

Vodafone Group Plc

Trading update for the quarter ended 30 June 2017

Analyst and Investor Conference

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Q1 17/18 Highlights

Vittorio Colao

Group Chief Executive, Vodafone

Thank you, operator. Good morning, everybody. Welcome to our trading update for the first quarter 17/18. I am here in Italy. Nick Read is in London. Hopefully, everything will work smoothly. I will take you through the highlights, as always, and then Nick will focus on the trading update, after which I will come back to summarise our strategic progress, and then we will move to the usual Q&A.

So, let's start on slide 3, with the highlights for the quarter, starting on the left. We have made what I would call a good start to the year, with 2.2% organic service revenue growth in Q1. Growth improved in Europe to 0.8%, which is really 1.8% excluding regulation, and accelerated in AMAP to 7.9%, which, as you know, now excludes India. In India, revenue continued to decline year-on-year, but stabilised compared to the prior quarter.

The foundation of our business is our network quality and scale in both 4G and fibre. In mobile, we continue to have the best data network in 14 out of 21 markets, and the best voice in all of the 21 markets. In fixed, we now reach 98 million European homes with fibre, including VodafoneZiggo here, of which 36 million are on-net. This is the broadest footprint of broadband in Europe.

This network leadership supports the healthy performance of our growth engines, as shown in the central part of the page. First, mobile data, roughly growing 63%, supported by ongoing 4G adoption. We are monetising this growth through the successful implementation, for a second year, of more-for-more offers in multiple markets, and I'll cover some later. Second, fixed: here, we added 300,000 new broadband users, maintaining our position as Europe's fastest growing operator, with a solid take-up of converged offers. And third, Enterprise, with 1.5 percentage growth, led by market-share gains in fixed and the strong growth of IoT services.

And finally, the last column is perhaps the most important, as it illustrates what our customers think about us. Based on net promoter scores, we are the leader or co-leader in 19 markets, with a substantial gap versus weaker third-placed players, and I will cover this as well.

So, overall, we continue the good work and this has been a good quarter. I'll hand over to Nick for the trading update.

Trading Update

Nick Read

Group Chief Financial Officer, Vodafone

Thank you, Vittorio, and good morning, everybody. Let me take the opportunity to remind you that, as in Q4, the numbers in our statutory reporting exclude India, following the merger announcement with Idea. Of course, as previously commented, we continue to disclose India's operating KPIs and financial performance. VodafoneZiggo will report its full quarterly results in early August, so we will not be giving any new information on the JV with today's trading update.

So, moving to my first slide on page 5, which shows the composition of our service-revenue growth, I am pleased to confirm that all three of our growth drivers – mobile data, convergence and Enterprise – are performing well during the quarter. In aggregate, these are allowing us to gain profitable total-communications revenue market share in most of our major markets. Excluding regulatory drags, our

European consumer-mobile business is delivering modest growth, reflecting our success in delivering more-for-more commercial actions for the second year in a row. Emerging market growth, largely driven by data, continues to be a key contributor, reflecting excellent performance across our footprint in AMAP.

Our momentum in convergence remains strong, with base growth of 1.5 million customers during the past year, supporting revenue market share gains in fixed line and TV. In Enterprise, we believe we have continued to outperform our international peers, reflecting share gains in fixed, along with good growth in AMAP.

As you see on the right of this chart, these good performances were partially offset by EU roaming MTR regulation. In addition, our strategic choice to exit MVNO contracts remains a drag, although the decline in carrier revenue is now largely over as we lap the loss of low-margin contracts last year.

Moving now to our regional performance on slide 6, our growth has improved quarter over quarter in both Europe and AMAP, in part due to the tough comps in Q4, including the unwinding of the leap-year benefit during the prior year. However, we did see an improvement in our underlying momentum. Excluding the impact of MTR cuts in Germany and Ireland, and the ongoing drag from European roaming regulation, Europe is growing at 1.8%. Growth in AMAP continues to exceed our expectations, with all key markets sustaining or accelerating their performance in the quarter.

Meanwhile, our commercial momentum remains robust on a year-on-year basis in our large markets. As you can see in the chart on the right, mobile contract net adds slowed, primarily due to the loss this quarter of a large government contract in Hungary and a one-off adjustment in Ghana last year. In broadband, Q1 is always a seasonally weaker quarter and we maintained our strong momentum in Europe, with growth in Turkey moderating versus a very strong start to last year.

Looking ahead to Q2, we expect the drag from European roaming to peak over the summer quarter, together with the increased impact of handset financing in the UK, weighing on Q2 growth by approximately 100 basis points compared to this quarter, as anticipated when we gave our annual guidance in May.

Moving to slide 7, let me briefly update you on our trading momentum in our major European markets. In Germany, we are trading well. Despite a somewhat more promotional environment, our mobile contract net adds improved compared to Q1 last year, as we continued to concentrate on direct channels. Our underlying financial performance was similar to prior quarters. The modest reported slowdown in growth to 0.6% reflects the lapping of an accounting change in fixed in the prior year, and slightly lower wholesale revenues, reflecting our strategic decision not to offer United Internet discounted 4G MVNO terms. We have just renewed our United Internet 3G agreement for another year and, therefore, wholesale revenues will be stable at Q1 levels for the rest of the year.

