Vodafone Group Plc

Q3 2020 - Trading Update

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Nick Read

Chief Executive Officer, Vodafone

Good morning, everyone, and welcome to our Q3 trading update. I am here with Margherita, and I will summarise our commercial performance in the quarter and cover some key strategic topics, and then Margherita will go through our trading performance before we answer your questions.

Turning to the highlights on slide 3, overall I think we're making good progress on our strategic and commercial priorities, and we're on track with our plan, despite a competitive environment in Europe that remains challenging, especially in the value segment. We maintained our service revenue growth in Q3, with a 10 basis point improvement compared to Q2. This was supported by our fifth consecutive quarter of year-over-year improvement in European mobile churn and good growth in NGN broadband, where we added over 400,000 customers, led by Germany.

We also signed an important deal with Amazon Web Services for mobile-edge computing across our European footprint, positioning Vodafone as a first mover to capture new revenues from ultra-low latency services over 5G as part of our multi-cloud strategy.

Improving returns on capital through network-sharing remains a key priority, and we have made further progress this quarter in Germany, where we are now in detailed talks with DT for active sharing in grey spots, areas where only one of us has coverage today. This builds on the cooperation agreement announced in November with DT and TEF to cover white-spot areas with no mobile coverage. The clarity on our network-sharing approach in Germany allows us to confirm that our TowerCo will be incorporated in Germany and headquartered in Düsseldorf. We are fully on track with our plan to operationalise the business in May, including the announcement of the senior management team today.

Finally, we have been actively managing our portfolio for some time with the goal to create two scaled, differentiated regional platforms in Europe and sub-Saharan Africa. The sale of Egypt largely completes this effort, as well as generating over €2 billion in proceeds, which will reduce our debt.

Turning to slide 4, which looks at our overall commercial performance more closely, I'm encouraged by the continuous year-on-year improvements delivered in European churn, which you can see in the top-left chart, as we focus on our long-term ambition of a single-digit churn rate for all of our markets. This performance is supporting a good re-acceleration in our mobile net adds, as you can see in the chart on the bottom left.

One of the key levers to reduce churn is our ability to sell additional products and, in particular, to drive fixed broadband and convergence. The chart on the right shows our progress in Europe in recent quarter. Our momentum improved further in Q3, supported by the continued stabilisation in our commercial performance in Spain and by a full quarter's contribution from Unitymedia in Germany. This performance underpins our ambition to continue to gradually improve our service revenue growth in Europe.

Moving to slide 5, I want to explain why we are concluding a more modest network-sharing deal in Germany versus the rest of Europe. The impetus to share is strong, given the significant 5G coverage requirements set out by the government, and we have actively engaged with all players since the auction ended. However, these discussions highlighted that Germany has several quite unique challenges when it comes to sharing, primary because rooftops make up a substantial proportion of our tower estate, as you can see in the chart on the left of the page. The synergies available from passive sharing on rooftops are lower in Germany than in other markets. This is because rooftop EMF constraints are greater and also because landlords in Germany typically agree rooftop leases on a per operator basis rather than a per site basis.

Of course, this model has benefits. It is more challenging for a new entrant to the market to gain comprehensive access to city sites or to get discounted terms. One potential solution to this problem was to agree an active sharing deal. However, DT was not open to this and, although TEF was keen to share, we could only come up with solutions that would have compromised the market's two-tier structure. Given these constraints, our sharing efforts have focused primarily on rural areas. In November, we announced an industry initiative to cover white spots. DT, TEF and ourselves will each build and share 2,000 new sites, expanding our coverage by 6,000 sites into areas that otherwise would be uneconomic. A great example of the new social contract I have discussed before, where the industry finds a new way to improve societal impact with better coverage at lower environment impact whilst improving returns for our shareholders.

And today I can confirm that we're in detailed discussions with DT on an active sharing agreement for grey spots on a reciprocal basis. We are still finalising the scope of this agreement, with the goal of meeting the coverage obligations with the most efficient model. Additionally, our tower company will be building new towers in order to meet our 5G obligations, providing third-party tenancy opportunities. In total, through a combination of shared white spots, grey spots and new build, we intend to add over 10,000 sites in Germany during the next four years, maintaining the two-tier market underpinned by our leading fixed gigabit network and co-leadership in mobile.

Clarity on our network strategy in Germany means that we can now confirm our plans for the TowerCo, which are outlined on slide 6. In addition to the CEO, Vivek, who is one of our most experienced executives and was the former Deputy CEO and CTO of Orange, we have today announced the appointment of Thomas Reisten as CFO. Thomas is currently the CFO of AMAP and was previously CFO of Vodafone India, where he served on the board of Indus Towers. With the majority of the senior management team now appointed, we are well on track to operationalise the business by May and aim to share financials for the business by our November H1 results.

