotions. We will be competitive. Let me say we will continue to be competitive. The arrival of a new operator in Italy, at the end of the day, we have been the second entrant in a market where there will be a sixth one. One went out at some point. It's very, very promotional. It's a very liquid market now in Italy. These days, you can get 4 GB for €7, or you can get 30 for 30. So, yes, there will be an impact from the newcomer but, quite frankly, I think the benefits of the consolidation will be bigger, if I'm honest.

But you cannot completely read across because Spain is very highly converged, highly bundled, completely non-subsidised market. Italy is a prepaid, less bundled and, again, different type of distribution. So, reads-across are difficult but still the strategy is the same: much more for more, trying to avoid price decreases, eventually add more to the packages and to the offers, and create, hopefully, more loyalty also through this.

Nick Delfas, Redburn Partners

Thanks very much. Two questions: first of all, on churn in Europe, we're still in the sort of mid-to-high teens. I'm just interested in how you think about where that could go over a three-

year period. Obviously, the small number of post-pay customers in South Africa are at 6% and, no doubt, there are huge numbers of different churn rates within your 16-17%, but where do you think overall contract churn could go?

Secondly, on Enel in Italy, I just wanted a bit more detail. Who's doing the in-building wiring, if you're in an MDU? And what kind of hard commitment are you making to move customers over in the areas that are passed by Enel?

Vittorio Colao

I can take it. On churn, Nick can be more precise, but let me tell you there are two positive things – I would say two-plus positive things – affecting churn in the way forward: first of all, convergence. Clearly, the more you bundle in a family, the more you have an impact on churn, whether the impact is, as some of my competitors say, 5, 6 points, or 2 or 3, I don't know, but it should be definitely a few percentage points.

Second is the handset, the separation, either hard or soft separation of handset from the service, which clearly takes away a strong reason for shopping around and churning. And I'm glad to see that, more and more, Vodafone is applying this in different markets with success. And this, of course, again, has to be based on a strong network. So, where we have strong network performance and where we have strong differentiation on network, we can more easily separate the two.

And third, much more-for-more, intrinsically, in conjunction with the previous two, makes customers go for larger packages. Again, I go around shops in every market where I am, and it's incredible how, year after year, the normal package has gone from 1 to 2 to 4, and now people start saying that the normal kind of average allowance should be 7. The more they invest in that as opposed to in hardware, the lower the churn could be.

So, I think Nick can give you a more precise answer of churn ambition, but I would say a few points.

Nick Read

Yes. Just to build, I think what Vittorio did is explain all the good levers you pull to drive down churn, as opposed to the old model, which was just drive more subsidy in to drive, if you like, to lock customers in. So, we're not doing that execution, so it takes a little bit longer to bring churn down, but you have to say to yourself we have a number of markets that are operating in the 10-12% level and, therefore, I can't see why that wouldn't be an ambition over time.

Vittorio Colao

Yes. On Italy, the answer to your question is it's Enel and their contractors doing it, and we have a price already agreed. And in terms of hard commitment, we do have the commitment but, most importantly, we do have the interest to move our customers to them, because there is a financial benefit for us to be with Enel rather than being on the Telecom Italia network. And of course, there is also a strategic interest in putting less money into the pockets of your competitor. So, there is a commitment but there is, most importantly, a strategic and financial motive behind.

Nick Delfas

So, how big is the hard commitment?

Vittorio Colao

Sorry?

Nick Delfas

How big is the hard commitment?

Vittorio Colao

It's a commitment to do it whenever we can, whenever the conditions allow.

Nick Delfas

Okay. Thanks very much.

Vittorio Colao

But again, this is a partnership, so it's in our interest to do it. The problem is not the commitment. The opportunity here is most important.

Robert Grindle, Deutsche Bank

Good morning. Just a clarification on Nick's Vodacom international revenue trend normalisation comment: is it that the growth normalises back up to the pre-eight-percentage-point hit from the registrations or are we looking at a new normal, because the new world of registrations is different than it was before?

And then, just secondly, data traffic seems to have been restated in a number of your countries. I wonder what's the story there, because I can't resist any Poké effect on data volumes I've seen so far in Q2.

Nick Read

So, I will do the first and the third. So, you're saying Poké as in GO – what sort of impact you're seeing?

Robert Grindle

Yes.

Nick Read

Yes. We've got a little bit of data on that. A typical German user, I think, is using about 10 MB. It's not particularly data-heavy. About 70% of the usage is actually on the mobile network. So, I would say it's interesting but I don't think it's transformational on our numbers.

