VODAFONE GROUP
Analyst and Investor Meeting

H1 Results 2020
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Commercial Performance and Strategic Progress

Nick Read

Chief Executive Officer, Vodafone

Good morning, everyone, and thank you for attending today. As usual I will summarise our commercial performance for H1, and Margherita then will go through the detailed financial performance, and finally I'll conclude on an update and progress on our strategy. Let's turn to the first slide.

We're making good progress on the strategic priorities that I outlined this time last year, and I'm pleased to see the benefits are already visible in our results today. We returned a service revenue growth in Q2 with a 90 basis points improvement compared to Q1, driven by both regions. This was supported by our focus on deepening customer engagement and accelerating digital transformation, which is leading into a more consistent commercial performance across the markets. During H1 we launched 5G service and speed-tiered, unlimited plans in seven markets, and achieved record low European contract mobile churn for the fourth quarter in a row. We also maintained good momentum in fixed broadband, adding over 600,000 next generation network (NGN) customers, and as we transform our operating model through digital we're achieving meaningful net cost savings, which Margherita will expand on in more detail. This supported a 1.4% EBITDA growth in H1.

Improving returns on capital through network sharing remains a key priority, and we have now concluded agreements in five markets, with active discussions underway in Germany. Last week we announced a reciprocal wholesale deal in the UK with Virgin Media. This will improve our scale economics and enhance our ability to invest in our leading network. On the portfolio side we completed the Liberty Global deal with limited remedies, and have made a fast start on integrating these businesses, which Margherita will expand on. Finally, we're making good progress on the plan to create and monetise Europe's largest tower company. In November, we appointed one of our most experienced executives, Vivek, as CEO, and we remain on track to operationalise the company by May.

Looking at our overall commercial performance more closely, I'm encouraged by the continuous year on year improvement delivered in European churn, which you can see on the top left chart, as we focus on our long term ambition of a single digit churn rate for all of our markets. This performance is supporting a good reacceleration of our mobile net ads, as you can see in the chart bottom left. One of the key leaders to reduce churn is our ability to sell additional products, and in particular to drive fixed broadband and convergence. The chart on the right shows our progress in Europe in recent quarters. As expected, our momentum improved in Q2, supported by stabilisation of our commercial performance in Spain. Overall we are targeting continued improvement in H2.

Delivering a more consistent commercial performance has supported a healthy, sequential improvement in service revenue trends for Q2. As you can see from the chart the improvements were broad based. Our markets in Rest of the World and Other Europe led the way, where we enjoy good competitive positions. In South Africa, Vodacom reaccelerated. Europe also improved overall, particularly in Spain and Italy. Excluding international calling regulation the UK accelerated, while our performance in Germany was similar to Q1. Let me go through each of those performances for the key markets.

In our largest market, Germany, which now represents 30% of our pro forma service revenues, as shown on the left chart our commercial performance improved compared to Q1, particularly in mobile. In Broadband we saw in cable – sorry, we grew in cable, but lost DSL customers due to unbundled local loop (ULL) price increases and the migration of Unity customers onto our network. At the beginning of September we began marketing Vodafone products to Unity customers and vice versa. You can see from the chart that our cable net adds almost doubled in September compared to our fast start integration. Given these encouraging trends we expect broadband net adds to continue to improve in H2. On the right chart you can see our retail revenue growth, which slowed due to international calling regulation, lower roaming, and an uptick in low end competition, especially impacting reseller volumes. However, our underlying Q2 retail growth remains robust, with a 1-2% range over recent quarters. EBITDA grew by over 3% in the first half as we focused on selling through direct channels and lowering our opex.

Italy is trending better. In the mobile markets competition intensity between the main brands continues to moderate, with Mobile Net Portability (MNP) volumes between the three main scaled operators down over 50% year on year and 0 net ports, showing that the main parts of the market is in competitive balance. All of the main brands have moved up pricing in H1, including us, improving our mobile service revenue performance. At the low end, competition between second brands, Iliad and other mobile virtual network operators (MVNO) remains intense. Following our price increases we saw an uptick in churn as expected. However, these were mainly low value customers. In fixed, we continue to see consistent, strong revenue growth supported by consumer price increases and share gains in business. Broadband market growth has slowed post-industry wide price increases, but we continue to win a high proportion of net adds. EBITDA margins expanded in H1, reflecting an excellent performance on costs.

In the UK we achieved record net adds across fixed and mobile during the quarter. This significant acceleration was driven by the success of our refreshed price plans, including Unlimited and VOXI, a higher share of new iPhone launch, and shared gains in broadband. Service revenue growth also accelerated to half a percent, excluding the impact of international calling regulation, and underlying EBITDA was up 4%. Given our commercial momentum I'm confident that the UK will return to reported growth in H2, becoming a contributor to our overall group growth story.

Other Europe now represents 13% of our service revenue, given the acquired Liberty assets in Eastern Europe, now competing with Italy and the UK in contribution to the group. Service revenue growth accelerated strongly in Q2 to 3.3%, with all significant markets reporting growth and overall demonstrating broad-based momentum. EBITDA was up 3% despite lapping a double-digit growth performance in the prior year.

In Spain we have now repositioned our commercial offerings and restructured our operating model. As the right chart shows our fixed and mobile customer base returned to growth in September, supported by our Unlimited propositions and a strong performance by Lowi. Although our competitors had active football promotions over the summer period our football customer losses were limited, demonstrating the competitiveness of our new commercial line-up across the various segments. EBITDA declined by 11%, despite a 6% reduction in operating costs given lower revenues. Looking ahead, the value segment of the market continues to grow at the expense of the premium segment. Even so, we expect a gradual improvement in our service revenue trends to continue, supported by an improving commercial trend, and as football costs sharply reduce in H2 we expect EBITDA to stabilise.

Turning to Vodacom, service growth reaccelerated in Q2 as South Africa returned to growth and International maintained its strong momentum, supported by M-Pesa and data growth. Underlying growth in South Africa was closer to 4% as we lapped a one-off this time last year. This reflects accelerating data growth stimulated by our pricing transformation, and the ramp up of our pricing agreement with Telkom. A key development during the quarter was Cell C's decision to shift towards a national roaming model, given its financial constraints.

Moving to our joint ventures, VodafoneZiggo's strong results underline the benefit of our strategic focus on convergence and gigabit network. Three quarters of branded mobile customers and almost 40% of broadband customers are now on convergence tariffs, supporting record mobile net adds and good fixed performance. This in turn has allowed the company to upgrade its EBITDA guidance to circa 3% growth this year, with shareholder returns expected to be at the top end of a €400-600 million range.