The UK is showing early signs of recovery. Our customer-service levels and NPS scores continued to rise, and contract churn reduced by 120 basis points. This supported stronger mobile-contract net adds, which grew 45,000 after adjusting for the impact of our decision to wind down the Talkmobile brand. I said in May that our underlying UK performance in Q4 was closer to a 3% decline, given a number of tough comps, and we improved on this in Q1, with a 2.2% decline excluding the impact of handset financing. This reflected the benefit of RPI linked price increases in mobile, along with a better inflow mix of high value customers. I continue to expect the UK broadly to stabilise during H2 on an underlying basis. Handset financing will be an increased drag going forward on reported service revenue, but a benefit to EBITDA.

The competitive environment in Italy continues to intensify, with half our prepaid gross adds now coming from below-the-line activities – a much higher proportion than usual. Thanks to our advanced data-analytics capabilities and personalised more-for-more offers, we reduced subscriber losses compared to last year, with our active customer base remaining broadly stable quarter over quarter. Meanwhile, our strong momentum in broadband continues. Revenue growth was resilient, at around 3%, supported by good ARPU growth and strong fixed-line momentum. However, this is a modest underlying slowdown after adjusting for the leap year effect, which dragged Q4 by circa one percentage point. Looking forwards, there is a drag of around 200 basis points next quarter, as we lap the remaining benefit of 28 day billing, in addition to the intense competitive environment.

In Spain, I am pleased with our execution of this year's more-for-more initiatives. We implemented these slightly later than last year, which accounts for the modest slowdown in underlying growth, but as you can

see from our healthy net add momentum, we saw less churn and no negative impact on NPS. Looking forwards, we expect the drag from handset financing to disappear by H2, supporting an acceleration in reported growth. Although the low end of the market remains promotional, our launch of converged offers with the Lowi brand are a targeted response, allowing us to capture share in a segment of the market where Vodafone has historically under-indexed.

Moving to AMAP on slide 8, you can see that our performance has remained stable or improved in all major markets. Vodacom reported its results yesterday, so let me simply say we are very pleased that, given an increasingly touch economic environment, Vodacom South Africa continues to deliver excellent results – a remarkably consistent 5.6% growth performance. Clearly, at some point, we would expect a modest drag from the weakening economy, which is now in recession. Growth in Vodacom's international markets also recovered sharply during the quarter, as we lapped the customer registration issues we faced a year ago. On Tuesday, Vodacom shareholders approved the proposal to contribute Vodafone's 35% interest in Safaricom to Vodacom in exchange for shares. This simplifies our sub-Sahara operations and, post-closing in early August, our stake in Vodacom will increase from 65% to approximately 70%. Finally, our commercial and financial performance in both Turkey and Egypt remains very robust.

Turning to India on slide 9, the environment remains intensely competitive, with incumbents responding to Jio's 1-GB-a-day plan offers during the quarter and, therefore, the market situation remains fluid. On a year-on-year basis, our growth continued to weaken but, importantly, on a sequential basis, revenues stabilised, as we had anticipated in May. This stabilisation is the outcome of two opposing dynamics: on the one hand, although we continue to retain our high value customer base, we are doing so with larger voice and data bundles. This weighs heavily on ARPU, especially in post-paid, and has contributed to a near doubling of data usage quarter-on-quarter. We are managing this significant increase in data traffic by concentrating our capital investment in our leadership circles at a high-teens level of capital intensity to ensure we continue to gain revenue market share.

On the other hand, as you can see from the chart on the bottom left, in the lower end of the prepaid market, the shift to unlimited voice propositions means that we are gaining both share of customers and share of usage from smaller discount players. This supports a stabilisation in our prepaid ARPU. In aggregate, these lower value players lost 3.6 percentage points of revenue market share in fiscal Q4 compared to the prior year.

Looking forwards to Q2, we expect both of these trends to continue. It should be noted that Q2 is seasonally weaker than Q1 and, in addition, the recent introduction of the new Goods & Services Tax, at 18% for the telecoms industry, compared to 15% previously, will also drag on our sequential performance. That being said, we are encouraged that Jio has begun to harden its pricing, moving last week from three months for the price of one month to two months for the price of one month. Clearly, continued progress in this direction will support a recovery later in the year.

With that, let me hand back to Vittorio to walk through our strategic progress during the quarter.

Strategic Progress

Vittorio Colao

Thank you, Nick. I will quickly update you now on a few strategic progresses. First of all, slide 11 shows how we are monetising our leading customer experience. On the left, you can see a key measure of consumer preferences – our net promoter score. The chart shows that, on average, we continue to remain ahead of the next best competitor, which is typically the incumbent competing like us on network quality. But more importantly, the chart highlights the wide gap to the third player, who typically competes mainly on price. This is clear evidence of a two tier market in terms of user experience, which allows us to charge a premium price compared not necessarily to the incumbent but definitely to the discount players. The gap reduced slightly this quarter, which is not surprising, given the pricing changes we have made in several markets. We expect NPS scores to recover in the coming quarters, as we saw last year. A key driver of our

NPS is network quality, and we continue to have the best mobile data network in 14 out of 21 markets, and a perfect score of 21 out of 21 in voice.