In terms of the international side, it's a little bit hard to predict because, whenever you do these customer registration processes, clearly you are disconnecting SIMs, and you're disconnecting SIMs, some of which have clearly revenue on it. What you're expecting is that those customers actually then go through a registration process and resurface back, but you have that lag effect

because it's a new process and it's a bit heavy. So, would we be looking to, over the next two, three quarters, return to something similar? I would say yes, but it does somewhat depend on what happens to those customers.

Vittorio Colao

Yes. On the data volume growth, Robert, I suggest you liaise with our IR department because there are technical factors there but not something that we can handle here and not, quite frankly, of concern. Technical, as I said.

Robert Grindle

Will do. Thank you.

Andrew Lee, Goldman Sachs

Good morning, everyone. Thanks for taking my question. Just, firstly, as you pointed out, Vittorio, we are seeing increased regulatory commentary across Europe on NGN fixed access. I was wondering if you could give a bit more colour on your thoughts on how this appears to be changing across Europe and whether it makes you more confident to pursue a wholesale-led path, where you don't have your own network?

And then, just secondly, following up on Akhil's question earlier, as you pointed out you had a strong performance in Germany and Spain on the more-for-more strategy, but you did see weaker net adds in Spanish fixed, which I don't think reversed in June, and also weaker German post-paid mobile. Do you think these are one-off hits in a quarter with more-for-more activity or is there longer-term concern from sub-brand or MVNO pressure where you exert that strategy? Thank you.

Vittorio Colao

Thank you for your questions – very good, both of them. The first one is very strategic. I think – and I think it's also evident in the vectoring decision on Germany and on the Ofcom positions here in the UK, even if they're not fully shaped, it's clear that our position, Vodafone's position, which I said, is it's important that Europe modernises but this should not come at the expense of good competition, actually has really got traction in Brussels and in the European regulators... across the European regulators of BEREC.

So, the position which is coming out as the prevailing position seems to be to encourage build, to encourage modernisation, sometimes even modernisation of copper, which we think is not a great thing, but pragmatically we can accept, provided that this doesn't come with a restriction of competition. And therefore, the two elements which are very important, that Vodafone has been campaigning for – I think I put more time on this in the last year and a half than on many other things, on any other thing – the position of there should be a good wholesale-access price and condition but also access to ducts, poles and dark fibre, if possible, to give choice between a make and the buy option. And this seems to be shaped in different ways, more or less everywhere.

Now, this is good and, to be honest, I think it's good for the industry. I think it should be seen by you and by the investors as a positive for the industry because it means that, at the end of the day, modernisation will take place – vectoring, whatever, G.fast, these things will happen – but this will not help substantially only one player. It will help everybody go at better speeds, go at

better service, potentially higher ARPUs, which we think is the objective of everybody, but not hitting competition.

So, we have been really the proponent of this position. We have put a lot of effort here. Somewhere we gain; somewhere we are neutral. But at the end of the day, it's good. Our performance in fixed-line in Europe and our presence in all markets at this point, including smaller ones like Ireland or Greece and so on, is, I think, a proof that we are really doing the right thing.

On your second question, on mobility, I think you're correctly pointing at two things which, however, are very different. In Spain, our fixed-line performance, as I said, has been hit by seasonal effects and also by the higher prices. We have got a little bit of a moment of customer negative reaction, but, quite frankly, we think we are reacting in the right way. One point remains open for us in Spain, and I want to be transparent on this: we see erosion coming from the Jazztel competition. So, while us, Telefónica, Orange, we have a very consistent, I would say, converged strategy, Jazztel plays a little bit different game and, therefore, one decision that we have at some point to make is whether, at some point in Spain, we'll activate our second brand and start hitting in that part of the market as well. So, Jazztel is a little bit of a free rider and again, at some point, we might decide to give them a little bit of a harder time, if they continue with the current pricing.

In Germany, the issue is on post-pay has been an issue of subsidy and indirect. Deutsche Telekom has done a move, on one hand, I would say, with healthy pricing on the customer side but then putting a lot of money in indirect channels. As you know, we have invested and we are convinced we need to ship more on direct and our own controlled distribution, and that has got a little bit of a cost for us. Again, we believe in long-term, we believe in healthy pricing, and we will try to recover a good commercial performance without damaging the overall profitability. Nick, do you want to say a bit more about Germany?

Nick Read

I was just going to say exactly, it's not related to the more-for-more proposition at all; it's the indirect performance. And the other point I would just add is that we did the Deutsche Bahn deal this time last year, so, that's 33,000 net adds this time last year on Deutsche Bahn.

