

Vodafone Group Plc
Half-Year Results
Analyst and Investor Presentation
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Half-Year Highlights

Vittorio Colao

Group Chief Executive, Vodafone plc

Good morning, everybody. Thank you for coming today and thank you for watching the commercials; we will refer to them during our presentations.

So, as always, today I will go through the highlights, then I will hand over to Nick who will give you all the details of the financial performance and then I will come back with an update of our strategy and some details about the performance of our key operating units and then Nick and I will take your questions joined by the colleagues who are in the room.

So, here are the highlights for today's presentation. Q2 service revenue is up 1.2%. This is the fifth consecutive quarter of improvement. Q2 highlights continued momentum in AMAP, +6.7%. This is driven by both customers and data and also further recovery in Europe, at -1%; again, data and more price stability here. Very importantly, first half EBITDA marks, after almost three years, return to growth; +1.9% to 5.8 billion. We are today narrowing the full-year EBITDA guidance to £11.7 to £12 billion. Free cash negative in the first half, but we still have an expectation to turn it positive by the end of the year; there's a phasing of Spring capex here. Net debt at £28.9 billion. And today the Board resolved to increase the dividend per share by 2.2% to 3.68 pence.

Now, on the strategic and commercial progress, today you will hear about Project Spring and the great progress we have made there. We are now 80% complete on the mobile side; 4G coverage is 80% in Europe. We are also stronger – much stronger on the fixed high-speed broadband coverage: 66 million homes now marketable in Europe; 42% of these are on our own infrastructure. We see some good results, from the customers' point of view. 30 million 4G customers – this is 10 million more in the six months – in 19 markets; and 12.5 million households in fixed broadband – this is half a million more in six months. AMAP: 125 million data users; India coverage on 3G is now up at 94%.

Good progress on mobile. I have to say we will talk about acquisitions: 2.7 million contract net adds in the first half, which is a relevant number, but also and importantly, churn, which is improving and data volume, which continues to grow, at 75%.

And Enterprise continues to be a good story: +1.9% in the quarter. We will cover especially machine to machine and VGE, which continues to be among our best units within the Enterprise world.

And finally, we have announced that we are preparing the IPO of India in the quarter. Nick – sorry, we announced in the quarter that we are preparing the IPO of India, not that the IPO of India is in the quarter, of course.

Nick, over to you for the financial review.

Financial Review

Nick Read

Group Chief Financial Officer, Vodafone plc

Thank you, Vittorio. So, Vittorio gets Bruce Willis to start and I get the top half of the P&L. So, starting there, organic service revenue grew 1% in the first half accelerating over the period, with quarter two increasing 0.4 percentage points to 1.2%. Bear in mind we are also lapping the Italy price increase of last year, this is a full quarter impact of the India service tax and the South Africa provision release of last year. As Vittorio has already highlighted, we've now returned to organic EBITDA growth of 1.9% whilst stabilising our margin after six consecutive halves of EBITDA contraction. The increase of depreciation and amortisation as a result of the Spring investment continues to have a negative impact on adjusted operating

profit, though the progress on EBITDA has moderated the decline to 6.5% down on a reported basis versus this time last year, which was down 29.5%.

Moving on to the lower half of the P&L, underlying net financing costs declined 22% primarily due to the negative impact of forex on financing costs last year, coupled with the reduction in the weighted average cost of debt to 4.4% for the half. Tax, at £299 million, was broadly stable year over year with the effective tax rate at 30.5% for H1. For the full year, we anticipate a similar level after excluding the cost of writing down the value of our UK deferred tax asset by £75 million, following the forthcoming reduction in the UK corporation tax to 18%. We remain comfortable with our medium-term guidance of high 20s. Our adjusted EPS of 2.51 pence was down 4.6% year over year. Given our clear momentum and progress versus the Spring plan, the Board approved a 2.2% increase in the dividend per share.

And finally, given 50% of our – whether it's revenues, EBITDA, operating free cash flow – are euros, we are making a change to euro as our appropriate reporting currency moving forward and we'll make that change from sterling to euros from FY17 from 1 April next fiscal year. Dividends, while declared in euros, will be paid in sterling and based on the average FX rate over the five days to the Friday ahead of the announcement and ADR holders will still receive dollars.

Turning to our service revenue progression, as Vittorio said, this is the fifth consecutive quarter of improved performance. I think what's particularly encouraging is the broad-based nature of it. We have seven out of our 13 European operations now back into growth. I'm really pleased to see even Greece were in growth in the first half even in a very challenging situation. This comes on top of the very strong AMAP performance and we expect this to continue in the second half.

Now, that expected progress moving forward is a result of a number of positive growth drivers within our business. The Project Spring build and, I would say, critically, the customer experience it brings, coupled with our key acquisitions is delivering an accelerated commercial performance, as seen by the chart. Top left, we've added 5 million mobile contract customers to move above 90 million. Top right, we've added over 1 million NGN fixed customers to hit 5.6 million. Bottom left, we've added 17 million European 4G customers and 10 million India 3G customers. And bottom right, our Enterprise business has now accelerated beyond the Group average growth rate, with service revenue up 1.9% year over year, driven very much by VGE, up over 5% year over year, machine to machine up over 25%. And Vittorio will expand on the commercial progress in his presentation.

As we move into growth on the top line, obviously we've been really focused heavily on cost control and operational leverage. That's been demonstrated by a first half performance where organic EBITDA growth was 1.9%, playing against service revenue growth of 1%. As you see on the bar chart here, it shows the evolution of EBITDA at constant currency, excluding the effect of M&A to get a true underlying view, and you can clearly see progress since H1 FY15. On a reported basis, our EBITDA margin was up 0.2 percentage points, driven mainly by Ono underlying though our organic margin is stabilising.

Now, again, I wanted to demonstrate the broad-based nature of this progress and improvement in performance and I've taken here the top eight markets that represent about 84% of our EBITDA and, as you can see, there is tangible progress across the board. On the left-hand side, you're seeing that we contracted this time last year 10% year over year or £600 million down. You see on the right-hand side the progress that we've made on the eight markets. All markets now have moved into growth. Obviously, the UK was the one exception that had a distorting effect last year on inter-company between H1 and H2, so it was a higher H2 than H1, and this has been normalised this fiscal year. So, even on an underlying basis the UK is also in growth.

Now, as we grow the service revenue we want to target margin expansion and, essentially, there are three material drivers that support that target and this is the first one. I want you to view Spring as an exceptional two-year expansion of the footprint. By the end of this fiscal year, we will have built 45,000 additional mobile sites, 7.5 million new households covered by NGN, 65 countries connected with our global IP VPN network. It's essentially driven £0.5 billion increase in our technology opex from the start point of FY14 to the exit run rate of this fiscal year. Now, on the right-hand side of the chart, you see the end state: leading coverage, fully modernised, scaled for high growth data, high degree of unitary efficiency moving forward. So, it goes without saying that the rate of cost growth year over year will materially moderate once we've reached an annualisation of this footprint.