Turning to India, following the supreme court AGR ruling on top of the financial stress already present, the situation of the telecoms sector in India and Vodafone Idea is critical. The industry submitted an urgent request for three things: a two-year moratorium for spectrum payments; a reduction for annual license fees and taxes;

and the waiver of interests and penalties for the AGR case and the principle paid over 10 years. The government acknowledged the criticality, having formed a committee of secretaries to immediately review a relief package for the industry, and we await the recommendations. However, for avoidance of doubt, given the significant capital already invested we will not inject further group equity into India. On that, I will now hand over to Margherita.

Trading and Financial Summary

Margherita Della Valle

Chief Financial Officer, Vodafone

Thank you, Nick, and good morning everyone. Let me start by reminding you that our H1 2020 results include Vodafone New Zealand for four months, and the acquired Liberty Global assets in Germany and CEE for two months. However, for the purpose of comparison all organic figures presented here exclude the contribution from these assets and any distortions by the adoption of IFFRS16.

Turning to the results, H1 service revenue grew 0.3%. EBITDA grew 1.4%. Service revenues returned to growth in the second quarter, as Nick has already highlighted. EBITDA growth was supported by a further net reduction of operating costs across Europe of €0.2 billion. As a result, our organic EBITDA margin expanded by 60 basis points to 31.9%, and we remain on track to deliver the fifth consecutive year of margin expansion. EBIT was flat year on year, with EBITDA growth being offset by higher D&A, partly reflecting the recent 5G spectrum purchases. Free cash flow pre-spectrum was €0.4 billion, compared to €0.9 billion in the prior year, reflecting the timing of walking capital movements. The bridge on slide 12 shows the walk between adjusted EBIT to adjusted earnings. As usual I do not intend to go through it in detail, as these movements are clearly explained in the press release. However, let me draw your attention to the material items.

First of all, two impacts from India. Our share of results from associates includes Vodafone Idea for the whole of H1 compared to only one month in the prior year, and reported operated losses were higher. Also, other income and expenses include a €1.8 billion provision for the Indian AGR ruling, partially offset by a €0.9 billion gain on disposal in New Zealand. Second, financing costs were higher year on year, largely as a result of funding for the Liberty Global transaction. Finally, our group effective tax rate was 27.5% in H1 compared to 23.7% in the prior year. This was primarily due to the change in the group's profit mix following the acquisition of Liberty's assets and lower profits in Spain. We expect our tax rate to be in the mid-20s going forward.

Now, turning onto our service revenue performance, as you can see from the graph on the left our organic service revenues returned to growth in Q2 as we expected, at 0.7%. Looking ahead to the second half of the year we expect a further acceleration compared to Q2. This improvement is likely to be mostly in Q4, given tough prior year comparisons in Q3 in both Italy and Turkey following price increases made last year. The chart on the right shows the regional breakdown of our revenue performance. As you can see, Europe has continued to improve, with the step up of 40 basis points in the quarter once you exclude the impact of regulation. In Rest of the World quarterly trends accelerated to 8.9%, driven by the recovery in South Africa and further improvements in Turkey and Egypt. Growth was ahead of inflation in most markets, and Rest of the World grew 6% in euro terms.

We have also continued to make progress on our cost base. Last year I set an ambitious target for net opex savings of at least €1.2 billion in Europe and common functions by FY 2021. This represents almost a 5% annual reduction on a net basis. We have already realised 50% of this target and are fully on track to achieve it.

Let me call out some key drivers. Over the last 18 months our customer care costs have reduced by 12%. Retail costs are 11% lower, and we have cut the number of roles in Shared Services by 12%. All this is net of our investment in our fixed scope and digitalisation. During H2 we expect to make a further €0.2 billion of opex savings, meeting our €0.4 billion goal for the year. As the graph illustrates, we have already actioned over 75% of the full three year target. The waterfall chart on the right shows the drivers of our H1 EBITDA growth. Direct margin contribution from revenue growth was offset by higher A&R costs, reflecting our good commercial performance in H1. We intend to significantly improve our A&R efficiency over time, as I will explain shortly. You can also see that in addition to realising net savings in Europe we continue to achieve the target of keeping organic opex growth below local inflation in Rest of the World.

Turning to slide 15, we recently completed our triannual benchmarking study with AT Kearney across our big four European markets. The results validate the significant progress we have made in lower our total cost base. As you can see on the left hand chart, all of our big four European markets are now in the top quartile in terms of cost efficiency, having almost halved the gap to best in class over the last three years. The chart on the right illustrates our overall efficiency score. Again, you can see the substantial improvements all of our countries have has made. In both Italy and Spain over 80% of our business processes are now individually ranked as top quartile. Despite this marked improvement there are still significant opportunities to further lower our cost base, particularly in Germany and the UK, with a €1 billion overall gap to close. Our ambition is clear: to lead the industry in capturing digital efficiency and achieving a best in class cost structure, and personally I am looking forward to defining an entirely distinct category just for Vodafone within the AT Kearney benchmarking.

Clearly our Digital First programme is the key to unlocking this ambition. In September, we hosted the digital day in which we highlighted the six key pillars of the transformation of our operating models, which you can see on the slide. As I've previously noted, the total cost base that is addressable through digital initiatives is around €7.5 billion, with the breakdown of these costs shown in the red bubble. Later on Nick will highlight the significant commercial benefits that we intend to capture through digital, but I would like to focus on the structural opportunity for cost reduction from Digital First, and the progress we have already made against our target in each area.

Starting with customer acquisition and retention, total commissions paid to third parties was €2.5 billion in FY 2019. Here we aim to acquire a growing proportion of our customers directly, through a range of digital channels, with the target to exceed 40% by FY 2021. To date over 20% of our sales are already through digital channels, and as we move to digital, the role of retail is changing significantly, as Nick will describe later. We aim to reduce our retail store count by 15% by FY 2023, and our branded store footprint in Europe has already reduced by 5% over the last year.

In customer services we are well on our way to achieve our targets as the frequency of human customer contact has already reduced by 15% during the last 18 months, and 19% of all contacts are now managed end to end by TOBi.

Finally, through new technologies and automation we have the ability to reduce our support operations costs, as well as increasingly moving our IT and network estate to the Cloud. As a result we are now reducing these costs at a high single digit base annually. A key lever here is Vodafone Shared Services, where we currently have 22,000 employees providing the group with the best in class cost structure below what could be achievable by third party outsourcers. VSS is our global centre of excellence for robotic process automation and AI. We currently have over 600 bots in our bot farm and we have already reduced 2,600 roles in the last 18 months. Given the magnitude of the opportunity and our systematic approach to implementing these initiatives at speed across the group, I'm highly confident that we have a long lasting, structural opportunity to reduce costs.

Moving back to our performance in H1, you can see that we have delivered a further expansion in reported EBITDA margins now at 31.9%, excluding the contribution from Liberty. We are on track to deliver a fifth consecutive year of margin expansion, having achieved an average of 70 basis points of annual improvement over the last five years.