Moving to the right, the successful implementation of our more-for-more propositions in multiple markets has supported reported consumer ARPU, and underlying consumer ARPU is now improving in all four of our key European markets, once you adjust for the drag from handset financing and MTRs, and this is an important statistic.

Moving to slide 12, a key engine for our success is a strong customer appetite for mobile data. 4G users, which are shown in the blue bars on the left side of the page, continue to grow very rapidly – up 30 million over the year to 83 million. 4G usage is much higher than ever – just 2.2 GB per month – and, as you can see from the red line on the chart, this is driving up the average usage, which reached 1.6 GB per month across the Group compared to around 1 a year ago. Including India, this drove 76% year-on-year data growth this quarter.

On the right side of the slide, you can see the key dynamics which we think will characterise the next phase of data growth. First of all, around 60% of all data traffic is generated by video or social and music apps, which are becoming, of course, increasingly popular. Second, the quality of our 4G services now exceeds Wi-Fi both in terms of speed and in terms of latency. 25% of our 4G sites now in Europe have carrier aggregation, which provides peak download speeds of 300-800 MB per second. So, with 75% of mobile usage still via Wi-Fi rather than the cellular network, we expect to see more Wi-Fi traffic substituted by mobile in the future. And I remember when the 75 was 90 and then 80, so this is clearly a proof of the high quality and high appreciation of our 4G+ networks.

Third, compression techniques are rapidly improving. For a smartphone screen, there is no discernible loss of quality when receiving videos at 480p resolution. This, on the other hand, reduces dramatically the load on the network, allowing us to manage large increases of data-traffic cost in a very effective way.

Finally, our market research shows that a majority of customers want worry-free usage, but the current industry way of pricing, which focuses on gigabytes, is confusing to some users, and so we need to find a smart and easy way to address this.

Slide 13 shows how we are addressing this opportunity and, at the same time, improving data monetisation through a new pricing approach that we have commercially called the Vodafone Pass. Now, this concept is simple: customers buy passes. These passes give worry-free, unlimited access to social, music and video applications, and this will not use their data allowance. So, those specific passes are essentially zero-rating tickets, if you want. We have tested this concept extensively, so let me share some of the marketing sides that we discovered.

First, the apps are an easier concept to understand than the bytes. The consumers feel more comfortable with the concept of all the music that you want or all the video that you want from your favourite app than 10 GB/5 GB/7 GB. In turn, this reduces their concern about going over the data limits. Research shows that some low-spending users will generate materially higher ARPU using the passes, while the high-spending users typically retain their spend. As a result, we believe that this model can be a win-win for customers and for Vodafone: a better experience for them and higher ARPU for this. And this is opposed to a simplistic unlimited model, which could be either too expensive for some or unsustainable for the operators.

On the right, you can see our Italian example, which is already live and commercial. It's early days. It's too soon to give any data on the level of ARPU accretion, as the social and chat passes are initially free over the summer, and then there will be a chance to opt out. But we are very encouraged that 50% of new customers in the stores are taking the passes, and these are already used by 600,000 Italian customers since the launch, which happened very late in June. We have now launched this pass concept in five markets. Each pass is tailored to local market demands, so the price will vary across the markets.

Slide 14: this addresses our progress in fixed and convergence – the second engine of growth for Vodafone. Our fixed business now accounts for 28% of our service revenues. On the left, you can see that our European NGN coverage, including VodafoneZiggo, now reaches 98 million homes, and 36 million of these homes are reached directly with our own on-net fibre or cable infrastructure. And of course, we continue to look for opportunities to build additional fibre coverage, providing that these meet our return criteria. In addition, we have reached five millions homes now through strategic partnerships, which are wholesale

arrangements where we have access conditions that are significantly superior to the regulated terms. And over time, we expect the number of homes within such relationships to grow significantly.

Let me give you some examples: Open Fibre in Italy is progressing very well – build rate of over 30,000 per week. Their build-out has now passed 1.7 million homes, around 1.5 of which are marketable for Vodafone. And Open Fibre expect to reach three million homes by the end of the fiscal year. Together with their success in the C and D areas, their long-term coverage ambition now exceeds 18 million homes. But also outside Europe, we announced a new partnership in Turkey that gives us access to 2.7 million homes.

Across the footprint, we are also rapidly growing customers, as you can see on the right hand of the page. As Nick mentioned, Q1 is always seasonally weaker, but we maintain good growth in NGN customers. The number of on-net customer additions was slightly lower this quarter, which is the effect of two trends: in Germany, where the migrations of DSL to cable are beginning to slow; and in Spain and Italy, where we are adding subs in attractive partnerships. Our customer momentum is overall good. There is significant, however, growth opportunity, as on-net customers for Vodafone today represent only 27% of the homes passed, and off-net penetration is just 2.5%.