David Wright, Bank of America

Hello, guys. Thanks for taking the questions. A couple from me, please, both responding, I guess, to competitive dynamics. First, in India, we've seen a lot of the operators lowering their data prices, perhaps in anticipation of the Jio launch, whenever that might be. Let's make a best guess of sometime in the second half. If you could just talk about how you're positioning yourself for that in a little more detail, please?

And then, secondly, in Spain, Telefónica are looking to slightly reshape its content offering, moving football into the basic convergent packages, with a price increase. Also how you're thinking about that versus the previous pricing structure? Thank you.

Nick Read

So, on India, so we announced our new pricing today, so we are following the market. Just to be clear on what 'following the market' means, data allowances are being increased in both 2G and 3G. I call it sachet pricing, so the small increments. So, this is up to 300 MB usage, one to seven days. So, we've increased the allowances between 25% and 40%, but held the price points. Actually, if you do the analysis on the effective rate within that, really what we're doing is we're moving that rate closer to the entry level of the bigger bundles – so, the 1 GB price points – on an

effective MB pricing. We've also increased allowances in packs greater than 350 rupees by about 25-40% as well, whilst holding price points. So, I think it's more about stimulation of the market ahead of Jio coming in, and making sure that we offer good value to the higher-value customers as well.

Vittorio Colao

Yes, and if I may add, again, a more general comment, I think what Nick described is what, if I may, we tend to always do when new entrants come in the market. Again, my comment on Italy but I could comment about any market. By now, we have seen many new entrants in many places and, if you look at the classic pre-empting strategies that we did since my days in Italy, it's always, in the months before, you increase what you give to your customers. You just neutralise the appeal of a new maxi offer from a new competitor with something which is not probably maxi but is more generous. So, technically, it's not reducing price. The mathematical effect is that you reduce the price but, in reality, what you're giving is you're giving more to reduce the appeal of the offer of the new entrant, which, by the way, is what we've been doing in most markets. So, correct answer, I would say.

On Spain, two comments here: first, encouraging to see that there is rationality in the market. As you know, we all have access to content. We will do what we think is right in the context of the Spanish market. And second, as you know, I always said that Vodafone wants to distribute content, that we think that bidding for exclusivity only pushes up prices and then, as a result, you need to try to recover them in a way or another from customers. So, I think that exactly what we said would happen is happening, but as far as the three main operators and – leaving for a second Jazztel out of the picture – I think there is some pricing rationality in the market.

James Ratzer, New Street Research

Thank you very much indeed. Good morning. I had two questions, please, on different markets. The first is just in the UK, please. You've mentioned one of the drags you're facing there are out-of-bundle revenues. I was wondering if you could talk a little bit more about how much further that drag has to run. Do you think your out-of-bundle-revenue exposure is higher than some of the other operators?

And you also mentioned, Nick, in the commentary, interest in duct and pole access. I was wondering if you could talk a little bit about how serious you are about considering rolling that out. Would that be something you would do potentially on a wider scale or very selectively?

And then the second market I had a question on was Spain. One operator that hasn't been talked about much is MÁSMÓVIL, who seem to have some fairly grand ambitions in that market from a small start, and also have some quite competitive price points on just very basic fixed-mobile offers. I was just wondering if you could say if you're seeing any impact from them at all in the market at the moment and what you think about them going forward? Many thanks.

Nick Read

Maybe if I just take the first part, which is the UK out-of-bundle, and Vittorio does the regulatory side. So, just from a out-of-bundle bit, there's really two dynamics taking place in the UK. So, one was the 0800 regulation that was a drag. So, when we get to Q2, we start to annualise on that 0800 drag. The second aspect was, around about, from memory, it was about September, we put in a new CXX process to ensure that people were notified about going over their bundle sizes etc in terms of data. So, through those mechanisms, which we pretty much did in most of the countries that acted as an immediate drag on data out-of-bundle revenue growth. So, what

you're going to see, that's one of the key drivers for the Group, actually, in the second half, which is we start to annualise on that data out-of-bundle drag through the CXX programme that we put in place.

Vittorio Colao

Now that Nick has given the financial answer, it gets to ducts and poles, the network –

Nick Read

Specialist.

Vittorio Colao

The network-implementation specialist comes in. Listen, on ducts on poles, the answer is it's necessary to have both access to ducts and poles and access to active products, because, of course, we want to do exactly – and we need to do exactly – what you describe. On one hand, we need to be flexible, we need to be selective. If I want to connect a certain area where we have many enterprise customers or base stations or technical facilities, maybe selectively, in certain areas, we want to be capable of rolling out our own infrastructure, for which access to ducts is very important. In less dense areas, in places where we do not have the economics, there's no point, from a return-on-capital perspective, to duplicate the infrastructure, and we need to have the possibility to acquire from BT at a decent price.