Given our towers in the UK and Italy are held within joint ventures, Germany will be the core-controlled operation in the TowerCo, and therefore it was natural to incorporate the company in Germany, with the headquarters in Düsseldorf. We are preparing for a potential IPO in early 2021. At the same time, we are also exploring the monetisation of several individual markets in parallel.

Moving to slide 7, I want to take a minute to explain Vodafone's position on 5G network security and supply-chain resilience, following last week's policy decisions by the UK and the EU.

I am pleased that the UK process was conducted on a fact and risk-assessed basis and informed by the National Cyber Security Centre, which Vodafone has worked with closely for many years. It was good to see that this approach led to a clear distinction between sensitive areas of the network such as the core and non-sensitive areas such as the radio access network.

As you know, the UK recommended specific caps on the market share of high-risk vendors, such as the Chinese suppliers, and also banned them from the core. Although we already are in compliance with these measures and have limited financial exposure, we do not advocate a quota-based approach, as I will explain shortly.

Turning to Europe, which is in a strong position as a bloc to set its own direction and has a different starting point to the UK, the Commission has endorsed a set of guidelines which it calls a toolbox to ensure 5G network security. The guidelines give member states some discretion in finalising the measures that they will take for high-risk suppliers, so we are actively engaged with governments to explain our position on the best way to implement the toolbox, which you can see at the right of the slide.

This time last year, we decided to pause any further development of Huawei in the core. We have now decided to replace Huawei in the areas deemed sensitive, i.e. the core, across the EU within five years at a cost of approximately €200 million. In the non-sensitive radio access network, Huawei are an important supplier to both Vodafone and the overall industry, reflecting their high-quality technology. RAN quotas which require us to swap out our modern 4G networks would disrupt our customers, could drive higher prices given the cost involved and, most importantly, would delay the rollout of 5G by two to five years, given the industry's limited operational and financial resources.

This would hold back individual member states' and Europe's global competitiveness in a digital society. The better solution is to allow the industry itself to improve supply chain diversity. This will take time, but we are already leading long-term efforts in this direction by supporting initiatives such as OpenRAN.

Turning to slide 8, following the sale of Egypt, our efforts to refocus the Group on two scaled, differentiated regional platforms in Europe and sub-Saharan Africa have largely concluded. As you can see from the list on the right-hand side of the slide, we have been highly active in simplifying the Group over the past two years while at the same time deepening our positions in our core European footprint.

Last week we announced a major step in this journey with the sale of our 55% stake in Vodafone Egypt to STC for €2.2 billion. I have been personally involved with that business in Egypt for over a decade, and I'm very proud of what the team has accomplished, which is reflected in the seven-times trailing EBITDA multiple agreed for the business.

Vodafone will remain present in Egypt through our brand and as part of a new partner markets agreement with STC and also through our shared service centres. These centres have now been legally separated both in India and in Egypt and rebranded as Vodafone Intelligent Solutions or VOIS. Additionally, with the sale of Egypt, we have now eliminated the AMAP regional team and flattened our reporting structure. Shameel, the CEO of Vodacom, will join the Vodafone Group ExCo, reporting directly to me, with Ghana reporting in to Vodacom.

Before I hand over to Margherita, I would also like to update you on recent events in India. As I said back in our November results, following the AGR ruling by the Supreme Court, the situation in India is critical. The telecom industry in India has asked the government to take action urgently in order to support the continuation of a three-plus-one player market. Specifically, we have requested an immediate two-year moratorium on spectrum payments, a lowering of licence fees and taxes, the waiving of interest and penalties on the AGR case and the ability to make payment on the principal over 10 years with a two-year moratorium.

In addition, we welcome the government's recognition that there should be a price floor to eradicate predatory pricing. There's been considerable engagement from the government, and we await the outcome of the modification application filed with the Supreme Court in the AGR case in the coming weeks. However, these delays, combined with the protracted process to gain approval for the merger of Indus and Bharti Infratel are putting Vodafone Idea under incredible strain.

I will now hand over to Margherita, who will update you on trading in the quarter.