However, we are not just adding broadband lines. A key strategic objective is to build long-lasting converged fixed and mobile relationships with customers. So, if you move to slide 15, you can see our progress in convergence, with around 700,000 consumer households added in Europe over the last 12 months in the big four markets, as well as 600,000 added at VodafoneZiggo during the quarter. This takes our total base to 4.4 million, again include VodafoneZiggo, as you can see in the chart on the right, and this represents 30% of our broadband base.

In May, we disclosed in our results presentation that this does not include around two million homes where we have both broadband and mobile customers but they are not yet integrated, which is, again, an opportunity for us. If we include these homes, around 40% of our European consumer broadband base and 17% of our mobile SIMs are already taking both fixed and mobile from Vodafone. Clearly, we have made most progress, as you can see in the chart, in Spain, where penetration of the consumer fixed base is now 88%, and we see clear benefits, with churn rates which are approximately half the level of the single-play products. We will address this topic in more detail again at our Open Office in Venice, and this will provide you an opportunity also to see the Open Fibre deployment in person, as well as meeting the Vodafone management teams from Italy, Spain and Portugal to see how flexible and how smart our convergence strategy is to deliver good results.

Let's now turn to the last strategic driver of growth: Enterprise. Enterprise accounts for 30% of Group service revenue. Here, we achieved service-revenue growth of 1.5%, which is a little bit down from the 2% of Q4. Growth would have been even higher, if not for the roaming drag, which, as you know, has a particular impact in Enterprise more than in consumer.

The chart on the left shows the key drivers. Mobile revenue increased 0.6%, supported by continued customer growth, particularly in AMAP, and a very good and very expanding IoT business, where revenue grew 15%. These positives continue to offset price pressure in Europe. Fixed is 30% of our Enterprise revenue base. We are a growing challenger in this space, with less than 10% market share, so a big opportunity, and fixed is growing at 3.6%, benefiting in particular from IP-VPN sales.

In the middle of the slide, you can see some of our Enterprise assets that support our growth: in particular, the IP-VPN network that now reaches 75 countries and 275 PoPs; our market-leading IoT services, which grew very well, I have to say, to 59 million connections; and, clearly, the Cloud & Hosting presence, which is now extended to 28 markets.

Finally, on the right, again our NPS scores show our market-leading and improving position. Overall, I would say that our Enterprise performance is good and reflects probably an outperformance versus our main competitors.

So, to summarise, on slide 17, I say that I am pleased that we made a good start to the year. We have robust commercial performance and continued underlying service revenue momentum. In Europe, we saw good performances in Italy and Spain in particular. The UK is starting to turn around and Germany is doing well in underlying terms. AMAP accelerated in the quarter and India is showing early signs of stabilisation, although the situation always remains fluid in India.

Our growth engines are all delivering. Data growth is strong. Vodafone Pass provides another option to continue to improve monetisation. In Fixed, we are taking profitable market share, with increased convergence penetration. Finally, Enterprise continues to outperform its peers.

The Fit for Growth programme to improve efficiency and increase profitability is on track but, again, but we're not talking about that today. I think that's for Nick for November.

As a result, we are able to reiterate our financial guidance for the year.

So, now we are ready to take questions. I would like to ask – I know I will fail but I would like to ask you to ask no more than one question each, in order to allow sufficient time to everybody. But again, Nick and I now are ready for questions.

Questions and Answers

Akhil Dattani, JP Morgan

Hi, good morning, and thanks for taking the question. Just a couple – sorry, Vittorio, I know you said one but I'm going to try and sneak in two already, so I've probably started in a very bad way, but just two. One is on roaming. I guess I'm just keen to understand what you're seeing in terms of early customer reaction to the roaming rate cuts that we've seen. Obviously, it's still early days – I appreciate we're just five weeks in – but just any colour in terms of elasticity in trends would be very interesting.

And then, secondly, you've talked about zero rating, you've talked about convergence. One thing I guess I was just interested in understanding is what your thoughts are around family plans, because you're flagging in your slides that your typical convergence customer is now taking two SIMs, so, clearly, there is benefit in terms of the bundling up of customers you're seeing. Is that something incrementally you also think you could add to the portfolio and could help in terms of your monetisation of your customer base? Thanks a lot.

Vittorio Colao

Akhil, thank you for your two questions. I said that I knew I would fail in asking to have only one question, so it's really welcome – both are welcome. So, first of all, on roaming, as you said correctly, it's early days. I can give you a very preliminary stat, for whatever it's worth. In the first 15 days of June, we had around 150% increase of roaming; in the second 15 days, more than 180%. So, clearly, there is a liberation effect. This means that, in general, between what we did before, which was all the marketing activity that you heard from me about many, many times, and the regulatory impact, we expect a big summer of data roaming, but it's too early to say what the impact will be exactly. In general, we are pleased because it means our customers will use more data, and the more they use data, the more they will be used to get data, so it's a positive reinforcement.