So, this is the key point that I've been campaigning for, for a year and a half, good competitive conditions, need to allow both. And when you have both, you create the right competitive dynamics and also an incentive, to be honest, to Openreach or to Deutsche or whoever to be honest and give good service where they are in [inaudible], because they know that we have an alternative. So, I'm glad to see that this point is landing in Europe, and the answer to your question will depend, as always, on specific markets and specific geographies.

On MÁSMÓVIL in Spain, listen, as I said, this is a great intention. They don't have cash flow. Yoigo doesn't have positive cash flow – it's zero cash flow. They need to deploy more fibre. They need to use more their network. What can I say? We'll have another competitor. It's going to be not probably the main concern that we have in Spain but, of course, we take everybody seriously and we'll see what they can achieve, starting from where they start. But it's hard to comment more than that.

James Ratzer

Great. Thank you very much.

Vittorio Colao

And Yoigo, by the way, Yoigo has got very aggressive price points for the last year and a half. I remember the €19, 20 GB thing, which, at the end of the day, has not moved the market too much. So, again, much more for more is also a strategy that, including football, including content, is also a strategy that creates clearly different tiers in the market.

Justin Funnell, Credit Suisse

Thank you. Three questions, just quickly. It looks like your data volume growth has started to reaccelerate. When you look at the total GB growth year on year in Europe, it had been slowing down for a year and a half. Is that simply the effect of more-for-more or are people just simply getting bigger bundles, or is there a new wave of underlying usage coming through from new applications, obviously, not Pokémon GO but maybe something else going on out there?

Secondly, your NPS scores, obviously, a key focus of your business. Generally, we're looking at number three operators starting to build out more 4G over time. Do you think you can continue to extend those NPS scores over the number three, or really the main effort is to try and sustain the leadership you now have?

And then, thirdly, Otelo in Germany, quite a big change in your prices for Otelo. What can you do to stop that infecting your premium brand pricing? There's a pretty big gap between the two now. Thank you.

Vittorio Colao

Shall I take the first two and you take Germany? So, on data-volume growth, Justin, as always, it's a little bit like the impact of the economy type of question. There's many forces at work here. I think the growth of video continues and is a very important factor in data. I think the penetration of smartphones is also very important because, as I said in my opening remarks, we still are at a relatively low penetration of smartphones, or at least not a complete penetration of smartphones. So, the two together are pushing up data.

We are also, as I said, taking as a central point for what we recommend to customers more and more the 4 and the 7, rather than the 2 and the 4. So, it's a combination of our much more for more supply-driven, if you want, strategy with the demand-driven offering of video and video-based applications there.

On Pokémon GO, if you are interested, unfortunately the average utilisation of data of one hour of you chasing the monsters or whatever you call them is only 20 MB per hour. So, while it is a great thing to talk about and to do from a usage perspective, Pokémon GO will not change the future of Vodafone, but we are all very amused by this thing. It's more the Facebook feeds, it's more the Twitter real-time, it's more the Periscopes, it's more this type of applications and, of course, the serious content, at the BBC and everything else. But it's more the video side rather than the gaming one that is important.

On NPS, you ask a very intelligent question. I think it's still possible to improve our NPS lead but it has to be exactly on what I talked about, not purely the C, the Connectivity element of CARE, but it's a lot on the R and the E i.e. the Rewards and the Ease of use. Our intention is a progressive, more aggressive use of our My Vodafone app to really manage customers and deliver offers, but also deliver service. So, the complexity of doing it is very high, and that is something that requires time, investment. And it's not really money; it's really operational capability. It takes a lot of time, but once you have it, it's really hard to replicate. So, yes, we'll continue on the connectivity side, but we're really extending more in the full CARE dimensions – the four pillars of CARE.

Otelo pricing – the €5?

Nick Read

Yes. Justin, I'd say, actually, I really like what we're doing in Germany from a commercial strategy. And you don't just look at price in isolation; you look at the channel strategy and various other things – brand strategy. I'd say three things: one is there's a clear demarcation between a 4G market and a 3G market. We're very much focused in Vodafone at the 4G market, Otelio at the 3G market.

I'd say, secondly, the recent commercial rebalancing we did on the Vodafone side, so bringing down our core tariffs by €5 but increasing the handset contribution by €5 a month, so, commercially good but it also provided Vodafone with more value perception.