Now let me provide you with an update on the Liberty integration. As the charts on the left show, all the assets acquired have maintained a good commercial momentum. As Nick has highlighted, since our commercial day in September we are seeing a clear acceleration in cable net adds across our footprint. In terms of financial performance Unitymedia in Germany grew by 1% in H1. Under Liberty's prior reporting, adjusting for the drag created by our more conservative treatment of up front discounts, the growth would have been almost 2%. We also exclude carrier activities from service revenues, which contributed to growth under Liberty. Under our accounting basis, EBITDA grew by 3% in H1 and all of our CEE assets have also contributed to growth.

We have made a fast start to integration. Since deal completion we have fully validated all of our synergy assumptions, increasing our confidence in delivering the target at €535 million in annual run rate savings. Within the first two months post-completion we have fully integrated the management team, started cross-selling and DSL migration, and centralised all procurement activities so that they are now channelled to our Shared Service operations. Over the next six months we will rebrand the business and start migrating TV customers onto the Vodafone TV platform. From FY 2021 onwards we will begin to merge the national and regional network backbone infrastructure, and consolidate and simplify IT and building platforms.

Moving to free cash flow on slide 20, there are a few things to pull out. First, working capital outflows were €0.5 billion higher year on year. This was principally driven by timing difference on asset purchases, while H1 cash flow also benefitted from a legal settlement in Germany that will reverse in H2, and we anticipate broadly stable working capital for the full year. Second, net interest was similar, year on year. However, for FY 2020 we now expect total financing costs to be around €1.2 billion, including the cost of Liberty funding. Third, cash debt was €0.1 billion higher year on year, primarily due to Liberty. For FY 2020 we expect total cash debt to be around €1.1 billion. Fourth, dividend received from associates was €200 million lower in H1. This was primarily due to receiving no dividend from Indus Towers. As a result of these factors free cash flow pre-spectrum was lower, year on year. Finally, restructuring costs were €200 million higher, reflecting the reorganisations in both in Italy and Spain.

Turning to our net debt position on slide 21, we closed H1 with net debt of €48.1 billion compared to €27 billion in March 2019. The increase primarily reflects cash outflows of €18.5 billion relating to the acquisition of Liberty's assets. Other notable movements in the period include the proceeds from the disposal of our New Zealand business, spectrum accruals for the full value of 5G spectrum purchases in Germany, and the completion of the buyback for the mandatory convertible bonds issues in 2016. At year-end we expect our net debt to be between €45 and €46 billion, which implies a pro forma leverage of three times before the completion of the announced INWIT transaction. We remain highly focused on the leveraging and intend to move to the lower end of our 2.5 to three times reported range within the next few years.

We have now updated our full year outlook to reflect the acquisitions of Liberty Global's assets and the sale of New Zealand for the final eight months of the year. Within the underlying Vodafone business, Europe is in line with our plan and Rest of the World is ahead. As a result, we now expect to achieve the upper half of our original EBITDA guidance range, implying 2% to 3% organic EBITDA growth for the year. As shown in the chart the net impact of Liberty and New Zealand transaction on adjusted EBITDA is an increase of approximately €0.8 billion to our original guidance range. The implied contribution from Liberty's assets is lower than we outlined at the time of the deal in May 2018 after the applications of Vodafone accounting policies. Under our more conservative capitalisation policies a number of items that Liberty treated as capex are now booked within EBITDA. This includes all costs related to the transitional service agreement. These changes have no impact on operating cash flows or the business case for the transaction.

We have also updated our capex guidance to reflect the inclusion of Liberty's cable assets, which have higher capital intensity than the rest of our business. Additionally, the adoption of IFRS 15 reporting standards has reduced our total revenues due to the netting of certain commission in indirect channels, which also increases our capital intensity ratio. As a result of these two perimeter changes we now expect capital intensity to be around 17% for FY 2020 and to remain at this level until FY 2022 as we roll out 5G and execute on the gigabit plan. To be very clear, this implies the same level of capital expenditure as we anticipated when we set the guidance in May. Longer term, our network sharing deals, as well as digital efficiencies and synergy realisation, will give us the opportunity to reduce capital intensity.

Finally, let me break down for you our updated outlook for free cash flow for FY 2020, which is illustrated on the chart on the right. The AGR ruling by the Supreme Court in India has created significant uncertainties. As a result, our guidance now excludes recharges from India or a dividend from Indus Towers during the financial year. The combined effect of both is a drag of €250 million on our free cash flow. Additionally, we have lot around €140 million of cash flow from the sale of New Zealand. These effects are offset by the sizeable early free cash flow accretion from the Liberty Global deal and by higher EBITDA, so we now expect to achieve around €5.4 billion of free cash flow pre-spectrum. With that, I will hand back to Nick.

Strategy

Nick Read

Thank you, Margherita, very clear as always. I'd like to quickly remind you of our strategy, which underpins our purpose as a business to connect for a better future. Our purpose has helped us shape our new political and regulatory engagement model, which I call a new social contract for the industry, where we commit to operate responsibly and work together with the industry to deliver important society goals, including enabling a digital society, for which we request a fair return on the investment we make. I think the recent shared rural network announcement in the UK is a fantastic example of what we can achieve as an industry when we work together. The UK operators have committed to collaborate to take 4G geographical coverage from 67% to 92% by 2026, enabling digital inclusion with a reduced environmental impact. In return, Ofcom will remove onerous coverage obligations from the upcoming 5G spectrum auction, enabling the spectrum to be allocated in an optimal way for the operators. We are reaching out to all operators in our footprint to embrace this direction, as I believe it will improve the reputation and trust of the industry, benefit society, and provide better returns for our shareholders.

Turning to our strategic framework, in the middle of the chart you can see our geographical and customer segments. We have concentrated our footprint down to two scaled, differentiated geographical platforms, Europe and Africa, whilst increasing the resilience of the revenue and cash generation through building convergence capability. This is on top of our business platforms, best gigabit networks, and a digital first, radically simpler operating model, further enhancing our strategic differentiation.

Providing our customers with the best or co-best gigabit networks remains a key strategic focus. With Liberty's assets we have become Europe's largest NGN network owner, reaching 54 million homes and European businesses. We plan to upgrade Liberty's assets to DOCSIS 3.1 at pace. Together with our plans to upgrade VodafoneZiggo's network by the end of 2022, this will lift the number of gigabit-ready homes from 24 million today to around 50 million during the next two to three years. This represents a significant competitive advantage for the group, given incumbent operators in key markets like Germany and the Netherlands are far behind on fibre rollouts. We have also made rapid progress launching 5G services. We're already live in 58 cities across the region, and uniquely we're able to operate 5G roaming in our largest markets. These launches have firmly established Vodafone as the European leader in 5G in the minds of consumers, but most importantly in the minds of business customers, where we see strong engagement by businesses from all sectors to understand the potential for their business models.