Margherita Della Valle

Chief Financial Officer, Vodafone

Thank you, Nick, and good morning everyone. I will start by summarising our overall service revenue performance on slide 10 before getting into the main markets in more detail. As expected, our performance in Q3 was similar to Q2, with the Group growing at 0.8%, a 10 basis-point improvement quarter on quarter. On the right of the slide, you can see that quarterly trends in Europe were unchanged, with the ongoing recovery in Spain and acceleration in the UK being offset by the lapping of a prior-year price increase in Italy. Rest of world continued to grow strongly at 9.1%, with a further improvement in South Africa partially offset by lower growth in Turkey.

Looking ahead to Q4, we expect a gradual improvement in Group service revenue growth led by Europe. This reflects our good commercial momentum in the UK and the lower rate of decline in both Italy and Spain.

Now turning to Germany, on slide 11, as the chart on the left shows our commercial momentum in fixed accelerated in Q3, with strong cable net additions, which almost doubled to 153,000. This was supported by the fast start we have made in migrating DSL customers onto the Unitymedia footprint, combined with successful seasonal campaigns. By the end of the quarter, we had already exceeded our full-year target for DSL migrations.

Our net adds performance remained robust in mobile, despite lower reseller volumes, and customer losses in TV were similar to the prior quarter. The integration of Unitymedia has continued at pace. We have now reached agreement with the works councils on our restructuring plans, and we'll start rebranding the business to Vodafone later this month.

On the right-hand chart, you can see that our retail revenues continued to grow in Q3 by 1.6%, excluding regulation, a similar result to recent quarters. This organic performance does not include Unitymedia, where growth continued at around 2% in the quarter, driven by a strong performance in broadband. Retail revenue growth was offset by wholesale revenues, which continued to be impacted by the drag from 1&1 of circa 100 basis points on service revenue.

Turning, next, to Italy on slide 12, service revenue trends deteriorated quarter on quarter to minus 5% in Q3. This two-percentage-point slowdown reflects the lapping of prior-year price increases in both mobile and fixed. Overall, the market dynamics in Italy remain similar to prior quarters. Competition in the low-value segment remains intense, and we continue to compete effectively with our second brand, Ho, where we now have 1.6 million active customers.

As you can see in the chart, our mobile number portability outflows reduced significantly during the quarter, as the churn impact from price rises in the prior quarters began to fade. Prepaid ARPU was sequentially stable as spin-down effects were offset by ARPU-accretive actions such as our speed-tiered unlimited plans. Looking ahead, assuming market conditions remain broadly similar, we expect a gradual improvement in service revenue trends as prepaid customer losses moderate and as we grow in fixed and convergence.

Moving to the UK, on the right-hand side of the slide, service revenue returned to growth in Q3. Excluding regulation, our growth actually accelerated to 1.1% and we are now growing across all of our customer segments. In mobile, our commercial momentum remains strong, supported by our new unlimited plans as well as our prepaid brand VOXI.

In fixed broadband, competition intensified during the quarter following price reductions in the consumer market. This impacted our net debt, and we have now responded by making our offers more attractive. Therefore, we expect our commercial performance to reaccelerate.

Turning to Other Europe, on slide 13, service revenue growth continued to be healthy at 3% in the quarter, with all eight of our markets growing. And customer growth remained robust across both mobile and fixed. We are well on track with the integration of the UPC assets in Hungary, Czech Republic and Romania, and, following the announced acquisition of cable operator AbCom in Albania and the disposal of Malta, we are now fully converged in all markets.

Moving to Spain, the overall pricing environment remains highly competitive, with 50% of gross sales in the market now coming from the low-value segment, which drives down ARPU. Within this backdrop, we continue to see a gradual improvement in our service revenue trend, supported by a stabilised customer base and ARPU benefits from unlimited. As you can see in the chart on the right, our customer net adds in both mobile contract and fixed broadband returned to growth for the first time in two years, boosted by the good performance of our second brand, Lowi.

We also grew our TV base by 56,000, reflecting our strong series and movies line-up. Vodafone TV offers 82 of the 100 most popular series, more than any other operator. Our unlimited customer base also continued to grow strongly, reaching 1.8 million customers by the end of Q3 and supporting modest ARPU accretion.

Turning to Vodacom on slide 14, service revenue growth was 5.2% in the quarter. This improvement on Q2 was driven by South Africa, where growth accelerated to 4.6%, supported by 65% data-traffic growth. Our proactive efforts to lower data bundle pricing are leading to good elasticity.

At the beginning of December, the South African regulator ICASA and the Competition Commission published very different findings from their separate reviews of the mobile broadband and data-services market. ICASA did not view Vodacom as dominant on a national basis and did not indicate a need for retail regulation. However, the Competition Commission argued that data prices were too high and recommended material retail price reductions. We've engaged constructively with the Competition Commission to discuss the measures that we plan to introduce in the coming months to further reduce data prices, particularly for poorer customers.