You asked about family plans and linked it to Vodafone Pass. It's two different things and I would not put them together. Vodafone Pass is our strategy to monetise, if you want, in a smart way, some kind of worry-free, which we don't want to call unlimited but it's worry-free, but not give it away completely for free. We found, in Italy, very good acceptance. Of course, the effort here is to have a win-win for both us and the customer: get 3, 5 or 10 euro more and give much more in that category to the customers through reduced pixilation. It also reduces the network load. So, that's one thing and it's really part of our more-for-more monetisation/smart-pricing effort.

The family plan that you asked is a hotly debated topic. I think, here, you have to make one distinction. There's two different things here. One is family discount and aggregating SIMs together and then to a fixed line, which we think could be a trend and could be something that we are already offering in several markets; the other one is the shared data allowance. The shared data allowance, which was done many years ago by Verizon in the first place, is something that is not proving incredibly popular in Europe. We don't really have

a complete understanding why. Part of it is prepaid; part of it is the different way the families work; part of it could be cultural. But I would say that, yes, you will see more family aggregations. Whether it will be with shared data plans or not will depend a lot on local marketing and local understanding of customer needs.

Nick Read

It's Nick. Just to build on Vittorio's point, just for avoidance of doubt, at this point in time, on the roaming side, we don't see anything that changes our view of the €300-million hit to service revenue and EBITDA this year.

Akhil Dattani

That's helpful, thanks. Can I just ask one clarification? I presume that the roaming data point, Vittorio, that you gave was on the retail side. I just wondered if there's any colour you are willing to give or able to give around the wholesale side of things in terms of what you're seeing.

Vittorio Colao

Too early, Akhil. Too early but I understand why you're asking the question. And again, I know Nick is very prudent and doesn't want me to be too optimistic. I think he's right. We have no new data, so we cannot really change our forecast. What I see, which is positive, is positive customer take-up and positive experience for the customers. This, in general, has taught me, leads into more usage and more appreciation of services. On the wholesale side, I understand why you're asking the question. We are monitoring very tightly what's going on and especially which country originates the traffic, and we have put in place all the systems to be sure that, if we see some anomalies or some abnormal origin, we will act swiftly. And that's what I can say today because I don't have more than that.

Nick Delfas, Redburn

Thanks very much indeed. Just a quick one on fibre. Could you tell us roughly how many customers are already on the Enel Open Fibre network, maybe including Metroweb? And also, on the homes passed, is that homes passed also into the building or simply outside the building and then you need to, when a customer requests service, get the fibre into the building? Thanks very much.

Vittorio Colao

Yes, I will disappoint you. I'm not going to give you the answer about the customers because it's too early. And the second part of your question, I would say in-the-building at 90%. I'm here in Italy and I have next to me people who are writing it's nearly 90%, so pretty good, actually – pretty good – and that's why we are optimistic about the Enel project.

Andrew Lee, Goldman Sachs

Good morning, everyone. Thanks for the questions. I was going to go for two and, if you don't want to answer one, then I'll leave that to you and you can choose which one. But the first one is on the UK fixed-line negotiations with openreach. I just wondered if you could you comment or just give us any colour on whether you're at the point where you could commit to a capacity-based agreement with BT, and would you need to have a much greater scale of customer base to make this a relevant long-term fixed-line solution for you?

And then the second question was on eSIMs. I just wondered if you could give us an update on your views on that. How close are we from this and is this a positive for you in terms of lower distribution costs or a negative in terms of lower differentiation? What's the balance of those two elements? Thank you.

Vittorio Colao

Yes, let me start from the eSIM first, and then Nick and I will answer the UK one. The eSIM, we are there. You will see eSIM-connected objects starting in the second half of the year. I think implemented the way it has been designed by the GSMA is a positive, and it's a positive especially for us on the IoT thing. You remember we announced that we have started an IoT consumer business that will be commercial. It's now in a beta-friendly user space, but we'll start in the fall in several verticals. There are a series of IoT implementations or user cases that do require saving of space and simplicity of management, and, clearly, the eSIM in that case is good.

The GSMA solution has also implemented a series of – how can I call it – process elements that give operators the control of what happens to the SIM. So, it's, de facto, a replica of the physical process but it's just remote and digital. So, implemented that way, it's positive. Of course, it reduces the friction but, at the end of the day, we're not here to make it impossible to the customers to switch to another operator; we are here to give the best possible service and the best possible experience. So, I am more on the positive than on the negative on the eSIM.

Nick, do you want to take the UK answer?

Nick Read

Yes. Just on Openreach, I'd probably widen it out slightly to say that we're having conversations with a number of players. We're obviously open to seeing what the possibility is. Whether on a capacity deal, a little bit like we have in Germany – a kontingent-type deal – or whether it's a co-build opportunity, I think we remain open. Obviously, we have hurdle rates in terms of the IRR we need to get. I think, in terms of scale, I think the UK is gaining momentum on the fixed side – another good quarter's performance of just around 30,000 net adds, so, on a net-adds-share basis, I think we're performing well in the UK and obviously it would give us further momentum. So, we're open but this is early days in the discussion and there are clear thresholds that we will set.