Moving to our digital first strategy, Margherita has already outlined the six key pillars that we've identified to drive a systematic transformation of our operating model: improving the customer experience, strengthening our differentiation, and therefore supporting revenue growth while structurally lowering our cost base. Let me take the first three pillars of the model.

Starting with our approach with customer acquisition, in the past marketing was a mass media execution in which we had to find a single message that would appeal to a very broad audience, managed through a black box of an agency. By using digital channels we are being personalised, relevant, real time, and highly efficient, drawing on our own proprietary tools and approach managed by our in-house team. The chart on the left shows a real case study in the UK. It's centred around the popular, highbrow *Love Island* TV series. Our team, using our platform, drove 38 million hits, helping to drive record net adds for our VOXI sub-brand.

Moving to the right chart, the management of our existing customer base, rather than making manual offers, typically through high-cost call centres, we now use our always-on marketing platform and a wide range of channels to make predicted, personalised and automated offers which can be optimised in real time on the customer's response. Crucially, these tailored offers are effectively invisible to our competition, minimising counter-reactions that are above the line offers created in the market. Italy was an earlier adopter, given the opportunity in a pre-paid market. As you can see on the chart, the churn was 21% lower year on year in Q2, and the average revenue per user (ARPU) uplift higher from customers targeted by the always-on marketing platform. Today we have 11 markets which have recently implemented the capability, and our target is to expand this to 16 markets by the end of FY 2021.

Turning to our channels, historically the My Vodafone app was a utility, purely usage and billing information. In addition, much of the app was customised locally, limiting scale benefits. Our new app, which we have just launched in the UK, allows customers to truly be mobile first. Our ambition is for our app – for all our customers' needs to be serviced through all their service needs. In addition we want to drive frequency of use to build loyalty and relevance. The new app is a key storefront for new product discovery, using personalised, highly relevant AI driven offers, as well as presenting attractive rewards. Importantly, the new app is far more standardised than before, allowing development costs to be shared. We intend to launch the new app across 16 markets by the end of this fiscal year.

Secondly, as we acquire and service more customers through the digital channels the role of retail is changing. With the use of big data analytics we have spent the past year developing a new retail market model. Overall, we aim to significantly increase the efficiency of our retail estates, changing the store format and mix to complement our digital first execution. This will mean much greater use of fully automated express formats and kiosks. We're also working extensively on the in-store experience, with an ambition to ability to transact in 11 minutes for a new connection, clearly a dream for anyone that's been to a telecoms store.

Let me now walk through the key growth levers that we see in each of our customer segments, starting with European Consumer, which represents 50% of our service revenues. During H1 we launched radically simpler pricing plans, including our unlimited data plan. These plans were primarily targeted at our existing customer base. As you can see on the left chart, by the end of Q2 1.8 million customers had adopted unlimited plans. Average data usage per customer more than doubled, with a higher proportion at approximately 70% choosing the mid and high-speed tiers. Customers who have migrated to unlimited plans have meaningfully higher customer satisfaction, reflecting the attractiveness of worry-free, simple pricing, even though they are typically paying a couple of euros more for the service. These early results underpin our confidence that as an industry transitions towards unlimited data plans, speed tiering is the right way to go. It is simple, intuitive, and maintains a pricing ladder for future upselling.

Another key growth area for consumer is the opportunity to drive the penetration of multi-product bundles. We continue to see significant opportunities to sell additional fixed and convergent products in Europe, supported by our enlarged NGN footprint. The chart on the left shows our on-net broadband penetration across our 54 million homes, with an average of just 28%. Our ambition is to drive this into the mid-30s over the next few years, unlocking high margin, incremental revenues. I've said it before, but every 1 million additional on-net broadband customer adds over €200 million in free cash flow for the group. By simplifying our pricing plans and engaging customers directly through digital channels we create the opportunity to sell mobile family plans, additional TV and content bundles, security products and consumer internet of things (IoT), and as you can see on the right hand chart we have significant scale in all of these areas, and all contribute to revenue growth and lowering churn.

Moving now to Vodafone Business, which contributes just under 30% of our service revenue, this remains a unique and growing global business for Vodafone with a very different profile to nationally focused, incumbent operators, who are far more exposed to legacy drags. As you can see on the left chart, business service revenue returned to growth in H1 as mobile trends stabilised, and we continue to gain market share in fixed. IoT has been impacted by the slowdown in automotive, while Cloud grew strongly, supported by significant account wins and our new IBM partnership. Importantly, the small-office home-office (SOHO) segment, which is predominantly mobile and represents around 25% of our business revenues, has been dragged by consumer price plans, resulting in only 20% of SOHOs taking business tariffs. However, this drag is reducing, given our focus on migrating SOHO customers onto higher ARPU business plans, illustrated on the right chart, where we offer dedicated agents, convergence and ultimately digital productivity services.

Turning to the high growth area of business, firstly we are capitalising on the window of opportunity created by the shift to new software-defined wide area network (SD-WAN) technologies. This is a land grab moment in which we can capture meaningful WAN market share by offering customers superior product at a substantial discount to incumbent legacy product pricing. As a recognised leader in the Gartner Magic Quadrant for SD-WAN I'm very encouraged by the building contract pipeline, and excited about the long term growth prospects.

Secondly, we continue to expand our leading global IoT platform. We recently announced with América Móvil for Latin America a new deal, which completes our global footprint. This is already a circa €800 million business for the group, and as the right chart shows we're growing connections strongly across the key industry verticals which we believe have the most potential. The next stage in the journey is to scale our platform and expand its features whilst moving up the value chain from connectivity to complete solutions and data analytics, as we have done successfully in automotive.

Finally, our emerging consumer segment contributed just under 20% of revenues in H1, and it's growing strongly. We've discussed the data penetration and smartphone adoption opportunities several times, so today I would like to focus on the additional products where we see the potential for another wave of growth. M-Pesa has become Africa's leading payments platform, with 39 million customers processing 5.8 billion transactions in the first half, a platform that is significantly larger than any African bank, and already a €1 billion revenue generator for us. M-Pesa is now moving beyond its origins as a mobile transfer service, and is providing enterprise payments, financial services, and mobile commerce. As smartphone penetration grows we will take the opportunity to expand and develop the functionality on the platform, supporting additional growth opportunities in our countries and potentially other sub-Saharan African countries. Although we are at a much earlier stage, Vodacom South Africa is also succeeding in financial and digital services, leveraging its leading market position to sell insurance and digital entertainment. We saw financial services revenue grow 37% in H1.