We do not expect a major slowdown as a result of these measures, given the significant potential for price elasticity. The key to the success of our pricing transformation strategy in South Africa is to secure additional spectrum, which has not been auctioned in the market now for over 10 years. The good news is that ICASA has finally published the information memorandum for the upcoming auction, which is expected to take place in the next fiscal year.

Our international operations outside of South Africa continue to perform strongly, with revenues growing by 7.4% in Q3. During January, Vodafone Tanzania barred services to 1.7 million customers following instructions from the government which required customers to be biometrically registered by 20 January. Currently, a further 5 million SIMs remain unregistered. We expect to recover the majority of these customers over the coming quarters.

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

Summary

Nick Read

Thank you, Margherita – super clear as always. Look, turning to the summary, standing back, I am pleased with the overall pace of execution of our strategic initiatives and with the clear demonstration of continued progress over the second half. Our commercial momentum in most markets is good, despite a competitive environment in the European value segment, which continues to be challenging. We are rapidly executing on our strategic priorities, which are all levers that we control to systematically strengthen our business, so we can drive our future growth.

In particular, I'm pleased that we're reaching resolution on network-sharing in Germany. Although the scope of the sharing is more modest than in other markets, I'm confident that we can underpin the two-tier structure of our key market within our existing capex envelope. Our European TowerCo is now taking shape, with clarity that the major controlled operations will be Germany and Spain. We're preparing for a potential IPO in early 2021 and, at the same time, exploring options to monetise several individual markets.

We are closely engaged with European governments on the Huawei question and have now committed to remove Huawei from our European core networks. I'm optimistic that regulators and governments are recognising the need for a fact- and risk-assessed basis, understanding the distinction between sensitive core and non-sensitive RAN. With industry returns at such a low point, we simply cannot justify a large acceleration of capex to swap out modern 4G networks, so we would have to delay 5G rollouts for those member states as we re-prioritise our capex. And, post the sale of Egypt, our new flatter organisational structure will allow us to focus on capturing opportunities in our two scaled regional platforms, as demonstrated by our first-mover advantage in Europe from the mobile-edge compute agreement with AWS. Last but not least, we are fully on track on our digital-first and radical simplification transformation programme, which is delivering our targeted cost reductions, and we expect to deliver our full-year guidance.

I will now hand back to Hugh for our questions. Please remember to ask one question only – I know you love asking many – so that we have time to get through as many questions as possible.

Questions and Answers

Robert Grindle, Deutsche Bank

Good morning. I'd just like to ask about total organic revenue growth versus organic service revenue growth. There's a change in direction this quarter. I think your total revenue growth is much higher than services, whereas the last few quarters it's been lower. So is anything…? What's going on in Q4? Are you seeing a big handset pick-up or is it something else, set-top boxes, etc? Many thanks.

Margherita Della Valle

Robert, yes, as you pointed out, total revenue growth, as opposed to service revenue growth, can be impacted by handset volumes, and therefore this is what effectively explains the differences you are seeing. As we look forward to Q4, as we said in November, we expect further gradual improvement in service revenue, and this will be driven by Europe. It's supported by the good commercial momentum that we are having in the UK, and of course we expect Spain and Italy to continue to improve.

On the back of that, we should exit this fiscal year at around 1% in terms of top line, above 1%, and this represents a good recovery, clearly, on how we entered the year and testifies to the more consistent commercial delivery that we've had across all markets.

Robert Grindle

Sounds good – thank you.

Akhil Dattani, JP Morgan

Yeah, hi, good morning. Thanks for taking the question. My question's just on the various comments you've made this morning on towers. I guess, firstly, if you could just clarify for us – you've been talking historically about different monetisation options for towers. From the press release today, you look to be more firmly on the IPO route, so just if you could clarify how you've weighed up the options, why that route and why 2021, why it could not be a bit sooner.

And then, Nick, you just also mentioned on Germany that the tower-sharing opportunity is a bit lower given the whole rooftop issue in that market. Obviously I know a bit early, but how do you think around how that might impact valuation? Because obviously tenancy ratio tends to be quite a big driver. Thanks a lot.

Nick Read

Yeah, morning, Akhil. What I would say is, in terms of weighing up the sort of individual monetisation versus the IPO – I'd say we set out a timeline for a potential IPO. We're exactly on that timeline and remain on that timeline. The debate was very much a case of – we needed to land the final formula for Germany, because, if that had been some sort of JV potential, then you'd have to revaluate. Now we know that the towers themselves will make up the lion's share of what goes into the IPO vehicle – therefore, we've got a lot more clarity and visibility on our direction there.