The second driver is the Fit for Growth programme. I've talked about this previously in presentations. It's a structural programme both at the Group level and at the operating unit level. We aim to support our revenue growth, improve our customer experience within the We Care framework, which Vittorio will be talking about, whilst improving efficiency, so all of these factors should be improving margin. There are six key

programmes. The first is regulation and incumbent management, which in itself must be challenging. It's an initiative to ensure that we tightly manage regulated costs, contracts and service level agreements with the incumbents, and Vittorio will expand on this in his presentation. Commercial efficiency I'll expand on in a minute. IT transformation – if you remember, in previous presentations I said that our IT cost and capex as a percent of service revenue was around 5.7%, which we deem to be high. We now have Johan on board – he's in the front – and he is driving a complete review of our IT estate and our transformation plan and we are aiming to reduce that spend to about 3.5-4% and we'll be coming back in May to talk about how we're going to deliver that. And then programmes 4-6 are Group-wide initiatives that I plan to briefly cover.

So, let's start with the commercial efficiency. There's a big opportunity to enhance the branded customer experience whilst improving value for the customer and for Vodafone. We've conducted a full review by operating company and agreed an optimisation plan for each and it essentially has three elements to it. On the left-hand chart, you see the goal is to increase our direct channel mix where we have higher customer lifetime value. As you see, we're making good progress and we're strengthening, through our Spring programme, our retail estate and the footprint. The new global retail format is now rolled out to 4,200 stores and we're seeing a significant uplift in performance. In the middle, you see commission optimisation. We're focused on delivering higher returns on our investment through refocusing incentive schemes on a combination of value rather than volume and on rewarding good customer experience. And on the right, over the medium term we see digital as our primary interface channel. We're targeting digital sales of greater than 10% of the inflow revenue versus 5% today and, secondly, in terms of My Vodafone app, penetration of 70% versus 26% today. Vittorio will give a great example in Italy of how the app was designed into a recent proposition that we launched to market.

And then the third element is the company-wide initiatives. Firstly, as illustrated on the chart on the left-hand side, we want to standardise processes and systems while benefiting from the strategic advantage of Vodafone's scaled operations in low-cost countries. Now, this isn't just about cost; these are our employees with a passion for customers and the service that we deliver, so we really think it's a strategic advantage versus others that are just deploying a normal outsource offshore model. Currently, we have 17% of our employees in our shared service centres and we aim to take that to 25% by 2018, building on the £350 million annualised run rate savings delivered to date. Secondly, in the middle, we want to use our scale and expertise to set standards and deliver opex, capex efficiencies. We're targeting 80% of our global spend to move through our central Vodafone procurement company. And finally, we're adopting a zero-based budget approach to all of our activities and sort of how we've stratified it is: for Group support functions we're setting absolute cost targets; for Group operational activities such as, say, for instance, data centres, we're setting multi-year productivity targets; and finally, for countries and P&L units, we're setting multi-year margin targets. So, as soon as the roadshow's over, a lot of reviews will be taking place.

The final one is a driver being our progress on acquisition integration. Really pleased with progress. By the end of this fiscal year, we will have secured 100% of Ono and 75% of KDG of the cost and capex run rate that we had targeted for year four. We're ahead of schedule in many areas. I'd specifically like to highlight the speed at which we fully integrated and rationalised the organisations. Six and nine months ahead of the original business case, we've moved all of procurement centralised and the full migration of Ono MVNO customers onto the Vodafone network seven months ahead of the business case. So, we believe there are additional cost and capex synergies to be gained and we will be coming back in May to tell you what we think the opportunity is going to be. And finally, although I'm talking cost and capex synergies, we remain on track in terms of revenue synergies and Vittorio will be talking about our convergent launches in his presentation.

So, I want to conclude on an important chart regarding our EBITDA evolution. You hear all the drivers of why we believe that there could be margin expansion moving forward and so what's the effect been on our H1 results? So, the first thing is gross margin, so that service revenue growth feeding through to gross margin expansion, £161 million. I think what is particularly interesting, though, is the second one, which is commercial costs. So, our commercial costs – and this is A&R, advertising, distribution costs – is down £117 million year over year. But I think what's really important is when you look at the block above and see the delta in terms of commercial performance: a lot more customers, lower churn, so we are really driving clear efficiency improvement on our spend and value focus moving forward. The third one is technology costs. So, I've already highlighted this expansion of our footprint and here you see the first half results. So, this is the £0.5 billion one-time footprint expansion of Spring that I highlighted earlier and then the other part is our other operating costs, which have been down £55 million. So, it goes without saying that when we're running our zero-based budgeting exercise this is an area that will maintain a strong discipline going forward.

Moving on to free cash flow, actually, it's a relatively straightforward picture even if the slide looks relatively boring. Capital expenditure remains broadly in line first half over first half, year over year, and we're on track for a full-year spend of between £8.5 and 9 billion. Capital creditors is adverse year over year, driven by the timing of Project Spring payments, as last year we were in the early stages of the build. So, if you look at it, this is the key driver of the free cash flow movement year over year at the bottom of the chart.

Now, as we approach the end of Project Spring, I thought you might be interested in capital expenditure profile moving forward and what we've spent our capex on. So, prior to Spring and the fixed acquisitions, our capital intensity for our mobile business was around the 13% mark. As you see on the slide, through Spring over the last two years we're just under around 22%. Mobile capital intensity around 20%, of which about half is maintenance and capacity and half is modernisation and footprint expansion. Fixed capital intensity of 26%, about 12% maintenance capacity, 10% was footprint expansion and 4% was CPE.

Now, given we've almost fully modernised and scaled our networks, maintenance and capacity capex for at least the next three years will be lower. Similarly, our footprint expansion will moderate. This produces our central case for Spring, which was the 13-14% capital intensity that then delivered the £1 billion incremental free cash flow by year five. As previously stated, operating companies might be ahead of the Spring plans and we will want to keep them going and invest more behind them. Similarly, there might be others that are unable to monetise that investment, in which case it'll be closer to the maintenance and capacity level you see on the chart. At the bottom, average spectrum spend will moderate over the next three years from the £2.4 billion average spend of the last five years, given we've secured our major renewals, 3G in India and 4G in Europe.

Which brings us to the balance sheet. Our net debt projection for the year is circa £30 billion, which remains exactly in line with Spring, having concluded a significant round of spectrum auctions and factoring in our dividend for the year. I feel it's important to note that our net debt at H1 includes £4 billion of predominantly deferred India licences and would be £25.4 billion if we were to include the Verizon Wireless loan note.

Moving to guidance, finally, we firmly are on track on our plan and we expect further progress both on revenue and profit trends to continue through the second half. We, therefore, are narrowing our guidance to £11.7-12 billion with an organic growth rate of 3-5% whilst confirming positive free cash flow.

So, to conclude, our markets remain highly competitive. Clearly in a backdrop of an unsettled global economy, driving continuous improvement in these conditions will always remain challenging. However, we've reached a really important milestone in our Spring plan, returning to growth not only on the top line but also our EBITDA. We have strong commercial momentum, which I think we've highlighted. This gives us confidence to narrow our guidance range for EBITDA and increase our dividends per share with the knowledge that our balance sheet remains in a very robust position.

And on that, I will hand back to Vittorio.

Strategic and Commercial Review

Vittorio Colao

Very good. So, Nick has talked about the progress that Spring has enabled from more a financial point of view. What I would like to do with you now is really to talk more about how Spring has enabled our strategy to progress and then, of course, put it into the context of the different markets.