Summary

Nick Read

To summarise, the consistency of our commercial performance is improving and we have returned to top line growth, with Europe tracking to plan and Rest of the World ahead of plan. We are more than halfway towards our three-year, 1.2 billion net opex reduction target, supported by strong momentum in digital, underpinning our ambition to continue to expand EBITDA margins. We have made a fast start on the Liberty integration, building high confidence in achieving our synergy plans. All this gives confidence that we will build on our H1 performance and see both service revenue and EBITDA growth improve in H2, underpinning our new financial guidance.

Strategically we are making good progress on improving asset utilisation, with mobile network sharing deals secured in five markets, active discussion in Germany, and a reciprocal wholesale deal with Virgin in the UK. We're also working to actively monetise our tower assets over the coming 15 months, unlocking significant value for our shareholders, and on that, Margherita, do you want to join me?

Questions and Answers

Nick Read

I've been told it's one question only, and you have to use the mics because otherwise I don't think you'll get heard.

Akhil Dattani, JP Morgan Equity

Can I maybe start with the broader commercial strategy? I guess good KPIs, but obviously one of the announcements we've had in the last week or so is an MVNO announcement in the UK. Maybe if you could just expand on the decision making behind that and what you feel led to that? Liberty yesterday was alluding to a more aggressive price point versus what BT had been offering. I guess more broadly you've talked about your digital channels and how you're going to use that to target the low end. How do you think about the MNVO strategy outside of the UK? Can we extrapolate it from the UK here?

Nick Read

I'm sure that was a three part question, but anyway, I will simplify it down. How I'd like you to think about the UK is in the following way. In all markets we want to invest to have the best gigabit networks, so mobile, fixed, and we will do that consistently through. That's what our brand is known for. If you take the UK as an example, we're making an investment. We're a scaled business in Enterprise, competing really in a two player market versus BT. On the consumer side, though, I would argue we don't have the right level of scale.

There's two parts for the commercial execution. Scale our own branded and sub-brand positions, which we're doing. I think Nick Jeffery and the management team are doing an outstanding job of reaccelerating the UK business in a branded way, and you can see that in the commercial numbers. At the same time an MVNO offers us the ability to basically scale in the consumer position through another player. What I would say is that regardless of what people are saying or not saying the deal that was struck was a commercial deal. It was not a capacity deal. It was rational, and I would argue in line with other deals being struck, so I do not see it as market moving in its construct going forward.

Finally, I think it was a good example of a reciprocal deal, where there were some advantages both ways for both partners. Obviously we got good pricing for backhaul and to Enterprise customers relative to Openreach. For us it was a very rational, strategic decision for the UK business. It allows us to get financials that we can reinvest to further the advancement of our overall business and quality of network moving forward. What I would say is that

that is a specific logic for the UK; don't do an automatic read across. I think that in some markets we have sub-brands, so Spain is a good example of a sub-brand, Italy is a good example of a sub-brand. In some markets we may be open to MVNO. What we would want to do clearly is, as we launch 5G, is move 3G customers off our MVNO arrangements onto 4G so that we can re-farm the spectrum off 3G.

Maurice Patrick, Barclays Capital

I guess a related question but on cable wholesale. Obviously a very extensive deal you announced with Virgin, but I don't think any element of residential cable wholesale was included. Was that on the table to get access to their residential network? And just in Germany, do you have any plans to extend wholesale deals beyond what you've done with Telefónica now you've got the Liberty deal under your belt?

Nick Read

Clearly if Virgin decided to wholesale its cable business we'd be a key recipient depending on the pricing. They know my phone number; we remain open. It wasn't part of the discussion; we were very much focused on the mobile side and other areas of reciprocal business, as I said. In terms of Germany, no, the remedy was to find one player. We found that one player and we're very happy with the choice of that one player.

Jakob Bluestone, Credit Suisse

Just staying on Germany, which you highlighted is now 30% of your revenues. Could you maybe comment a little bit more on what are some of the drivers that gives you the confidence in the acceleration in commercial performance that you highlighted for later in the year? You highlighted the fixed-line net adds were a little bit soft, but I guess sort of more broadly, what is it that you think will drive it? Is it the rebranding, is it coming past the one-offs, is there anything particular that you would flag for the German business?

Nick Read

I'll let Margherita go through any technical aspects. I'd say the broader commercial – I would say on that, what I was really trying to highlight in the chart was our retail performance is remaining relatively consistent in that 1% to 2% range. I would say that we had a decent mobile performance, but we also continue to have a very decent cable performance, both on the Unity side and on our own side, and then you're bringing the businesses together. I was trying to highlight by breaking it down by month that acceleration of the fast start on the integration, so what you're seeing is a number of factors, I think, that start to show an improving trend, if you like, into the back half of the year for the German business.

Margherita Della Valle

From a purely technical perspective I would say just two comments. One is – because we are looking at Q2 and Nick has called it out, we saw an adverse impact for the roaming and visitor's performance. This is clearly typical of the summer months, so we should see less of that going forward. And then at the moment our performance is clearly depressed by the reduction of wholesale revenues with 1&1, and at some point this will start reducing its drag.

Nick Read

I think I would do a build here, because I know you all love analysing every single quarter, but stand back and look at the German business. How I would represent the German business is 70% of our revenue is fixed or in convergence. We have a unique asset, 25 million households – I've said – is getting upgraded by DOCSIS 3.1 in a market that's low-fibre penetration, so we are uniquely differentiated. Low penetration level, 32%; in any other market like Netherlands, etc, you're in the mid-40s, so we see a huge potential to drive penetration. We are very focused on doing that and we've had a very fast start. Mobile, 30% broadly of the business revenues, and for that we've got a two-tier, rational marketplace. We've got high quality mobile network, and I'd say that that tier is maintained and stable. And then I'd say to Margherita's point, on the wholesale side you're down to 3% of that service revenue on the wholesale side. Yes, it's been a drag, but at some point it widens out those numbers. I'd look through short-term trading with confidence on a fantastic business and a fantastic asset.

Polo Tang, UBS

Just sticking with Germany, because if you look at what we've seen with Telefónica Deutschland, they've seen improving mobile service revenue momentum. Are there any indications that they're taking share from you? And then just to expand on that question, there's been a lot of chatter about a network sharing deal between yourselves and Telefónica Deutschland. You've previously talked about two-tier market structures, for example in Germany, so if you did do a network sharing deal would this give Telefónica Deutschland a further leg up?

Nick Read

Again, let me do the high level. Margherita can do some builds. When we analyse market share – because we've seen all the results – if you do it on a retail basis we are sort of pacing with DT in terms of retail revenue market share in total communications. I think that's the way to look at it, and both of us are outpacing TEF in the marketplace. If you look at it more specifically around mobile I would say DT is obviously ahead of us due to wholesale, but also a little bit more favourable on the business side, but our momentum is improving on the business side and we had a tough comp on last year, so I would say I'm happy with the broad trends. TEF are being a bit more aggressive in the low end of the market, both on the mobile side and in the DSL space. That's how I'd characterise the overall German market.