I would say that, when we look at monetisation, clearly we've done the monetisation in Italy, and that is proceeding with Europe. We're also examining the UK as a potential opportunity. We need to take the UK from what is effectively more of a cost centre into a fully functioning business with a contractual MSA, so there's work to be done on that, but there's high demand in the UK. We've explored Spain; we feel Spain should just move into the tower company. There could be some other European markets that progress. So I still think there's some degree of monetisation opportunity on the footprint in addition to the IPO itself.

In terms of the Germany valuation, look, we see a number of reasons why it's an attractive vehicle. Because, essentially, a lot of tower companies out there today are sitting with third, fourth operators. I don't want to say lower quality, but let's just say, from a credit rating perspective, potentially lower. This is very much with anchored tenants that are high credit quality. We also have opportunities to drive build-to-suit going forward and small-cell deployment. We'll obviously think about fibre opportunities, though at the moment that's not the key priority. And there are additional tenancies that we do think we can drive across the overall footprint across Europe. So I see a number of additional opportunities.

Akhil Dattani

That's clear, thanks.

Nick Delfas, Redburn

Thanks very much. It's really one question but in two parts. The German business with 150,000 cable adds – could you just give us a bit more colour on that, what kind of speed tiers, any change in the first-year discounts that you're having to give, just some colour on what's working in accelerating that sale back from the last couple of quarters?

And, on the other side, in Italy how are you preparing for the launch of Sky Broadband and what do you think the impact is going to be on you in FY21? Thanks.

Margherita Della Valle

Sure, Nick. Taking the first part of your question on the 150,000 cable adds, first let me say that a good component of this has been the fast migrations we are seeing within the Unitymedia footprint from DSL to cable. We have already, as I was mentioning earlier, achieved what were essentially our full-year targets for the year for migrations before December. And we've not made any changes to our pricing at the moment, but we are seeing good take-up on high speeds. We now are selling to over 12 million houses in Germany up to 1 gigabit per second speeds, and we see overall our customers taking price plans with speeds at or above 400 megabits per second. So I would say a good performance, and we really remain excited about the opportunity that we have with this unique offer in Germany.

On the second part of your questions, yes, we expect Sky in the coming months to launch broadband services in Italy. Now, from our side, we would expect them to focus on upselling their existing customer base and upselling rationally, as we have seen them doing in other markets. In terms of impact that this could have, I think it's important to keep in mind two important elements which I think distinguish Italy from other markets. The first is that the pay-TV penetration in Italy is much lower than, for example, what you would be used to in the UK. And customers have already had access to Sky content in Italy, by the way, because we've had a commercial partnership for some time now. And the second thing is clearly, wholesale, in a way, sets the boundaries for what can be done from a pricing perspective, so all this should be the framework within their launch.

Nick Delfas

Okay, thanks very much indeed.

Usman Ghazi, Berenberg Bank

Hi, thank you for taking my question. My question is really focused on the AWS partnership that you've struck. Could you give any colour on the pricing scheme that you might have agreed with AWS? I guess my question is trying to address this concern that has happened in the 4G world where the OTT guys generate all the usage and the revenues and the operator is just left holding the cost bucket. Thank you.

Nick Read

Yeah, what I would say is I can give you a lot of colour, and it's attractive revenue share. I can't go, obviously, into any more detail than that. But, essentially, we're pleased with the partnership. We've worked very closely with them to be in a first-wave launch. Bear in mind it's also a multi-cloud strategy from our perspective. So, you know, fine, we're doing this with AWS; I am sure that Microsoft are very keen to launch as well; Google will be very keen to launch. And, of course, being the first to market, they only have a certain amount of capacity to launch these services, and therefore I'd like to think that they will be coming to Vodafone first.

Usman Ghazi

Thank you.

Andrew Lee, Goldman Sachs

Good morning, everyone. I just had a question around your network-sharing and towers updates today. Can you confirm that you won't be sharing with TEF Deutschland outside of the white-spot agreement you have? And do you see any regulatory obstacles to that, given that TEF D then faces a larger capex bill or a weaker network position as a result? And just a follow-up from that: is that it now in terms of your network-sharing agreements ahead of monetisation, given that that was the kind of process you'd laid out over the past few months? Thank you.

Nick Read

Yeah, Andrew, I would say the grey-spot detailed discussions that are taking place with DT at the moment – you know, it's a focused conversation between the two of us. Does that exclude completely TEF in the future? No, but it's not something currently under discussion by either party; we're just focused on the discussions between ourselves. And, therefore, I don't see it as an issue from a regulatory perspective.