So, first of all, how is Project Spring supporting the commercial performance? It is and it is clearly supporting it in a number of dimensions. First of all, acquisitions: 608,000 – the red bar – contract net adds in the quarter. Clearly we are basing more, as you have seen in some of the commercials, the acquisition on network and improved technology quality. We now have – almost half have our contract – of our base in contract. We also are enjoying better churn. The centre part of the graph, you can see Italy is more remarkable than the others, but overall churn is going down across the piece. We have lower churn on 4G and higher NPS on 4G than on 3G, which is good because we are progressing into 3G {sic 4G}. And I have to say, as you can see on the right-hand of the chart, we are also starting to stabilise ARPU or, actually, it is stabilised in most countries. This is positive and this is coming as a result of larger bundles, which again are

enabled by Spring, which contribute to stabilisation of ARPU, more content into our price plans, which again is a positive and, of course, ARPU 4G is higher than 3G. So, Spring is clearly improving the content of our business.

It is also enabling the big transition into data, as you can see from the top part of the chart. We now have 30 million 4G customers. This is three times what we had one year ago. 20% of the European customer base is on 4G, which again indicates that there is still a lot of potential and, you know, I will talk also about the capacity in the network to really continue to exploit the 4G opportunity. And customers are using more: +48% usage year on year. The blue chart says that we are approaching the one gig per month level. This is done on a 56% penetration of smartphones in Europe, so again another opportunity to further expand the data business. And as you can see from the lower chart – this is something that I have shared a number of times – 4G usage is about two times the 3G usage and the satisfaction of the customers is much higher.

Now, Spring is not an enabler only in Europe; it's also an enabler in emerging markets. We reached 125 million data customers in emerging markets; around half of them are on 3G and the penetration here is only 38%. So, potential everywhere – expansion of capacity riding the trend of data.

But Spring is also helping us accelerating our transition into a converged company, a unified communication company – Spring and some M&A, I have to add. As I said in my highlights, we now can market 66 million homes. This is twice the number of homes in Europe. This corresponds to 44% of the households and 42% of these 66 million we actually can serve from our own infrastructure and this is leading to growth – the right part of the chart. 12.5 million households today on Vodafone; 5.6 on NGN, 9.3 on TV. And, overall, this has led Vodafone to be 26% in Europe a fixed-line company. So, yes, we are still predominantly mobile and very strong and very proud of our mobile heritage, but one quarter – more than one quarter of the company now is converged. And as Nick said, I will just mention we have been in a very intense year of launch of fixed broadband and converged products across Europe – you see all the flags. In most places we have launched either both fully-converged or broadband products; in other places we will be launching TV in the remaining part of the year. But basically, in every country where we have a presence we are developing this strategy, so Spring enables also this vector of our stated strategy.

And finally, strong support to the Enterprise business. Nick has said it is one of the engines of our growth: 1.9%, third quarter in a row of growth. I have to say there is some pressure on ARPU in Enterprise, but we are compensating with customers and with data growth. I'm very proud of what we are achieving on VGE: 7.3% growth in the quarter. This is the proof that our footprint, being who we are, being multi-country, actually is giving us a strong edge in Enterprise. Good scale in machine to machine: +29% and even Cloud and Hosting, which is a smaller business for us, it's 13% growth.

Now, scale is important in Enterprise. Enterprise is now 27% of Vodafone. We are very happy that early on we invested in machine to machine, what is now being called, more and more, 'Internet of Things'. We are now able to serve our customers in this space in 29 markets. We have 24 million connections. We are always ranked top by Gartner and we are grateful for that, in that space, but the most important thing is that, in certain verticals like, for example, automotive, we are the reference company for everybody; 80% of the European automotive companies work with Vodafone on this.

We are also at scale in international voice; 58 billion minutes carried by our carrier services unit. And thanks to the Spring investment, we now can sell converged products or fixed products in 65 markets; this is more than double what we were able to do at the beginning of our project. We have 254 PoPs. You can have now One Net in 25 countries if you are a big multinational, but also in 12 countries if you are an SME. So, when I talk Enterprise, I don't just talk about, you know, the great companies of this world, the Unilevers, the Deutsche Banks or, you know, the large multinationals. I'm talking now also about normal businesses who want to work internationally and, for that, we also opened our MVNO in the US with Deutsche Telekom in October.

So, I would say, to conclude this section, Spring is working. The financials have been described by Nick, but I would say the operational support that it's giving to data growth, to Enterprise, to convergence is now starting to bear fruit.

Getting into the countries, let me start with Germany, as always. We have an underlying growth which, quarter over quarter, once you take out or you put in, you know, the one-offs, is more or less at the same level as the previous quarter. There has been some pressure in mobile. Mobile revenue is down 2.8 due to, essentially, the usual kind of repricing thing that we talked about, but also some pressure on Enterprise. I would say we have done probably too well there and there was some pricing reaction from competitors. But the good news are that we are doing very well on the acquisition front. As you can see from the blue chart, 245,000 additions in the quarter.

Now, to compare with our main competitors, if you add back MVNO activations, we are more or less at the same level. If you look at branded connections, which is something that is important to the market, again we are at least at the same level, maybe a little bit better. So, I would say the acquisition machine has started working well. There is clearly an improved direct channel mix. Nick has shown in his chart that everywhere, including Germany, we are acquiring more there. And I have to say fixed line continues to grow well: 7% growth of KDG, DSL more or less stabilising; there is some pressure on ARPU, but again, doing well and ahead on the integration plan. And Spring delivering 4G coverage at 81% and a dropped call rate at 0.55 per month, which I think is the second best that we have in the large OpCos after South Africa.

Now, we launched the converged product, you saw the advertising. Again, we showed the advertising to show that things are real, not because necessarily you need to like them, but they are real, we are in the market with converged products. And I have to say I am also pleased the EBITDA in Germany is up 1% and the margin is also up.

So, in Germany we need to continue to work on the usual things, three priorities:

- Continue to improve the network quality, 81% 4G. We now have 1800 spectrum, so we are stronger in that respect. We have strong high capacity backhaul and we have been named the best voice network for the country and a contender in the data space by *Computer Bild*, so external people are recognising the good work – the good recovery that has been occurring in Germany.
- Channel mix I described already. We are not working only on direct. There's nothing wrong with indirect, but we are changing the commissions because they need to be of comparable profitability.
- The important thing that we are continuing – we have been mentioning for the last two times is the repricing of the base. On the right-hand of the chart you see the red line is the base ARPU, it's stabilising and the dark line is the inflow ARPU, which not only is rising but is also getting closer to the red one.

So, the positive work that we are doing – we are not completely there yet, but the positive work that we have been doing is giving fruit in Germany. I am confident that our German team under the new leadership will continue to deliver and we expect a second half which is going to be better than the first.

Now, Italy, the word here, I would say, is more stability. The stability in prices, further recovery in trends. There is a -2%, which is the same as the previous quarter. Here there's two things. First of all, there were some lapping prepaid price rises that makes the comparison uneasy and also some deliberate decisions that we made on roaming to make the experience better for the customers and to deliberately improve the perception of our service. That has taken out a little bit of performance, but on the other hand, on the positive front, prepaid consumer ARPU +6.8%, lower churn, which I already talked about, and a very good 4G performance, 4 million customers in Italy, up 3 million year on year.

And also, thanks to leadership – to Spring, leadership in 4G coverage, 91%, fibre footprint up to 2 million when you add the Metroweb old fibre connections, we are almost at the 3 million point. So, pretty good performance also in fixed line. 67,000 connections of broadband, a third of these are on fibre. So, again, also in Italy we are seeing the commercial machinery really working much better.