Stephen Howard, HSBC

Thanks very much for taking the question. I hope you can construe this as a single query about convergence. In the release, you talk about the GigaKombi convergence offer getting good traction, and you're saying that, on average, households are increasing their overall spend when they migrate. I was just hoping for a little bit of clarification here. I'm assuming what you mean is that when you migrate a customer who is already taking fixed and mobile on separate packages onto an integrated package, you're basically not taking an ARPU hit. And I'm just wondering how that uplift is working. Is it, for instance, being powered by selling in additional SIMs or something like that?

And the associated question, though, is not merely at the German level but at a Group level, if you're really getting traction on the convergence front, then shouldn't we be seeing the total TV households actually growing at a Group level rather than flat year on year, which is as reported? Thanks.

Vittorio Colao

Yes, let me take the second part of the question, Stephen, and maybe Nick will give the GigaKombi and German detail thing. The answer is yes, but you cannot expect every quarter to be exactly there. In particular, this quarter on TV, we had a Spanish phenomenon, which is the disconnection and reconnection in correspondence with two things: one, the football season, and second, the students moving in and moving out because of the academic year. So, the answer to your question is yes, but of course you have to time it according to the seasons, and sport and moving houses are two things that influence that number.

Nick, GigaKombi and Germany?

Nick Read

Yes. Stephen, the dynamics we're really seeing – if you look at the moving customer on from individual products into a packaged product, of course there is an implicit discount, but what we're seeing is that the customers are effectively reinvesting that discount into more product and more data, which is why we see the ARPA tending to go up after they make the migration.

Simon Weeden, Citigroup

Thanks. I wondered if I could ask you to elaborate a bit more on your comment about exploring fibre-build business cases with high IRR thresholds, in particular in the context of figures you've given us before for fibre build of, say, 150 to 160 euros per home passed in Portugal and Spain, which compares to rather higher numbers we see in some other markets – maybe £500 provided by some of your competitors in the UK, maybe a little bit less in France. Is it becoming easier, more possible and more realistic to imagine those countries with higher costs per home passed bringing those costs per home passed down, and how should we think about this impacting different markets that you're looking at in terms of where this might be viable?

Vittorio Colao

Simon, it's a very general question, so it's difficult to give a very specific answer to this. The answer is there's a lot of activity, projects, different subjects looking into the fiberisation, and there's many, many solutions. And while, in general, I can tell you, yes, there is a trend to try to make the build of fibre more affordable, more, I would say, economic, not everywhere you can achieve the same economics because of physical constraints. There's places where you have ducts and places where you don't have ducts, and that is already a big difference. There's places where you can dig with certain ease and quick regulations, and places where it's more regulated.

In general, what I can tell you as Vodafone strategy, I think what you are seeing is what I think, in the previous results presentation, we called capital-smart flexibility. We are, as Nick said, engaged in a number of conversations in a number of countries in order to achieve partnerships or conditions that allow us to be in the game but without having economics that are not sustainable. If I can give you my feeling, I see more and more of this coming close to good conditions – of course, it's situation by situation – but my prediction is that you will see more of these agreements and Vodafone being more part of these build-outs projects in the future.

Nick Read

Simon, just to build on Vittorio's points, you probably saw that we recently announced in Germany the Düsseldorf pilot with DG, just doing some rollout within business parks, which is an interesting option: business parks underpenetrated in Germany; attractive economics; success-based, with a partner, with experience, which lowers the risk. So, that would be a good example.

Robert Grindle, Deutsche Bank

Good morning. Something really interesting happened this quarter, in that your total revenue growth in Europe and Group has now moved back firmly above your service-revenue growth. I think that's the first time in half a dozen quarters are so. I suppose UK handset financing probably is to blame for a bunch of it but, ex-handset-financing effects, is the handset cycle recovering? What are equipment revenues doing on average? Is there any change in the trend away from SIM-only back to contract this quarter? Many thanks.

Vittorio Colao

Nick?

Nick Read

Robert, I would say that I'm not really seeing a big shift. If anything, most of the discussions we're having is whether handset cycles are slightly moving out and people aren't renewing as much and SIM-only mix is going up. But obviously, handset financing in the UK has started. So, look, we'll take it offline. I wouldn't read too much into it, but the IR team can follow up with you.

Vittorio Colao

Yes. Let me say, Robert, what we look at with a lot of attention is the money for us. So, you used the word 'blame.' I would neither blame nor glorify. What is important is our net intake and, therefore, that's what we look and that's what I think investors should be interested in, because, at the end of the day, we're not here to make Apple or Samsung rich.

Maurice Patrick, Barclays

Morning, guys, Maurice here. A question on the Vodafone Pass launch: first of all, do you see it as a stopgap before you move towards full unlimited or an alternative? But also, I think, in the presentation, Vittorio talked about India and reprioritising capex towards area where you were seeing strong usage in data. Do you look across the footprint and think there are areas where, maybe, investment might be retargeted if you do see usage growth accelerate? Thank you.