In terms of further sharing arrangements, of course we continue to work on sharing arrangements country by country, and we have some countries, the smaller countries through Europe, that we have yet to announce. Obviously, we announced that we are in discussions with NOS, so that is good. There are other countries where we're also in discussions with other players, and we'll announce those in due course.

Andrew Lee

Thank you.

Sam McHugh, Exane

I will try this question. I'm not sure you'll be able to answer. But you mentioned that you're ahead of target in Germany on the DSL to cable migrtaions. I just wondered if that is mirrored in kind of the other synergies you hope to deliver on Unitymedia. I remember the very cool stuff you showed us when we had the digital day in London with all your charts and stuff on the progress of migration and everything. Any detail on that would be super-helpful. Thank you.

Margherita Della Valle

Sam, really, overall, we are reconfirming our synergy plans. You know that we have over €500 million of cost and capex synergies at stake across a number of areas, and we also have on top of that €1.5 billion NPV of revenue synergies. And, at the moment, we have reviewed all our plans; we have started very quickly. And, as we've already anticipated, we think broadly we are on track. There are some pulls and takes, but we are on track with our plans.

Sam McHugh

Thank you.

James Ratzer, New Street Research

Yes, good morning. Thank you very much indeed. Very much interested and kind of focusing on your largest market, Germany, and some of the kind of revenue drivers for that market going forward. So it'd be particularly interesting if you can comment on a) do you think there's any scope for upside in winning a wholesale MVNO or national roaming agreement with United Internet and 1&1 Drillisch? Secondly, I mean, Telefónica now have pulled back from those six-month promotional offers in Germany. Do you think that is a positive development for your ability to potentially increase price in Germany or increase your share of contract net adds?

And then just following on from the question on broadband net adds, then, is that something that you think – can this current run rate be continued? Can we see kind of further acceleration up over 100,000 fixed broadband net adds in future quarters?

Nick Read

Maybe if I cover the first one and you cover the last one, so just in terms of wholesale, I mean, obviously we've been losing wholesale revenues, as Margherita explained. We did offer 1&1 the ability to migrate the 3G customers they had onto 4G, and we would always be open to discussions. But we will not offer our full-speed network at discount rates. So, if people want to engage with us either on a fully costed full speed or a discounted slower speed, then we're always open to wholesale discussions strategically on that basis, but we will not offer full speed at discounted rates.

Okay, secondly, just in terms of TEF, look, what we would say is I think the thinking around speed-tiering in unlimited was very thoughtful and we endorse it completely, because that gives an opportunity to monetise unlimited moving forward, and we hope the industry follows the direction. I'd also say, in terms of pulling the six-month promotion, I think that was the appropriate thing to do in terms of pricing in a very rational two-tier marketplace. Obviously, we continue to always evaluate our pricing relative to competitors in the market both in tier one and tier two.

Margherita Della Valle

On broadband net adds, we do expect to keep a good tracking on cable in the coming quarters. Clearly, what we have just closed was the Christmas period. There were also seasonal promotions in it, as I mentioned, but we expect to maintain a good speed.

James Ratzer

That's great. Thank you very much.

David Wright, Bank of America

Hello, guys. Thank you for the question. I noticed within the commentary on India and, I think, the request you've made, you didn't reiterate your commitment not to inject any capital from the Group level. I don't know whether that was intentional or whether you are willing to do that right now. Thanks.

Nick Read

David, our position hasn't changed at all.

David Wright

Very clear, thank you very much.

Nick Read

We will not be injecting additional new capital into India.

David Wright

Good, thank you.

Polo Tang, UBS Ltd

Yeah, hi. I've got a question in terms of the UK. Consumer is obviously doing well, but can you talk a bit about what you're seeing in terms of the enterprise side of the business? Also, what do you think will happen with the market with the intention of end-of-contract notification in consumer broadband?

I just have really a clarification question on Germany, because the unit's currently seeing limited service revenue growth. And I appreciate the wholesale drag is ongoing, but, if you pro forma for Unitymedia, you start lapping the regulatory drags, and if you add in the good commercial momentum you're seeing, should Germany not start to see a notable pick-up in service revenue growth next year?

Nick Read

Look, I could swear that was three questions. I'll let Margherita cover the last one. She was taking more notes than I could.