I'm glad – green part of the slide, the bottom part – I'm glad also that in Italy EBITDA again is growing. It's growing thanks to everything that I described, but also growing because we have done very good work on costs, which again we are trying to now disseminate across the Group.

The UK is a little bit of a kind of an okay-ish type of story. If I compare myself to EE, the leader in the market, I think we are doing, you know, marginally better or more or less the same. If I compare myself to O2, I'm not. I'm a competitive person; we are not very good there, so I will call it an okay-ish story, -0.5% in service revenue. There has been a slowdown in consumer in the UK. Again, part of it was deliberate: we gave out-of-bundle control to the customers to avoid the bad experience of out-of-bundle with data. There was some impact from the 0800 numbers. On the positive front, consumer contract growth, 90,000 in the quarter – the blue part of the chart – was positive, lower churn, improved direct channel performance – again I refer to Nick's chart – and, most importantly, really a strong acceleration in 4G: 4.2 million up year on year at 5.3 million. So, I would say there are positives. I would like to see a little bit more translating into growth.

Project Spring is delivering network improvement in the UK. We have 82% coverage of 4G despite the difficulties of building in this country; 99% in London – and here again I'm glad that an independent research company ranked us number one in London for combined voice and data.

EBITDA margin in the UK is essentially stable. It looks good, but there is the impact of the ladder compensation; therefore, it looks lower if you take that out, but was some phasing of central costs that hit more the first half, so I would say it's more of a constant thing. In the UK we clearly need to work more now on finishing Spring, but most importantly on improving our IT systems – this was mentioned already by Nick – and improving our customer service performance.

And finally, Spain. Spain, finally, for Europe, is a good story. It looks -2%. In reality, it's +1% if you exclude the impact of handset financing, which means that we are back to growth in Spain. We have QoQ ARPU growth. We have very good data bundle adoption, contract net adds – lower part of the chart – +92,000, the highest in five quarters. And, most importantly, we are NPS leader in the market. I think we really have good 4G coverage – 80% of the country. We also have expanded our NGN premises to 8 million households, so stronger platform there. As a result, fixed line revenue is up 10% – 10.7%, 28,000 broadband net adds. We have around 800,000 – a little bit less than 800,000 converged customers in the country, so we are completely into the mainstream of the development of the market and we launched also TV now. We paid the sport rights an obscene price to Telefonica, which of course we are challenging, but at least we are using them very well, so we are getting TV customers now. And again, EBITDA in Spain is increasing a lot in the first half and especially in the quarter, but there is clearly some benefit from the handset financing thing. There are benefits from the Ono integration and all of this helps also mitigate the impact of this obscene content cost that we had to face. So, overall, I'm glad of our performance in Spain and we will continue to ride the convergence story there.

Now, I will not talk too much about Vodacom. Vodacom always reports one day before us. They had a pretty good performance, I have to say; 3.9% growth at Group level, 3% at Vodacom level. It's a more rational market. There is still some pressure on voice, but it is easing off. And what is really remarkable is the churn. We have the lowest churn in the Group, 7.3%. I think Ireland is the other one who has very low churn at content level. ARPU is becoming stable. The data story in South Africa is really very good: +50% volume growth, +32% revenue growth, 82 million bundles – data bundles sold in the quarter. You saw also the advertising before of this very strong personalised campaign of offers. This is really completely based on the Spring investment. We are really marketing the network in South Africa. We are marketing our strength, our advantage. We now have 47% 4G coverage in the country, which is very relevant for a country like South Africa, and 98% 3G coverage with a very high share of high-speed transmission. So, the platform, the technology, the infrastructure is our advantage in the country. EBITDA is up 37% and I have to say also the international markets are contributing in a good way, 24% of the revenues, 8% growth and solid performances everywhere. So, a pretty good story.

Then India. India now looks kind of slowing down. The red bars, the blue bars are going down. The reality is that if you take into consideration all the impacts of regulatory, service taxes, MTRs, state taxes – I mean, all the various things that, year on year, hit us – the performance is more in the 10% range. There is a pretty good customer growth performance: 2.8 million net adds. The voice business is still the pressure point. We are seeing a dilution of minutes and dilution of price per minute in the country, but the data growth is, on the other hand, very good: 70% usage growth, 50% revenue growth. We have 19% of service revenue now coming from data and still a lot of potential for growth there, as you can see; the 3G data users are only 23.8 million in the country and penetration is still very low. So, building on 3G, building on data to compensate the pressures on voice continues to be the game. Project Spring is helping there. 94% 3G coverage. We are launching now the circles where we have acquired spectrum, so we have seven 3G circles, five 4G circles by the end of the year and we have very good performance.

So, very often I am asked, 'Okay, but do you really believe in India? What's the long-term success story in India? It's a complicated country. It's a highly regulated country. A new competitor coming, very powerful new competitor, very well-funded competitor coming.' And, you know, my answer to this – and I use this slide to basically give the answer – is the following. At the end of the day, the opportunity in India as a country, as a market, is very big. It's 1.2 billion people of which three-quarters have a phone, of which one-quarter have a smartphone, of which almost nobody – a tiny percentage have 4G. And the economy is growing 7.5% and we know that the population will keep growing, because the demographics are what they are. So, the opportunity in India, as a market, is really big. Now, strong platform for Vodafone. We went from 17-22% market share. Let's remember we are number one for consumer NPS, strong brand, very strong distribution, high-quality customer base, so there is the opportunity and we have a very strong platform in the country to exploit that opportunity. And, you know, we have demonstrated – right part of the chart – that whether you look at service revenue, EBITDA or operating free cash flow, we have got a lot of growth – 15, 18, 20% – and management capability to exploit it. So, my answer to the questions – and I got some from the journalists this morning – is: yes, India is challenging, because regulation is complicated and,

yes, there's a lot of competition. But the opportunity is good and we are right in the middle of it with a very strong platform and very good management skills. So, long-term, optimistic on India.

And then, finally, before approaching the end, let me say a few words about countries that we don't talk too much about, with the exception, probably, of Turkey that we talked. These countries and many others are contributing, as Nick said, to growth of revenue and EBITDA. We don't talk much about them, but if you put all of them together they are almost like another two large countries. Of course, we talk often about Turkey. Turkey is amazing; 20% growth, 36% revenue share – service revenue share growth, fantastic performance in data, fantastic performance in NPS and brand recognition. We've talked many times about the strength of our Turkish company; it is clearly based on very good marketing, but we also have strength in other countries.

Take the Netherlands, which is a much more mature and very competitive market, +1.1% growth, fourth consecutive quarter of growth. This is a country where, in Enterprise and in consumer fixed, we are doing well. Yes, there is some pressure on consumer mobile, but we are demonstrating that again we are capable of holding that.

Egypt – we don't talk about Egypt. This is the first time Egypt and the Egyptian flag makes it to this presentation. Plus 10.7% growth, 4.6 point improvement, ARPU going up, voice going up, data going up and, again, NPS leadership.

And finally, Portugal. That does not contribute to growth, but it is a very good case of leadership in mobile and a strong position in mobile that at some point starts migrating to fixed line, where we have very good performance: 56,000 additions. Now, if you think of the size of the country, Portugal is basically delivering almost what Spain or Italy are delivering, so it proves that when you have your own network, when you have decent access conditions and agreement conditions with other guys and very good marketing behind it, actually the migration and the integration of fixed and mobile can be very successful. And again, in all these cases Spring has been at the base of the strengthening of our operations.