Vittorio Colao

Yes, Maurice, a couple of things. First of all, Vodafone Pass is, I think, another proof that we try to do, at the same time, what is in the interests of customers but also not give away things for free. Let me give a small comment here: Deutsche Telekom in Germany has done their StreamOn offer, and they just simply added it to existing ARPU. We think that it's better to try to go in the direction of the customers but, in doing that, get a little bit of ARPU uplift. The fact that, in Italy, we have 600,000 customers who, in a few weeks, took this option, I think, albeit it's promotional now, I think it's a sign that there is a lot of demand that is willing to pay something to get zero-rated or unlimited. So, I'm not sure I see it as a stepping stone. For sure, it is answering a customer need and trying to monetise on that need.

On India, don't forget that we are in an approval phase of a merger with Idea. Don't forget that some of the logic that we illustrated in March was that, in many circles where Idea is strong, we are not, and vice versa, so our strategy to concentrate capex at 80-something percent – Nick showed it in his chart – in our leadership circles clearly reflects also the logic of investing where we are strong. I assume that, in the same period, they are doing the same. Don't forget that we have to lose some customers when the merger is approved, because, in some circles, together we exceed the market share caps for M&A. So, what I would say, we are determined and focused to keep the investment levels where we have leadership, and go through the merger. This is the current priority.

Nick Read

Maurice, you widened from India to the other countries. You're right to point out the opportunity, and it's something that Vittorio and I and the team have been talking about, which is understanding the cost curve as data takes off, as you go through 4G, 4G+, 5G, and understanding your management of the network with targeted capex by region, by area within a country, so that's absolutely part of our, if you like, digital-telco thinking about how we manage our cost base and capex allocation.

San Dhillon, Exane BNP Paribas

Hi, guys. My question is on data analytics that you're putting to pretty good use in Italy with personalised offers. Is this something that you can expand more broadly to other markets or does the contracted nature of other markets make it more difficult to use the customer information you have? Thanks.

Vittorio Colao

Thank you for the question. The answer is yes, and we are already because, if you look at what's going on in actually or you look at what's going on in other European markets, the answer is yes. Of course, the power and the value that we can extract depends a lot on the customer structure and the industry structure. Contracts are different than prepaid; high-value is different from low-value, and so on. But for sure, this is the way marketing is going and, for sure, it's also a much better way of extracting yields which are better and better, and putting the money where you have a return. We looked at Australia: Australia is another case where we are using more analytics, and the performance there is great; Portugal. So, more of that and a little bit less above-the-line, big pricing shouts, is clearly the future.

Jerry Dellis, Jefferies

Yes, good morning. Thank you for taking my question. I have a question on NGN in Italy, please. You have highlighted today how you now have 5.0 million NGN homes marketable in Italy and, in the previous two quarters, you gave us figures of 4.8 and 4.4. I suppose Enel Open Fibre was activating cities for the first time in the last quarter. I think they turned on parts of seven cities for the first time. Yet it looks as though your overall NGN footprint was growing at a slightly slower pace. On the other hand, of course, you have guided us to three million Open Fibre homes being marketable by the end of the year, which would imply a bit of an acceleration. So, I'm really interested to understand what's really going on in terms of the momentum and whether the apparent slowdown last quarter is a real effect or maybe whether things were separately defined.

And if I may just tack on one very quick additional point on your wholesale roaming costs, did you renegotiate the rate card with other operators in advance of the change in regulation in June? Thank you.

Vittorio Colao

I think there is a little bit of confusion, Jerry. Let me give you the numbers again. The number of homes in Italy, 1.7 [million], of which 1.5 [million] marketable from Open Fibre. This is accelerating: it's 30,000 per week; it will go up to 40,000 per week. They expect to have three million by the end of our financial year. Then, if you look on top of these 1.5 [million], which, today are marketable, we have another three [million], which are FTTC – so, not FTTH – FTTC – the old thing, which are still perfectly working but, of course, it's a different thing – and the rest is VULA that we have from Telecom Italia. So, the Open Fibre and the NGN thing is one thing; the FTTC is another thing. Call it sub two million – two million, sub two million – and then the rest is VULA. Of course, the Open Fibre will go up to three by the end of the year. I hope this clarifies.

Jerry Dellis

Well, maybe a different way of asking the question perhaps, then: would it be fair to say that the difference between the five million NGN that you gave us for this quarter for the whole of Italy – Enel Open Fibre and other types of network – and the 4.8 that you gave us last quarter, so the uplift of 200,000, would it be fair to attribute most of that to Enel Open Fibre or are you continuing to build FTTC on top?

Vittorio Colao

I'm not sure I understand your question. Enel Open Fibre will go to three by the end of the year. We have today 1.5 [million] marketable but already 1.7 [million] built. And then we have, on top of it, around 3.2 million – something like that – which is FTTC, so not FTTH – FTTC – that is already in the ground. Clearly, when Enel Open Fibre goes ahead, you will switch from one to the other, so there is an overlap between the two, of course. I don't know – is this clear?

Jerry Dellis

Okay, that makes sense, thank you. And then, just on the wholesale-price card in roaming, please?