On the first two, what I would say is just – on the enterprise side, I would say we're seeing slightly stronger growth than, say, the European consumer side. I think that's primarily being driven by the fact that we have some strategic advantages given our footprint, so we get, obviously, geographical penetration; we get the ability to sell fixed; we've got good traction on our IoT platform and cloud services. So we have a number of drivers that I think offer us the ability to grow at a slightly faster pace.

Clearly, the bigger challenge we face within enterprise is SoHos moving to consumer tariffs, and therefore we've launched a big commercial initiative on enriching the SoHo proposition, and you'll be seeing us drive that very much next fiscal year in terms of rolling out something that's more compelling for SoHos so that we can ultimately decouple them from consumer. So I think drive fixed, drive SoHos onto dedicated tariffs, push behind our IoT global platform where we have a competitive advantage, and obviously develop our cloud offering.

I would say your second question was around the end-of-contract letters for broadband in the UK. Clearly, we see that as an opportunity. Now we've got a lot of customers coming out of contract with the ability – or having to be informed at least that they're out of contract. That we see as a very large addressable market, and I think we've shown that we've got serious traction in the UK, so we will be building plans accordingly.

Margherita Della Valle

On German growth, Polo, you mentioned the pro forma organic. Clearly, the growth we have published is organic growth. Pro forma for Unitymedia, we would be growing 50 basis points in the quarter. Going forward, we expect Germany to remain flattish in the next few quarters, and this is because mobile will continue to be a drag. The reason for this is clearly the headwinds in wholesale and regulatory that we are experiencing, plus the competition we see in the lower end, which is pressuring our reseller revenues. In the medium term, clearly we are excited about the opportunity that we have with our gigabit footprint, keeping in mind that 60% of German revenues are now fixed and converged and, therefore, we have a really big opportunity there.

Polo Tang

Thanks.

Maurice Patrick, Barclays Capital

Yeah, morning, guys – just a question on Spain, if I may. So service revenues down 6.5%, an improving trend and you're slightly improving commercial momentum. You've had a stable customer base now for a couple of quarters, but you also have comments from Euskaltel and MásMóvil wanting to grow their businesses over time. Are you confident on maintaining your flat-to-growing customer base in Spain in the coming quarters and are you therefore happy with the current tariff propositions? I note the comments on unlimited being supportive. Thank you.

Nick Read

Maybe I'll just give a couple of high level – and then you can provide substance to it. Look, I'll stand back. If you remember, I said when I came into the role that we would compete in all markets at the high, the mid and the low tier, and we had been commercially inconsistent in that. And that is a principle we have really stuck to over the course of the year, and that's why I think we're getting more consistent delivery.

Now, a market might, in the case of Spain, trade down or see trade-down from the marketplace, but in the end we're going to complete on all three tiers. We're calling out the fact that the value segment remains highly competitive in Spain and probably next year will continue to be highly competitive, with a new entrant coming in, but we have a very effective second brand in Lowi that's taking more than its fair share in the marketplace, and therefore we've got a product that's working, and we will stay competitive against the segment – that's all the brands in that segment – and therefore keep a stable base in Spain.

Margherita Della Valle

I would just add that we have reset our cost base in order to play in this type of market. You know, we've exited football; we've also reduced our opex base, and we will continue to do so in order that we can retain flexibility for this environment, which will continue into next year.

Maurice Patrick

Very clear – thank you.

Jerry Dellis, Jefferies

Yes, good morning. Thank you for taking my question. It's a question related to the UK, please. I think about 12 months ago you presented a slide which sort of suggested that in the retail consumer market or consumer mobile your market share was around about 20%, obviously well below where you are on the B2B side and lower than where you are in other top-four markets. So when we think about the opportunity in consumer mobile, how would you characterise that, please? Do you think it's a case of sort of improving network metrics, feeding into customer perceptions or is it more a case of exploiting the VOXI brand or is it more a case of sort of trading up the ARPU of the customers that you already have?

If I could add on one final point, on the fixed broadband side, the net adds number was a little bit sort of lower this quarter. I think you talked about higher competition, but, if you could provide any more clarity on that, that would be very helpful. Thank you.

Nick Read

All right, I'll let Margherita maybe do the second part of that. In terms of retail consumer mobile, I'm not recognising the 20% number. I doubt whether we quoted that. It's more around sort of mid-teens, I would say, within the market. So, therefore, you're right to suggest we're really under-indexing in the marketplace and we're looking to drive greater scale and therefore take share.

How do we take share? There are a number of elements. First of all, yes, you're right: we have to underpin it with co-best network, and I think we've been demonstrating that in the marketplace.