I would say specifically to any type of sharing, look at network sharing in Germany in three ways. The first way is white spots and grey spots, so there may be a solution that is different between the two. The second one is obviously all the players have to engage with one and one on national roaming. It's an obligation for us to engage, but it has to be on acceptable commercial terms to us, so we will go through that process. The third is wider sharing arrangements. We're engaged with all the players. Clearly there's always a balance going on between – you want to harvest industrial synergies, but at the same time you want to protect differentiation, and we're not going to compromise our differentiation, as will other players not want to compromise their degree of differentiation.

Margherita Della Valle

Just from a more technical perspective, as you know, wholesale is a headwind for us and it's a tailwind for Telefónica because obviously the traffic is moving in their direction. As Nick was mentioning, if you back out wholesale on a total telecom perspective you can work out that our performance is ahead of Telefónica and we are very happy with our progression on convergence, whereas mobile only I think in Germany remains a clearly differentiated, two-tier market, and a disciplined one as well.

Sam McHugh, Exane BNP Paribas

Just a question on Spain and Italy, if I can: I think we've seen some encouraging KPIs in Spain, and in the past you've given us some super helpful charts on the sub-brands versus the main Vodafone brand in those markets. Where are we tracking in terms of stabilisation of the main Vodafone brands? What proportion of the base are on Vodafone versus Lowi in Spain, and where should we thinking about it going to when we're trying to model our revenue forecast for Spain and Italy in the next 12, 18, 24 months?

Nick Read

If you're doing third order modelling on spreadsheets, Margherita.

Margherita Della Valle

Sure. If I start by – I think I'll break down your question in two parts. One was mix of brands, particularly referring to Spain, and the second is the outlook for both markets. If I start from the mix of brands, as seen from the charts that Nick has shown overall we have stabilised our commercial performance in Spain, and if you were breaking it up by brands you would find that the main brands – so Telefónica, Orange, Vodafone –in terms of MNP movements are now essentially flat in the market. Clearly then if you back out from that at the level of the total market we do still see the market moving down from the main brands to the low-end brands, and this is part of the reason why market revenues are overall reducing. Total market is spinning down, Vodafone brand on a par with the other main brands, behind clearly the stabilisation result that we have just seen.

In terms of outlook for both markets we continue to see an improvement in our performance going forward. We see the decline in Spain reducing over the coming quarter on the back of this stabilisation of commercial performance, and also the fact that we are now seeing ARPU accretion in our main brands through the success of the unlimited offer.

Similarly, in Italy we also see a gradual improvement in the performance; you will have seen already in our results in this quarter that the decline in mobile was moderating and the fixed line growth remained very strong. In terms of Italy specifically just keep in mind that we will have a difficult comparative in Q3. It will go in the wrong direction for one quarter because last year we had some significant price rises in the quarter, but confident that beside that the trend will continue to move in the right direction.

Stephen Howard, HSBC Investment

Is it time to have a candid conversation about 5G? You're talking about the social contract with policymakers, but do you think they fully understand that perhaps this is not the most important development since the Industrial Revolution? Are their expectations set in a reasonable position? Are you confident that you're not going to find yourself obliged to meet overly ambitious, overly expensive build targets?

Nick Read

You're making a very good point around coverage obligation, but I think this is the implication at the moment, that a lot of governments turn round and say, '5G is so critical to everyone being connected to everything. It's an IoT world, smart cities, we want inclusion'. It's the coverage issue that we're constantly battling with, and that's really why it was highlighted in the rural network initiative for the UK, because that was us as an industry stepping forward with a solution because we didn't like the direction that potentially a spectrum auction was going, with heavy coverage obligations. We saw how Germany played out and we saw then what the Government did afterwards, saying, 'That wasn't really our intention. We want better coverage but we don't want it to be a financial burden to you, so how can we support you with the phased payments without interest?' which was helpful.

I'd say the conversation is in a more constructive space, but what governments need to appreciate is that we as an industry need to work together to do more sharing to accomplish coverage, because we want coverage as well. It's not like we don't want coverage; we're happy to have coverage, but we need a different economic model to do it. This is why the Italy transaction within Europe is a very important transaction, and we're engaged with Europe just to say, 'Here are all the benefits it brings'. If you start potentially putting an add into a phase 2 type conversation you are going to delay rollout of 5G into the countries, so I think we are very much engaged and I think there is a good appreciation for this balance that's been trying to achieve, and the important thing about we want to give the coverage but we need better return.

John Karidis, Numis

I just wanted to ask a question regarding Vodafone Italia and the Inwit deal. So the Inwit deal was 24x €220 million EBITDA, so I assume that €220 million is going to be the year one cost to Vodafone Italia to leasing those towers back. Can you confirm that, and also talk about what annual escalators you've agreed to? I also think part of the deal involves you committing to taking more PoPs, more towers and more small cells over time. I'd like to really understand what happens to the opex to Vodafone Italia as a consequence over the next two or three years.

Margherita Della Valle

Sure, I can take that. First of all, on your first number, which is the lease for Vodafone Italia, the number is correct. The only addition I would make is that this is the pre-S16 number, and you know how it works. It will be therefore slightly higher. No material escalators. If you want to step back and break out the various impacts on those Vodafone P&L from the inward deal, I think first and foremost you need start including the network sharing benefits. As you know, this was coming as a package in Italy. First and foremost, industrial benefits from network sharing.

Second, also industrial benefits from the management of the towers in a structured basis, then you need to back out – as you were doing – the opex for the towers specifically, and against that you will have two benefits from the Vodafone side. You clearly will have lower interest cost, given that we'll receive cash proceedings from the deal, and we will also get minority business. Again, if you step back from all the pluses and minuses I think the way we look at the deal from a free cash flow perspective – which is probably where you are going – is broadly neutral once you have considered all these aspects.

Nick Read

I'd say on things like escalators: we're not going to go into commercially sensitive aspects of the deals we do, but what I would say is we're very focused on ensuring that the contracts we write do not strategically undermine our ability as a commercial business to compete in the marketplace. We're not – the idea is not, 'Let's maximise the value of the tower company'. That is not the philosophy we have. We want to optimise, but we also want to optimise from our own commercial business.

David Wright, BOFA

A very quick question, I expect: is the 50/50 interim final split now an expectation for moving forward?

Nick Read

Yes, these are the questions we like.