Vittorio Colao

Sorry, can you repeat the question?

Jerry Dellis

So, the question is whether, in advance of the new roaming regulation coming in last June, did you renegotiate with other non-Vodafone operators the price that you pay each other for roaming? In other words, looking at your roaming costs, have you negotiated a new rate card which may offset any increase in traffic that you subsequently see, in the same sort of way that Telenor appears to have achieved?

Nick Read

I would say that we're constantly renegotiating wholesale arrangements on a, if you like, reciprocal basis. I wouldn't say that we particularly went through a revised effort.

Vittorio Colao

And keep in mind that, for us, we have a lot of on-net for us, so a lot of traffic – 90-something percent of our traffic – is internalised. So, it's not a concern for us; actually, it's an opportunity.

One more – one or two more.

James Ratzert, New Street Research

Yes, good morning. Thank you. I had a question following up on the Vodafone Pass strategy, please. It strikes me potentially as quite a significant change in your thinking around data monetisation. Clearly, some potential upside in the near term to ARPU from that, but I'm just interested in your longer term thinking about this shift. Does this mean you're moving away from the idea of data monetisation linked to volume growth? It strikes me, with this move, mobile pricing in the medium term is becoming more akin to fixed-line pricing and is volume-independent, so do price rises medium term then become more inflationary?

And if I was the last in the queue, a quick follow up just regarding Italy, again on Enel, which seems to be getting a lot of questions. In Germany, I think your migration from DSL to cable has been slightly slower than you'd initially hoped, as some customers have been unwilling to have some of their homes rewired. Why would Italy be different in terms of customer willingness to have their homes rewired to FTTH? Thank you.

Vittorio Colao

Yes, my instinctive answer, James, to the second question is that moving from DSL to cable or from traditional telecom to cable is more complicated than moving from FTTC to FTTH. That's the simple answer. And don't forget also that there is a change of company, if you want, or a different nature of relationship, but that's an instinctive answer. I think that's a perfect question that you should ask when you come to Venice, and our teams there will be able to give you a more qualified answer. But my sense is that, by definition, it should be more difficult to convince somebody to go from one type of service to the other rather than staying within the same relationship and simply upgrade, and also the way you present it is a simple upgrade.

On the Vodafone Pass, this is a very good question – thank you for asking – because it gives me the opportunity to explain what we are trying to achieve here. So, what we're trying to achieve is three things: first of all, there is a lot of demand for data. As I said, the quality of 4G – but even more, 4.5G – is becoming really much better than Wi-Fi, and we don't think it is a smart thing to say we have a great network, we have fantastic quality, continue to use Wi-Fi, and use 4G and 4.5G only where you really don't have Wi-Fi. We want to give customers the choice. We want to attract more usage into our own infrastructure, where we have it. And therefore, I think it's part of a big trend that we are here seeing and, as I said, we see public Wi-Fi usage going down because 4G becomes good, so that's trend number one.

Trend number two: with the improvement in technology, the cost of handling the GB can go down over time, and we can handle much more capacity than before, at marginal cost. But then trend number three: we don't think that just simply going unlimited and throwing the towel in and saying we are just going to just use inflation is the right things, so we are trying to apply smart marketing to try to create win-win situations, so that a customer that – I make it up – in Italy who was used to spend 12, 13, 14 euros per month suddenly spends 19 or 20 or 21 and has much more. If this works and if the industry moves in that direction, I think it's a great potential, because there's much more value to the customers, with an uplift potential on ARPU.

As I said, early signs, but very early, are good. You will see more of these attempts in the future and, if they are successful, this is good news for Vodafone but also for the industry.

James Ratzer

Would the next step after that be to try to differentiate pricing more based on speed. As we've seen in markets like Switzerland, is that something that you would then consider as the next differentiator?

Vittorio Colao

Listen, we have bright marketing people. We have very detailed analytics. I'm here in Italy. I saw a super sophisticated system that, by individual customer, identifies what they are sensitive to and how many are sensitive to speed, how many are sensitive to quantity, how many are sensitive to coverage. And at individual level, we can identify individual customers, and so the more we can segment, the more we can give to each customer exactly what they want but without going undifferentiated to everybody, the better it is. And I think South Africa, where our performance is, quite frankly, amazing, at 5.6% growth, with an amazing level of engagement with the customer but also an incredible ability to deliver, on a daily basis, personalised offers, is probably the poster child of this approach. We want to approach the future of data in this way and I'm very optimistic personally that this is the modern digital telco as opposed to the old telco that says unlimited and then tries to raise price with inflation once every now and then.

Closing Remarks

Vittorio Colao

I think my colleagues are waving and saying that this should be the end of it. I would like to thank you all for your questions. I think I would like to reiterate that I'm pleased that we had a good start to the year. Although there are still some headwinds coming from roaming in Q2, the underlying momentum is pretty good and the strategy is really working. Enjoy the summer break. I look forward to see all of you in the industry conferences in September, and I hope that as many as possible will go to Venice to see fibre in action. Thank you very much for your questions. Thank you, operator.