So, where are we going with Spring? Well, first of all, Spring is finishing, but it's not finished yet. We have, as you see in the first part of the chart, leadership in NPS in seven of our top 10 markets. Of course, we want to get leadership in as many as possible and we need to continue to work in the directions that Nick indicated. First of all, the digital relationship with the customers, 17 million, we want to get at least to 50, so digitisation of the relationship for both cost and quality reasons. Continue to transform the retail stores into real experience and service stores. We have modernised 4,200. We need to complete the work and we need to continue to market the network quality, stop talking, which we did, I think, six months ago about price and about handsets, about Apple or Samsung, talk about the quality of our service.

Which is why, when Spring fades down, you – we have decided that we will talk much more about four priorities in our customer relations. Now, big corporates need always acronyms. It seems that we are not capable of remembering things unless we organise them in an acronym, so we found CARE, which of course is linked – and it took a little bit of work to find the right word, but eventually we found CARE, which really reflects the four aspects of what Spring really needs to enable commercially. You remember I said here, six months ago, it's not about technology, it's not about delivery; it's about what the customers perceive.

And the C for connectivity means we are so confident of our network that, in our experience, that you will be satisfied or reimbursed if the network guarantee – I think you watched the Bruce Willis thing. It was not about Bruce Willis stealing Vodafone phones from our employee; it's about really the guarantee and, interesting enough, as Nick said, yes, we give one free gig to people who are unhappy, but that happens only if you are a digital customer. So, we are hitting, basically, two birds with one stone. We get customers happy, but also they can get what they – we are giving them only if they have the digital app and one reinforces the other. We open the channel with – the direct channel with the customer by giving a giveaway, which the customer appreciates; it has been very successful.

The control element – I mentioned two or three times that we want the experience of roaming or out of bundle being better. In India, we gave full credit for the first time they shop, 30% upgrade of the customers that are hit by this, which means happier customers, but customers sourcing the right price plan.

More reward for loyalty. The advertising you saw was about the Just4You reward programme in South Africa. It's a fantastically successful plan: 24 million bundles in one month. It's personalised. Every day there is something personalised. It's clearly highly segmented and it's clearly driven by a very powerful marketing intelligence engine.

And then access to CARE. Here, the example is the UK where, for SMEs and SoHo, we are giving named individual accounts, but again if you call 191 you might book a call from a customer service rep. I tried it myself three times over the weekend, late at night, at any point during the day. They don't tell you, 'I call you in two minutes'. They tell you, 'I call you in 28, five, six, seven', whatever is the appropriate time, and I have checked – three times out of three I was called 30 seconds before. I suspect there must be a flag on my name, but that's probably inevitable even, you know, in large companies. But, having said that, why am I saying this? We showed you the commercials to show you that this is not, again, PowerPoint and acronyms. This is already real. This is already in the market. This is Spring at work.

So, to conclude and move to the questions, I would say I'm pleased with the progress that we have made in the first half and with Spring. It's a progress of build, 80% built. It's a progress also of enhanced coverage and quality, but there's also a step-change in the customer experience with more 4G customers, more converged products being launched, strengthened capabilities in Enterprise and, back to Nick's point, EBITDA returning to growth and the effect of operating leverage starting to work in our favour.

My priorities going ahead – clearly I want Johan to continue to drive the completion of Spring. We need to make sure that Paolo and the commercial people push network and service differentiation more and more in the core of what Vodafone is and of course that, again, enabled by the centre, more markets, launch TV converged products and, of course, the Enterprise product.

There is one new thing that is really more my own thing, which I started in the last few months. We need to engage more strongly the regulators. Clearly, the more we get into fixed line the more we are marching into the turf that somebody else does not want us to be into. We have to challenge more the incumbents. We need to ask the regulators to be firmer in their position to avoid re-monopolisation risks and to allow free competition to play as it should and so that is a priority which will be more important in the coming months.

And of course focus on efficiency and margin. Nick has talked about a zero-based budget. Clearly he is driving, in an amazingly organised way, the recovery of the margins and the expansion of the margins. I also want, through it, to really drive the reallocation of cost from structural and overhead into customer-driven, customer-facing and everything that we've been investing into to work better in the interests also of our commercial results.

Thank you very much for your attention. I think it's time now for your questions.

Questions and Answers

Simon Weeden, Citi

I wondered if you could tell us what you think the gating factors are behind the India IPO, which you're flagging clearly now more vigorously and what you think – to what extent you think the intentions and commercial and competitive impact of Jio need to be visible before you're out marketing an IPO to investors.

Vittorio Colao

Well, Simon, I don't think we'll have really, in any case, a lot of choice, because if we decide to proceed with an IPO it would take probably a year and, therefore, the impact of Jio by then will be visible. We also need to go through the spectrum auction, so I think this is going to be, I would say, a year from now type of thing. If it happens, we will look at the market conditions, we will be advised, of course, and we'll make our decision whenever it's appropriate, but I don't have a ticking list at this stage.

Simon Weeden

Might tax be on your ticking list if you had one?

Vittorio Colao

I wouldn't say so.

Polo Tang, UBS

I just have a question on Liberty Global. So, obviously, you've announced that talks with Liberty Global have ended, but could you maybe just elaborate in terms of why the talks failed and, in particular, is there the possibility that the door remains open for a deal with Liberty Global at some point in the future?

Vittorio Colao

Listen, there is a common sentence that everybody uses, which is it takes two to dance, you know. In reality, I always found it is wrong because you can also dance alone, but not in M&A. So, the reality is it takes two to dance and clearly we looked at swapping assets, doing things, we couldn't find agreement on values and things like that, so we parted. But, again, we are here, as I say, our – I'm glad of today's results, because it proves that our A plan, which was Spring, organic, convergence, data, Enterprise, is working. That would have been an acceleration. That would have been an integration of assets. We are still here.

Akhil Dattani, JP Morgan

I'll ask, well, hopefully, 1.5 questions on your H2 guidance commentary. Just firstly on the revenue piece, you've talked about a better revenue performance into H2. Can I just clarify that means ongoing service revenue improvement? And thinking about the details there, one of the things that strikes me is when we look at Italy and Spain, your incumbent peers have actually raised the back book pricing, not just the front book. What are your thoughts about whether you want to take that similarly more aggressive approach to pricing into H2? And then secondly, just related to that, on the margin comments you've made, you gave a nice slide in terms of the cost-cutting that you've done on some of the big buckets and obviously the offset's been the technology costs. Now, that annualises into H2, so should we think about better operating leverage as we look into next year or is there some offset in terms of fixed dilution?

Vittorio Colao

So, you asked two questions. I answer one and you asked three in one. Nick, you take the two financial ones.

Nick Read

So, in terms of service revenue progression, look at it that Q2 to Q3 was 40 basis points. We expect a continued improvement in terms of service revenue progression. Bear in mind, though, that we've got about 30 basis points of MTR drag going into quarter three, South Africa, Ireland, Qatar and a little bit of heavier handset financing in Spain. But generally, you're going to see a broad-based continuation of the trend.

In terms of margin, yes, you are right that, yes, you will get a higher annualisation in the second half for technology costs, but I think you can pretty much calculate from first half, with the guidance at such a narrow level, where H2 continues to make progress year over year in absolutes and in terms of margin.