There's definitely a sort of two-tier nature developing on network quality. I'd say secondly we want to launch our unlimited tariffs and give customers greater value, but with a trade-up opportunity of ARPU over time. We also wanted to be more attractive to iPhone share, so again we felt we were under-indexing – along with unlimited, that couples beautifully with iPhone. And, of course, with 5G iPhones coming in the next round, we wanted to show leadership on 5G. We also said we wanted to have a strong second brand for youth, which – VOXI is now gaining considerable traction. And then finally we needed to wholesale, which of course we announced with Virgin.

So I think it's quite a comprehensive list of items from when we sat down and we did the diagnostic about how we move systematically our share over time.

Jerry Dellis

Thank you, and just related to the fixed broadband side, please…?

Margherita Della Valle

On fixed broadband, this is really part of the overall growth, and we've had good performance overall in Q3. We've been affected by the fact that one of the competitors reduced prices around the Black Friday period. We've now readjusted our prices to reflect that, and we're seeing growth accelerating again. You can expect this to remain one of the growth drivers in the UK in the coming quarters.

Jerry Dellis

Thank you.

Adam Fox-Rumley, HSBC

Thanks very much. I just had a question on the towers, please. I wondered if there had been any change in the scale of the EBITDA that you think will be attributable to the new TowerCo either due to changes in perimeter or your views on the rental charges. And, I guess on a related note, are you still conceptually willing to be a minority owner in a specific geography while keeping control of the TopCo? Thank you.

Margherita Della Valle

In terms of the EBITDA perimeter, we provided an estimate in November which was based on the average anchor tenant rate that we see across our markets. This is the €900 million that we have just quoted. Against this estimate, the principal variation that you need to take into account has been the INWIT merger. As part of the merger, we are monetising the Italian component of the €900 million. Take this as €220 million, which is the EBITDA that is being transferred into INWIT. And against this €220 million clearly we've had the benefits of the merger, which is a 2.1 billion cash consideration on completion, plus, obviously, the ownership of the 37.5% of INWIT itself. So this is the change you need to take into consideration.

Clearly we are in the process now of completing our own MSA for the tower company, and we are right now working on setting the final anchor tenant rate, and we will update you on that when we present our TowerCo results.

Nick Read

Yeah, just on the second point, for me it's an interesting point about minority ownership. I mean, if you remember, we always said, 'Look, we would prefer majority control or joint control with another operator, but we would not philosophically rule out minority if, of course, the valuation and the value for shareholders was considerable.'

What I'd say is, in most of the discussions we've been having, we can get, highly, highly attractive valuations maintaining majority control or, let's say, co-control. And so at this point in time we don't have a minority situation for consideration, but that's not to say we'd… We still remain actively focused on maximising shareholder value for the long term.

Adam Fox-Rumley

Very good – thank you.

Jakob Bluestone, Credit Suisse

Hi, good morning. Thanks for taking the question. I just had a question on the Huawei and network-security issue. You mentioned that there's quite a bit of member state discretion, so I was just wondering if there's any particular markets that you would call out where there's sort of a greater risk of any incremental capex beyond the €200 million you've flagged for Europe. And, specifically for Germany, if you can maybe just remind us where we are on the process on making some sort of a decision there and what the sort of key dates are to watch out for. Thank you.

Nick Read

Yeah, in a way, Jacob, we can't really call out any country because, effectively, the European toolbox has just come out and all the European countries, with the exception of a few small countries, have been awaiting that toolbox and therefore we're engaging with them. Essentially, they have to look at that toolbox and go through and adopt measures by April with a view to showing implementation, as in that they start to implement the framework in June. So I think we're going to be in a lot better position in May to give you a sort of overall summary of where the various countries have landed.

What I'd say is I think we've had very active and positive engagement with countries. They are really keen to understand the implications of various scenarios. They are very attuned to wanting 5G deployed quickly. They understand the need to have 5G as a key enabler to a digital society, and they know that we could undermine the fantastic manufacturing base we have through Europe if we do not move quickly on 5G. So they really do understand the importance of getting 5G out, and they also understand, you know, the operational and financial constraints of the industry as a whole.

And I think one of the important things here is the industry is one with its voice with government, making it clear it's the same implication for everyone, and therefore we're trying to find the right path. We too want vendor resilience and balancing over time, but these things take time.

Jakob Bluestone

That's helpful. Thank you.

Nick Read

Well, thank you, as always, firstly for joining us and secondly for the excellent questions. And, as you can see, I feel we are moving at pace. We are steadily improving top line, and we look forward to seeing you in May and updating you further on that progress. So take care, and see you in May, if not earlier.