Usman Ghazi, Berenberg

Just going back to India for a second, I can see from the net debt in the report that there's around €1.3 billion of debt that's secured on Indian assets that's not included in the group debt at the moment. I believe there's another €1.1 billion that Vodafone Idea, if they were to settle this claim, can come back to the group in terms of an indemnity. In terms of – I just wanted to understand how you manage that roughly more than €2 billion of exposure for the group in terms of what happens if the equity in India goes to zero. Also, if the Indus Towers deal doesn't happen is there a potential for the claims to arise for the group before any monetisation, follow-on monetisation reduces that exposure?

Margherita Della Valle

Sure. If I take the two numbers that you have quoted separately. First of all, you have referred to the €1.3 billion loan. Just to be very clear, this is – I think as we explained previously – a non-recourse loan that was taken at the time of the equity injection into India, so no recourse to the group. The second element that you mentioned was the €1.1 billion indemnity mechanism. This is something we called out at the time of the merger in our annual report, as it happens when you do a merger there were some historical potential liabilities, and we set up a mechanism to ensure that we had a balance on these liabilities. These liabilities are capped at 1.1 billion. Sorry. The liabilities are – as I was saying – capped at €1.1 billion, and as you may have noticed in our press release they are dependent on contractual conditions. With the current uncertainty surrounding the AGR case in India we've not taken any provision on this number.

Nick Delfas, Redburn

Just a very quick one: Margherita, you mentioned a €1 billion gap in the AT Kearney analysis for the UK, which sounds rather large. Could you expand a little bit on that? Thanks very much.

Margherita Della Valle

Sure. Actually the €1 billion gap is not just for the UK, it is for the big four markets in total, but it's very geared towards two of these markets. It's UK and Germany, and this is where our biggest cost opportunities lie. To be very clear on what the gap actually means, the way the AT Kearney benchmark works is they break out – they break down all the activities and all the costs in our companies in all telcos into more than 50 processes. They look at what would be the cost for each process if you were in the top quartile ranking for that particular process. If we add up all the opportunities for Vodafone moving towards top quartile in each process you get to €1 billion. I think that we should definitely – as I was mentioning earlier – have a goal to go a little bit also beyond what is the benchmarking of the industry, because I think, given our scale in Europe and also our ability to leverage areas such as shared services and replicating best practices across the group, we have to be the best in class in these type of benchmarks in the future, so we will work in the next two to three years to deliver on the €1 billion and more.

Nick Read

You have to realise that Margherita is relentless in this topic, and there are many areas where actually we might be better than the rest of the industry in processes but she doesn't count those. She only focuses on the areas for improvement, so we focus on the growth opportunity.

Margherita Della Valle

There is no reason why we shouldn't be.

Nick Delfas

If I could just be allowed one other one on TV box migration, how quickly do you think you'll do that, and what kind of saving versus the TSA could you have from that?

Nick Read

We're starting that next year, so the box itself, the TV platform has been developed for the group. It's in a number of markets already, so where the opportunity is that we've been working on is the ability to flash the existing boxes so we don't have to replace any in the Unity footprint, and that was a substantial synergy opportunity for us if we can do that execution. We've trialled it, it's worked. Of course, you have to – it's a delicate execution, but if that happens I think we'll be very encouraged.

James Ratzer, New Street Research

There's a question about your portfolio optimisation over the next two to three years. You've sold out recently from markets like New Zealand and Qatar, but then there have also been rumours recently in the press you might be looking to sell Spain, maybe expand into Ethiopia, so I'd just be interested to think about how you're thinking about your geographical focus within the group. What are you prioritising going forward?

Nick Read

James, I would say we have been very active on the portfolio. I'd say – I'd reinforce the fact that our core footprint is Europe and Africa, so we're now getting down to our core portfolio. You call out two examples. I'd say on Spain I just want to make it very clear we are not engaged with any player in the Spanish market. We have never put a price on that business ourselves; it's part of our core European footprint.

In terms of Ethiopia, Ethiopia is an interesting market; I think a big growth opportunity. I think we can bring a lot to that market, especially because we have M-Pesa, so we're engaged. We're looking at the opportunity, but you'll remember when I was running the Africa, Middle East and Asia-Pacific (AMAP) region we looked at several opportunities throughout Africa. We are very disciplined in the way we look at it. Don't forget Myanmar was an example, where I also looked at Myanmar, and we decided not to proceed because they set the licence conditions at too high a level that I didn't feel we could earn local market WACC and earn a good return on that asset. We will remain disciplined.

Robert Grindle, Deutsche Bank

I'd like to pick up on your comments around capital intensity. You mentioned that it could come down a bit after FY 2022. It's been creeping up over the last few years. I think you mentioned lower capex on towers from sharing. Your CTO has been out in the press talking about OpenRAN and things like that. What's – please could you expand a bit: what's your thinking behind that actually it could start to go the better way rather than the wrong way?

Margherita Della Valle

First of all, let me say that our capex has not really been creeping up in the last few years. I think I put it on the graph. We have maintained our capital intensity at 16% in the last three years, and this year and the following years we will continue to remain exactly at the same level. We have mathematically changed the numbers on the back of the fact that we are adding the Liberty Global capex, and also in terms of ratios – as I was explaining earlier – we've had an accounting impact from IFRS 15, but the absolute level is definitely not changing. We are now focused, as you know, on rolling out 5G and delivering the gigabit plan in Germany. As you pointed out, we definitely will have an opportunity of reduction when in particular network sharing will come in the line. As you know, for the first two to three years network sharing are not delivering net savings because you need to effectively set up the sharing, but starting from year three onwards – which is why we call out FY 2022 – we do expect we will have benefits.

It's worth saying that two other areas of benefits will be added on top of network sharing. One is clearly digital efficiencies that we're starting to deliver now, and then the second is the fact that we're still completing some big IT projects in our estate, and also this will move towards completion beyond FY 2022. That's why we've been more specific than in the past around the guidance. There is an opportunity for reduction.

Nick Read

Just to build on Margherita on that last point, IT transformations are huge for us because you're increasingly going cloud-based, more modernised, more converged, so this is big work for us. We started that work about three, four years ago. A number of big operations we've already executed. We're working now on Germany, we're finishing through on Italy, so we've got a number. I'd say we're reaching that peak point and then we start to move down going forward. Then we're left with a more efficient IT estate, and with radical simplification, price plans, product services, that also helps in terms of the cost of that IT estate.

Margherita Della Valle

If I may just add one comment, I'd like to say that I'm just as pleased around our progress of asset utilisation than I am on operating expenses. You may remember last year I added the wording, 'asset utilisation' to our presentation and our strategy, because I think it's a key element to improve our return on capital. If you think about the progress we have made there since last November we have five active sharing deals on the ground already in Europe, and starting to execute on those. We also have the synergies of the Liberty acquisition that are going to support, and we have had the Virgin Media deal in the UK now, so I think we're definitely moving in the right direction in terms of return improvements.