Vittorio Colao

And on the Italian and Spanish pricing question, our General Counsel sits here in the front row, so I wouldn't even dare or think of giving you an answer in her presence and not even without her presence. But let me say in Spain the pricing environment has improved. All operators have made moves of different nature, different levels, you know, who is at 45, who is at 43, I mean, it depends. In Italy, we did not apply the new pricing to the base, but only to the new customers. We'll see how the market goes and, again, it's a combination of things that you have to look at, I cannot exclude it.

Maurice Patrick, Barclays

So, a question on consolidation. It's been a consensual view that M&A is good, drives market repair and Vodafone can be a passive beneficiary of much of the M&A you've seen in Europe, so Germany and Ireland being good examples of that, potentially. But you've seen Commissioner Vestager talk hawkishly about the desire for four to three and possibly higher MVNO remedies and structural remedies from consolidation, which might ruin the market repair thesis. Given the benefits you're seeing from Project Spring, I wonder if you're still as enthusiastic about in-market consolidation and perhaps – given the differentiation you're seeing, perhaps a lack of M&A could be a good thing for you.

Vittorio Colao

First of all, thank you for the question. I always think with my own head and I don't like conventional thinking, because people then keep repeating the same thing and I think we should do this also in this case. Consolidation is good if it happens with the right conditions. It's bad if it happens with the wrong conditions. I always said if, as a result of consolidation, you have remedies and mitigations which compete away or give away the advantage then it's better not to have consolidation. Similarly, if, as a result of consolidation, one player controls 90% of the backhubs in this country, 60% of the 4G-ready frequencies, if network sharing that we have with O2 gets weakened and actually BT ends up controlling, you know, three-quarters of the access lines, then it's bad. So, you need to apply consolidation to each case, which is why I think that Commission Vestager basically said – if you read well her line, she said, 'Each market is different. I will look and apply my brain to each of them.' I don't think Denmark is a case. I think the UK is something that has to be looked at very carefully, again, for the reasons that I said. We would not accept to be weakened in our ability to compete in our cost structure by the merger of O2 and Three. It's a good thing, yes, it's a good thing, but it has to happen at the right conditions.

James Britton, Nomura

I just wanted to explore customer costs and the direction of customer costs. Can you just perhaps run through the drivers of the reduction in customer cost intensity? Is this really lower churn due to competition factors? Is it more lower unit SACs? So pulling out subsidies. And do you think it's an industry trend now or more of a Vod-specific situation?

Nick Read

I would say it's a combination of a number of factors, as you were listing them. I'd say that our improved network quality, our focus on service is definitely bringing down churn and that churn benefit is definitely a positive in terms of our A&R spend. I would say that we're also selectively, market by market, reducing subsidy levels, so you're seeing in Germany, as an example, you're seeing in Spain that we took it out from our classic tariffs. We're now, recently, in October, taking it out of our Red tariffs. So I'd say, generally, all the markets are looking at ways to optimise and reduce subsidy levels, so, yes, we're getting efficiency across the board. And that's the same in terms of also how much ARPU we get for the subsidy we put in, so I think it's a combination. We don't mind paying subsidy at a level as long as we're getting a high-quality customer and we're driving up the customer lifetime value.

James Britton

Could I just have one follow-up on Spain? So, has handset financing been a success, in your view, and would you consider it in other markets?

Nick Read

Yes, I would say handset financing we do because the market and the customers are wanting it, yeah? So, the Spanish market had gone to handset – we were the only ones that had not. We followed the rest of the market and, through doing that, I think that the whole model is changing within Spain and obviously there's an opportunity to review the amount of subsidy. There was too much subsidy in the Spanish market.

Vittorio Colao

Let me be clear. Handset financing per se means nothing. It depends if it's turned into an opportunity to reduce subsidies. This is the real answer. Financing is an accounting thing. Then, if this leads to more awareness in the customers that 'hey, I can spend more and get 10 gig or 20 gig and then I will get the phone that I want and it's a separate thing', then it's good, because of course you get more ARPU – net ARPU, net of whatever is the implicit subsidy, then it's good. But it's two steps, it's not a single one.

Tim Boddy, Goldman Sachs

Can I ask Nick a question just about the organic opex trends? I got the sense from your talk that you're actually looking to see organic opex decline next year in Europe. I wonder if it's too soon to comment on that. And then I have a clarification, not a further question, just around European roaming. Obviously that is going to zero; how much is that of revenue and EBITDA and how will you manage that? Thank you.

Nick Read

So, on opex, the only thing I wanted to sort of stress on our opex is of course there's a big chunk around technology and network and, therefore, I wanted to highlight the fact that the footprint has physically expanded materially and that carries a cost. For all the rest of the opex, is our goal to keep it down, reduce it? Yes. I mean, that is the whole point of the zero-based exercise is to say let's stand back, look at the shape of our business, where are we putting cost and investment and just, if you like, repurpose for growth going forward. So I'd say that on the first part.

Sorry, the second part was...?

Vittorio Colao

Roaming.

Nick Read

Roaming. It's about a €300 top line impact, of which 70-80% goes to the bottom line in terms of if the regulation goes through exactly as it is now, before elasticity, before us driving in the daily bundles more aggressively from where we are today. So, if you like, that's the sort of outside limit.

Vittorio Colao

Yeah, but what we have done in roaming – and Paolo, do you want to say something, because you have coordinated a pretty good result there?

Paolo Bertoluzzo, Chief Commercial Operations and Strategy Officer, Vodafone Group plc

No, I think there is the regulatory side of roaming and what Nick said is the answer. I think what we really have been focusing on over the last year or so is the commercial side of it and, actually, the customer side of it, because beyond the financial impact of regulation what really matters is that, as an industry, we got it wrong on roaming. Let's be simple and clear here. We did start a conversion of our roaming revenues basically about a year ago, offering our customers basically two types of solutions. One is making customers being able to basically use their tariffs abroad with a daily fee – and it can be £2, €3, €4, depending on the digital carrier footprint – and more and more bundling roaming, in particular, European roaming, US roaming, Canada roaming into the core tariffs, especially Red, we are doing it more and more. This basically means that today we have, if you take, for example, consumer contracts, almost 50% of our roaming customers that when they roam they use this type of options and they use data much more, voice much more and are actually much happier. And if you look at places, for example, where one market that is very ahead in terms of penetration, like Italy, by now 50% of these revenues are already into these type of options that are actually making our customers much happier and, therefore, I'm not necessarily sure that deregulation going forward will be a better off solution for them. So, we are transforming our revenue and the roaming experience as we go forward.

Vittorio Colao

And the other thing is we have the largest 4G network of agreements in the world, which explains why our visitors' revenues also are good, because we have made a deliberate choice – Paolo has made a deliberate choice to say, 'I want to have 4G roaming wherever I can', which I think is paying off.

Andrew Beale, Arete Research

I was just wondering whether you might have had another look at the potential for a de-merger of emerging markets during the Liberty discussions and, if you have had a thought about that, what your views are on the sort of costs and de-synergies up front versus the potential for strategic or rating benefits in the longer term.

Vittorio Colao

I will not comment about what we have or have not discussed with our colleagues at Liberty. Of course, the Board fairly regularly looks and challenges and debates the different possible setups. We are convinced that we are doing the right thing. The right thing is to have Vodacom listed and potentially India listed rather than having an emerging market spin-off that we wouldn't see as per se really value-creating. We've looked. We have a pretty good idea. I will not say whether it's conjunction or not with Liberty, but in general we have a pretty good idea and, again, we discussed with the Board again in September about the contribution that

central functions give to the emerging markets, but also the contribution that emerging markets give to the rest, because I have to tell you we buy a lot in India. We buy a lot for emerging markets. I didn't say it in my presentation, I think, Paolo, what's the percentage of Vodacom-branded phones that we have in South Africa these days?