And then, thirdly, I'd say Otelio is an online-only brand, so it's tactical and controllable in our overall channel mix. So, very happy with the evolution of the German market from our perspective.

Jerry Dellis, Jefferies

Good morning. I've got two questions, please. The first question is on the outlook. As we look forward to the second quarter, should we expect service revenue trends to be flat relative to Q1, bearing in mind perhaps an incremental drag from roaming and perhaps also the new India pricing? And then, when we look ahead to the second half and the margin expansion that you talked about embedded within the EBITDA guidance, should we expect that margin improvement to be broadly based across the countries or are there any particular ones that you would call out at this stage?

And then a second question, just about the Italian broadband market, what sorts of safeguards are in place around the pace at which Enel's fibre deployment proceeds? There are publicly stated rollout targets but it seems as if, from the outside, there could be some risk of delay. At least that risk isn't a trivial one. How would you maintain your retail competitiveness in the high-speed market in the event that Enel's deployment were delayed? Thank you.

Vittorio Colao

Well, these are both very good questions, so why don't I take the first one and we conclude with the outlook, forward-looking thing, which seems a perfect way of closing a call?

So, the Enel rollout, let me tell you that we are pretty confident that the plan until September 2018 is solid and easily achievable. It's a plan that calls for a ramp-up from 30,000 homes per month to 60,000-80,000 homes per month. We think it is doable. We compare to other markets. Don't forget that it depends a lot on how cities are built, and multi-dwelling and apartment blocks and these things make a huge difference here. So, that is not, if you want, in my view, the challenge. The real thing is, once we got there, the next leg, the one that would finish in September 2021, which would bring us to the famous 7.5 million homes – that would require a lot of operational muscle, because then the number of homes goes up rather significantly. But I would say, for the first batch, until, let's say, two years from now, two and a half years from now, the numbers are fairly accessible and doable, and the early indication is that everything is achievable, based on our experience.

In the meantime, we continue to acquire. And again, then, I go back to the earlier question, it would be in our interest to put on Enel's network as much as we can, but, of course, we will continue to work also on the own FTTC infrastructure and the wholesale infrastructure of Telecom Italia to maintain customers. And there will be a point where, probably, hopefully, the more successful Enel is, the more we will say, 'Well, we are better off going straight with them and not doing it.' But for the time being, we continue a dual-track strategy. But as I said, September, I

think, I would say reasonable and doable. Along the way, we'll get more and more confidence that also the second, bigger chunk is doable.

Nick, do you want to conclude with outlook and a wonderful bridge into October/November?

Nick Read

Sure. So, just in terms of service revenue trends, look, you're right to call out we'll have a little bit more of a negative drag on roaming in Q2 and, as I pointed out, the tough comps on South Africa and Spain. And then we have some underlying improvement in the business on the trends that we're seeing. So, I would say, in aggregate, we're going to be a little bit down on Q1 growth, but not anything material, before then starting to see underlying positive movement in the second half.

I'd say in terms of EBITDA, look, the margin expansion, if you like, in the second half, I do see as broad based. Why do I see that? Really, you've got to think, in the second half, there are a couple of things that are a little bit mechanical. So, first of all, we are starting to lap on the Spring build. So, we exited at a certain size of network and cost base, and we will be annualising on that. We'll be annualising on the Spain football content increase. Obviously, we've still got that pain in the first half, but the second half should be lapping. The third is the UK customer-operations cost, the investments that we've made to recover our position in UK. Again, we start to annualise on that ramp up of costs, so, therefore, we would hope that that cost starts to move down.

And then the Fit for Growth initiatives are starting to accelerate and, of course, we've got... What I'd really point out is good quality service revenue growth, whether it's the fixed growth that we're seeing – 60% of our net adds are on-net, so good margin. We're seeing data. We're seeing more for more, which is implicitly pricing as well. So, I'd point to the quality of our revenue as well in the second half.

And on that, Vittorio.

Closing Comments

Vittorio Colao

Very good. Thank you. Thank you for your questions. I think, to conclude, I would say that we have made progress during this first quarter of the financial year. As we said, good performance in Germany, Spain and Italy offsetting the challenges that we are working very hard to address in the UK. The much more for more propositions are working on improving ARPU. And growth momentum in EMAP remains strong, with good performance in South Africa, Turkey, Egypt, and an ongoing recovery in India. And finally, as I said in my presentation, we continue to have the strategy centred on mobile data, fixed broadband and enterprise, and this continues to be driving growth for the company.

So, thank you for your questions. Have a great break, for those of you who can have it, and see you at all the conferences in September.

- ends -