Georgios Ierodiaconou, Citi

It's Georgios from Citi. Just a question on network sharing, actually, and you mentioned earlier you are engaging to convince the authorities of the scale benefit of network sharing in Italy. If you could update us on the process, because Telecom Italia seemed very confident on Friday, but we're hearing different types of information from different sources around the progress of gaining approval, and whether the active sharing component and the tower deal are interlinked, and if one needs to be amended there may be implications for the other. And then just linked to that, how does that influence your thinking around Germany, because I'm guessing one of the two options you have will have a lower regulatory hurdle than the other. Thanks.

Nick Read

Yeah, so I think the simple answer would be that the tower deal itself is in Europe at the moment, and we should hear by the end of November on whether that would need to get formal review, phase 2 review, or whether it effectively returns back to Italy. The active is more of a local, national decision. So clearly we're making it clear to Europe we think this is good for competition, to set up a tower company. There'd be more real estate for additional players. So that's probably why you were saying Telecom Italia were sounding confident. We're just saying, 'Well, look, this is the process we have to go through.' We think that there are strong merits of why it should be approved, but we need to go through that process.

Obviously every situation can be different, so Germany, depending on what the arrangement is, what the players are – let's just go back to what we were really doing from a structure perspective. What we were suggesting is that we do a passive sharing, and therefore by setting up a passive tower company, then that's open to other players in the marketplace, so it's not constraining competition at all. And then we only do active outside of major cities, so it's a relatively small part of, let's say, the data customer traffic, and we're doing it because it allows us to give better coverage and meet the coverage obligations, going back to the point about government objectives. So our view is this is not anti-competitive in any way. Actually, it's supportive, with a lens of a regulatory review.

We'll go to the back and then we'll come across.

David Shnaps, CreditSights

Yeah, thanks. It's David Shnaps at CreditSights. I just – given – there's been a slippage of the net leverage target, given some of the operating performance weakness over the last year or so since the Liberty deal was announced. I think it was meant to be three times at close, and that would have been decreased slightly by the hybrid, the mandatory convertibles. I'm just trying to get – we're now looking at three times at the end of the year. I don't – not sure if hybrids are included in that or not and what's the actual level as of 1H.

Margherita Della Valle

I think maybe that's another question that we can also discuss a little bit more in detail later, because I think you are taking both the reported leverage angle as well as the rating agencies' leverage angle. But from a reporting perspective, if I can stay on that theme, we are at three times net debt to EBITDA, which is where we expected to be at the closing of the Liberty deal, as you mentioned. We are talking about the upper end of the range that we were targeting. We were targeting three times to two and a half times net debt to EBITDA. So we start the journey at three times this year and then we plan to move gradually towards the bottom end of the range. We will start to see the benefits of the INWIT deal. That's another point one.

We are now growing on revenues and EBITDA, and EBITDA growth is the other lever that will be important in driving down the leverage. And then, adding to that, Nick talked about also our portfolio for the non-core asset sales could benefit that. So we are moving within our range as expected, with a clear target to move towards the bottom end.

Nick Read

Andrew? Two more, and we've got two more hands, so that's perfect.

Andrew Lee, Goldman Sachs

Thank you. It's Andrew Lee from Goldman Sachs. I have a question on the European mobile contract churn rate that's come down pretty meaningfully over the last year. I wonder if you could just help us understand the pace, whether you expect ongoing decline and the pace of that decline, and what kind of – the scale of costs that are associated with that churn, the opportunity for your cost base on that side of things. Thank you.

Nick Read

Well, maybe I'll let Margherita talk to the latter, but what I'd say is that the big shift was when we sat down as an exec team, when I came into the role, and really, 'Let's not chase the market. Let's really focus on our customer base and give them a great experience and extend how many services they take from us.' So that's the execution. We're not buying churn. We're basically selling more things and giving them a better experience of a great network. It just means you don't need to go back into the market. We're seeing a structural decline. We're seeing it systematically, so it's not like one or two markets are improving. I think when you look across, in any given quarter – so let's pick the UK as an example, new regulation caused a blip in the churn. It has come down. You know, the text to switch created the ability to switch quickly. Actually, when we look at the text to switch stats, we're actually a benefiter, but the whole market went up in terms of churn rate. So I would say we're going to expect it to continue.

I can't predict the pace, because it's a bit of a dynamic of the competitive landscape, whether people are doing promotions in any given quarter, but everyone is fixated on 'How do I get plans that drive us down into this single digit ambition?' which I think is the right ambition because then, when you're at single digit, I think you can genuinely say your customers are starting to love you as a business, and that'd make us distinct from everyone else. Clearly, the customer lifetime value is always improving as we bring down the churn rate through convergence and selling more products, so I'd say we're more focused on the customer lifetime value than per se the absolute cost, though you would imagine commercial costs would come down the lower your churn goes over time.

Margherita Della Valle

Yes. You mentioned cost and of course there are cost benefits in reducing churn, process costs, A&R costs, which is I think what you're thinking of, but I would say in this case, from a financial perspective, probably the biggest impact we have seen is more around price points and revenue, because, as you move from a sort of above-the-line competition, where there are action and reaction on pricing that can, as we know well, destroy value in telecoms, as you move to manage your base with your own digital channels, you avoid this type of aggressive dynamics. And I think this, in our financials, is the biggest impact of reducing churn for Vodafone, and potentially also for the industry.

Jerry Dellis, Jefferies International

It's Jerry Dellis from Jefferies. I've got a question about the UK broadband business. I think yesterday Vodafone UK signed an FTTP wholesale deal with Openreach, covering I think about 500,000 premises. Now, given that there's still a pretty strong growth opportunity in the retail FTTC business, I'm a bit intrigued by the timing of this Openreach deal. I think CityFibre still has to deliver to you 900,000 of the 1 million premises that they promised to deliver by 2021. It's not as if FTTP is really being commercialised in the market yet, so I would be interested to understand why you decided to switch to this sort of dual-sourcing approach, if that's the right way of looking at it, at this very early stage.

Nick Read

I wouldn't look at it as switching to a dual sourcing. I mean, we said at the start, 'We are open to anyone that wants to build.' We can do the CityFibre deal and still be able to do other arrangements with other players. What we want is access to gigabit speeds at acceptable economics, and I think that what I was pleased about with the Openreach offer is these economics are a lot more comparable to what we have with CityFibre. So finally they stepped forward with a model that we could, let's say, find sufficiently attractive. I think what it does say is that Vodafone is a fantastic anchor tenant for anyone wanting to do a deal, because, if you look at it, we have a big mobile base, we have a big brand, and everyone knows that we can be a great anchor tenant. So we're presenting ourselves as, if you like, the best partner in the market if you want to go down that route, and if others want to go down that route we'll certainly think about it.