Paolo Bertoluzzo

About 25%.

Vittorio Colao

25, 24%. So, it's a two-way thing and it's becoming more and more a two-way thing, because data is really democratising the world. You know, if you are in Soweto or in Mumbai or in Milan, you really use data in the same way. So, we have a pretty good idea of that. We are still convinced it's better to stay in the current setup with two potentially big units listed.

David Wright, Bank of America Merrill Lynch

My question is just on the migration of DSL customers in Germany. I'm curious that you showed your slide, it was 22,000, I think, again this quarter, it was 22,000 last quarter onto the Kabel network. And that's obviously not accelerated, but nor does it seem a very high percentage of your DSL base and I refer to, you know, Numericable migrating 100,000 SFR customers a quarter in France. You're only 22,000 in Germany. You've done, I think, 120,000, there's three million-odd DSL customers. I appreciate that there's a coverage issue there, but it does seem quite slow given you've had the asset for 18 months and I'm wondering why that run rate hasn't improved, because I was then curious that you said your opex synergies were actually running ahead of target, because surely that is the single biggest opex synergy is migrating the DSL cost onto your own network.

Vittorio Colao

Yes, it's a very good question, David. I have, I hope, a good answer. Yes, we have migrated 26,000 to cable, but we also have migrated 18,000 to VDSL, to our own VDSL. So, you have, at the end of the day, to take into consideration a sad fact of life. You can migrate customers where you do have coverage in cable. Where you don't have coverage in cable, you can migrate them into Deutsche VDSL and if there is neither the possibility of cable nor the possibility of VDSL, the best thing is to stay where you are. So, the migrations depend a lot on the topology of the three networks really and DSL, VDSL and cable do not overlap completely. So, would I wish to do more? Yes, I wish I could do 100% in six months. But we can work only at the speed that we can work. There's not much more that I can say.

David Wright

But that obviously is absolutely in line with your target, given that you've actually accelerated the synergies.

Vittorio Colao

Yeah.

David Wright

And my slight add on, sorry – it's just – is the slight pressure on DSL pricing – is that proving a barrier at all to bringing people over to cable – the fact that you're having to go to them and in many cases saying, 'We're asking you to spend more'?

Vittorio Colao

Again, go back to my answer. Where we can, we migrate them to cable. Where we can't migrate them to cable, we migrate them to fibre. If I don't have cable or fibre, then keeping them on DSL at a lower price is the best option today. So, it's as I said, this is not a commercial choice; this is driven by the topology of the networks. Nick.

Nick Read

I would just add two things. One is we use a promotional mechanism to move them across, and that learning's been very effective. I'd say the second thing is, in terms of cost and capex synergies over and

above the business case, we've been particularly strong in the support functions – so, in other words, rationalising the two activities together, procurement and some of those other activities.

Nick Delfas, Redburn Partners

It's a very simple question. You haven't given precise guidance for 2017 capex, but you say medium term 13-14%. So, the question is a very simple one: do you anticipate paying a covered dividend in FY17?

Nick Read

I feel that our free cash flow before spectrum – so, not taking the spectrum into account – should cover our dividend, even after taking into account the negative working capital effect of Spring into next year.

Stephen Howard, HSBC

Just a question on Germany. What do you think about the pricing environment there and pricing discipline, particularly in the quad-play space and the discounts that we see from some of your rivals in that territory?

And also, what do you think about the – what kind of appetite do you have, perhaps, for working with more wholesale partners, or do you stick with the line you've stuck with so far around MVNO discipline? Thanks.

Vittorio Colao

Yeah, listen, again, I have here in front of me the pricing table for Germany. I have pricing tables for every country, but, you know, this one is for Germany converged offer. We really position ourselves versus Deutsche Telekom. Germany was and should be a market where the two main players are Vodafone and Deutsche, and we are – if you look at our offer and their offer, we are practically close. We make also a reference to the Unity offers, of course, but essentially that's the market where we need to be – so, there's two quality providers, fully-integrated, high-quality networks, it's us and the two. Of course, we need to take into consideration, you know, the kind of cheaper players, but it's really on the margin for the promotion for these type of things.

Do we consider wholesale? It's a delicate answer. I don't think I can give you the specific answer, because we're still in discussions. We're not against the concept of wholesaling per se, but whoever buys from us should recognise that there is capital invested, that there are costs there, and therefore they should give, you know, an appropriate return on that. The problem with MVNOs and, you know, kind of discounted wholesalers is that it tends to be a short-term commercial negotiation where people treat things as marginal and don't recognise the return on capital. So, for Germany, but also for the UK and also for other markets, there is not an a priori, 'We never work with third parties on 4G and on high speed and so on'; it's just they need to be ready to recognise some fixed cost and some decent return, and this is the policy.

Now, the specific decision that probably you have in mind – it's clearly in the hands of the German CEO. I discuss with him, with Nick, you know, whenever we go there, and we will listen to what they recommend, but the principle is that there should be adequate return on capital.

James Ratzler, New Street Research

Just a quick question about your H2 guidance. You're implying essentially that organic EBITDA growth should accelerate – I think it's to around kind of 4-8%. So, I mean, are there any markets in particular you would call out for the second half growth acceleration, and is that kind of mid-to-high-single-digit EBITDA growth something that can accelerate through into next year as well? Thank you.

Nick Read

Yeah. I'm not quite getting the 8%, but –

James Ratzler

It's now 5% at the top end and you've done two in the first half.

Nick Read

Okay. What I would say is that we're generally making good progress across the board, so I wouldn't say that, you know, there's one particular operation that's going to be the main driver of this; I think you're going to see, you know, good performance, or progress, from Germany, from the UK, Italy – continued progress.

So I'd just say most of our businesses will just put in a slightly better performance in the second half. The only one that, obviously, has a drag is Spain, because of the content costs year over year.

Ottavio Adorisio, Societe General

Quick question on the NGN roll-out or on the NGN coverage. Following on from a question, you basically pointed out rightly that of course depends on the customer you can address either through cables or through VDSL of the incumbent for you to actually add NGN customers. Looking at the two stats you gave – I think it was on slide 25 – you talk about 66 million addressable market that you cover through cables or through fibre, and only 5.6 million customers on NGN. Knowing that – the stats from KDG and Ono, where you actually have a penetration well in the 20s, it means that in the areas where you don't have cables, you actually migrate in the very low single digits. So, of course it's early stages, but when I look at your nearest competitors that's the incumbent, actually it's running around 15-20%, depends on the incumbent you look at. So, I would basically say that your convergence customers are a third to a fourth in terms of the addressable coverage than what the incumbent does. So, the incumbent is basically proving more successful in upselling towards quad-play, towards convergence.

So, the issue is that – are you happy to keep like that? Are you going to give a boost in terms of pushing and potentially having an impact on margins – as you said, I think that the incumbents are not very generous in the terms they provide you – or potentially being a bit more aggressive on your capex roll-out? And this is a clarification this second or half question.

On the 18% fixed – in the fixed capex, you talked about 18% capex of sales. In absolute, how much are you going to dedicate to fixed beyond Project Spring – so, in pounds?

Vittorio Colao

The second question for Nick. Let me answer the first one. First of all, you are absolutely right. That's the reason why they're called incumbents: because they have a base, they have a footprint, and it's easier for them to churn – to move customers into new stuff, because they know who is high usage, who is low usage, who has spent more on what, and so on. So, the answer is yes, by definition, when you are an attacker it's easier.

Now, if you look at our results, they're still not pretty bad, because we are the fastest growing NGN in Europe in terms of number of customers. Of course we are spread in a variety of countries. And in looking at your numbers, keep in mind that we just started in the UK. So, when we say 66 million homes, we calculate the whole of the UK, where we started, I think, advertising on 5 October or something like that. So, the real core – Germany, Italy, Portugal, Spain, I mean, Egypt, in its own way – and, yes, we give priority to where we have better economics, because, again, I think this is what shareholders expect. So, first, where we have our own footprint, then when we have our own VDSL, and then eventually when we do a resale business, which, quite frankly, is not making any money for us. So, we need to prioritise things.

Are we going to build more? The answer is yes, we are going to build more. We're going to build more in Portugal, in Spain, in Italy. It depends on the operating conditions. As I said this morning to the radio, for example, to build more in this country you need to have access to BT ducts, and the access to BT ducts is in the hands of Openreach, and Openreach is not an independent company; it's a division of BT, therefore it is more difficult. So, it depends a lot on the countries. In Italy, you have the unbundling of the cabinet, which actually is pretty good. In this country, you don't. So, it is a very country-by-country decision and we have to keep it that way, because we want to return as much money as possible from this investment. It will always be a country-by-country thing unless we get a single European regulation, which I am not so sure we can get there. But we will sure – for sure, we will steam up – increase the pressure on incumbents. Nick?

Nick Read

The very short answer is that fixed is, what, 26% of European service revenues. So, take 26% times 18% – that's broadly the – and it's growing at about 3% per year.

Ottavio Adorisio

If I can, 26% of £40 billion -

Nick Read

No, of European revenue.

Ottavio Adorisio

Of the European – so, 26% of around 27, 28 –

Nick Read

I tell you what, we'll do it afterwards.

Ottavio Adorisio

Okay. What's the absolute? It will be around – less than 600 million on the fixed-line capex.

Vittorio Colao

I think you want to have a conversation at the end of this.

Nick Read

Yes.

Vittorio Colao

Before going to Jerry and Emmet, I think we have an innovation. Peregrine has to ask a question on behalf of an analyst who is either not here or very shy.

Peregrine Riviere, Director, Investor Relations, Vodafone

Yes. Actually, this is what I've waited for for five years. Robert Grindle from Deutsche Bank couldn't make it, and he wants to know what's the early response to the mass-market advertising for UK broadband, and also timing of the TV launch and what our approach to content is.

Vittorio Colao

Yeah, okay. Three questions that will get a very elusive answer. First of all, we don't give numbers for the UK because it's too early. I think I'm very pleased by the quality of what we have done. The early numbers are okay, but, again, at this stage it's not worth talking about them, because they're still small – and by the way, we started really in October, so it's beyond the quarter, or the half year.

Approach to content. We still want to distribute content; we don't want to own content. Of course, in places like Spain or Germany or Italy, we have more distribution capability because we have already a customer base, but essentially we don't think that bidding for exclusivity is a good thing, and we actually think that bidding for exclusivity when it's the incumbent bidding is actually a little bit of a restriction of competition, and we make that point very loudly.

What was the –

Peregrine Riviere

Timing of the TV launch.

Vittorio Colao

Timing of TV. End of the financial year. I mean, sometimes in 16 – in the first half of 16.

Very patient, Jerry and Emmet.

Jerry Dellis, Jefferies

A question on German revenue momentum, please. There was quite a strong contrast between fairly solid in-bundle revenue trends and rather weaker out-of-bundle trends. I wonder what's really going on there, and is there a point we can identify at which the out-of-bundle revenue declines sort of anniversary out? And is that the key to a stronger revenue trend in Germany?

And if I could then very briefly follow up on Nick's question about the dividend coverage, to cover the dividend next year, does capital intensity have to be all the way down to 14% of sales, or is there a bit of wiggle room?

Nick Read

I would say on the latter, probably some wiggle room, so we'll see. On the former, I think it goes back to the point that Paolo was making. Actually, whether it's Germany or a number of the markets, actually, if you look, what you're seeing is us convert what you could argue is bad revenue out of bundle into good revenue, being access. So, I think there's a chart at the back of the book for the Group as a whole which is showing that balance as we drive more into the access bundle. We've had that effect in Italy, as I think Vittorio said in his presentation. We've had some effect in the UK. So, a number of our markets, we are choosing to do this because we think it's a better customer experience.

Vittorio Colao

Two more minutes. Last question. Yes, Emmet.

Emmet Kelly, Morgan Stanley

The same question as Jerry, except for Italy. So, if I look at Italy over the last four or five quarters, there's been some pretty good momentum on revenue growth. We've gone from negative 15%, negative 9%, negative 6%, negative 3% just on mobile. Maybe you've lost a little bit of momentum in Q2. Apart from potentially changing the validity of the pre-paid cards in Italy, what are the levers do you think you can pull there, and what are the drivers to maybe get back to positive revenue growth in Italy in coming quarters?

Nick Read

Could I just talk about the technical ones and then...?

Vittorio Colao

Yes. Go on.

Nick Read

Yeah, the technical ones being – we did enterprise roaming notification, and that did dampen quarter over quarter by about one percentage point. We also annualised on the price increase last year, so that was another drag. So, when you're looking at quarter-over-quarter performance, I would say we've just launched a new price plan into the market, so you won't get that full impact until quarter three.

Vittorio Colao

Yeah. I have to say, on a broader note, I'm optimistic about Italy because we are seeing very good response to 4G, very good response to what we are doing. Fixed line is doing well. I have to say we really have a solid operation now. The only risk in Italy is we see again very heavy below-the-line activity from one player and some tentative response from the other two major ones. That should not, I hope, drag the whole market back again into super-promotional €5/€7 per month type of things. But, you know, the trends are positive, the number portability numbers are good in Italy. So, usually, that's a leading indicator.

We have room for probably one more, maybe, but not much – yeah – behind there. Anybody else? Last chance.

Guy Peddy, Macquarie Securities

A quick question to Nick. Prior to Spring, you were signalling you spent 13% capex of sales on mobile and now, Spring, when you've got your networks back up to speed, you're talking 12% capex of sales. Are they actually comparable, because you're now more convergent? So, is that actually a reduction, or is it just the fact that some of the spend that you previously would have had in mobile is now sort of shared across fixed and mobile?

Nick Read

No, it is more efficiency, because, having rolled out – I think we're now at in Europe 88% of our network is SingleRAN; we've just got a more efficient, effective network in place, so our maintenance and capacity requirement going forward is going to be a little bit lower.

Vittorio Colao

And Johan is doing a very good job also, making sure –

Nick Read

He'll take all the credit.

Vittorio Colao

– that our suppliers continue to deliver the price reductions that they have to deliver if they want to continue working with us.

If there's no more questions, I would like to thank you for your attention. Again, it's been a good set of results, we think; happy to be back into EBITDA growth, but even happier that Spring is starting to really deliver on our strategic priorities. Thank you very much. Looking forward to meeting you in the coming days during the roadshow. Bye.