

Vodafone Group plc
Analyst and Investor Conference Call
13 November 2012

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Welcome and Opening Remarks

Vittorio Colao

Chief Executive Officer, Vodafone Group plc

Good morning. Welcome. Thank you for coming this morning to our half-year results. What I would like to do now is to go, as usual, through the highlights of the first-half results. Then I will pass to Andy, who will cover the financial review and a little bit of operational details on our main markets; and then come back and take a broader view on the progress that we are making in our strategy and also talk about the context that we expect for the near future. And then we will be joined by Steve Pusey and by the regional CEOs: Nick Read, whom you know, who manages the emerging markets; Philipp Humm, who just joined us and manages Northern Europe, or 'rich Europe'; and Paolo Bertoluzzo, who manages Italy and Southern Europe, I didn't call it 'poor Europe'.

So, here are the highlights of our first-half results. Group organic service revenue in the first-half declined -0.4%. In the second quarter, the decline was -1.4%, following a first-quarter positive by +0.6%. Our adjusted operating profit in the first-half increased by +8.5%. We had, in the last quarter, continuing strong growth from data +13.7%, and emerging markets. And of course we had some challenging headwinds in Southern Europe. The company has generated, in the first-half, £2.2 billion of free cash flow after continuing investments in networks, technology and, especially, high-speed data networks. The board has resolved to increase the ordinary dividend per share by 7.2% to 3.27p, and we announced, following yesterday's decision of the Verizon Wireless board, to distribute £2.4 billion of dividend, that we are going to use £1.5 billion of that for share buybacks. Finally, this morning we confirm the guidance for 12/13 on both adjusted operating profit and free cash flow, but Andy will cover in more detail all of this.

H1 12/13 Financial Review

Andy Halford

Chief Financial Officer, Vodafone Group plc

Good morning, everybody. Let me provide some colour to the numbers. So, the overall Group revenues were just under £22 billion for the half-year. That is broadly stable on a like-for-like basis. The Group service revenue at £20.2 billion, as Vittorio has mentioned, was down about four percentage points after the impact of MTRs. Pre-MTRs, that was an increase of 1.4%. The Group EBITDA was £6.6 billion, which is down on last year, primarily because of the significance of foreign exchange movements; in particular, the appreciation of sterling against the euro, which I'll come on to later. The EBITDA margin

was down, on an organic basis, by -1.0 percentage point, but within that we had restructuring charges which were about -0.3 percentage points, so, excluding those, the margin was down by -0.7 percentage points year-on-year. The contribution from Verizon Wireless was very, very strong, we had a 25% increase in the contribution from associates, with the consequence that the adjusted operating profit was up by +8.5%, at £6.2 billion.

If I then move on to the lower part of the P&L, net financing costs are slightly lower year-on-year, primarily due to lower mark-to-market losses than in the previous first-half. The tax was an effective tax rate of 26.6%. That is slightly up on last year, primarily because of the higher proportion of our profits that are coming from the US, with the higher tax rates that we have there. Of note, we have looked very, very carefully at the situation in India with our tax case over there, and we have concluded that we will continue not to make any provision for that settlement.

Halfway down the table, in the prior-year column, the £3.2 billion number was the profit on the sale of SFR last year. This year, we have taken a £5.9 billion impairment charge, this relates to Spain and Italy. It is about 60% Spain and about 40% Italy. Roughly half of the write-down is due to the current trading environment and the outlook, and roughly half of it is to do with technical factors like foreign exchange movements and discount rates, with the latter clearly being impacted when sovereign debt ratings reduce. That is putting up the interest rates and, hence, has a negative impact upon carrying values. The adjusted earnings per share at 7.86p, was up +1.4% and, as Vittorio mentioned, the dividend per share increased, consistent with our 7% policy, up to 3.27p. Finally, the free cash flow, at £2.2 billion, although a little bit lower than last year, for reasons I'll come on to, represents about 40% of the envisaged full year free cash flow, very similar to last year.

So, let's then take a look at the service revenue trends. Last year, the first-half had £21.9 billion of published service revenue. There has been a significant change in the foreign exchange rates, particularly the euro, so first-half of the prior year, an average rate of €1.14 and, for this half-year, €1.25, so foreign exchange alone has had about a £1.6 billion negative impact upon the revenues. M&A as well, net effect of Cable & Wireless, Polkomtel, etc. is about another £100 million. So, if you normalise for those two and then do a like-for-like comparison, essentially, first-half a year ago, we were just a fraction over £20.2 billion and, in the first-half we're reporting on now, we're just a fraction under £20.2 billion.

Going across the chart from left to right, MTRs, having their normal impact, have taken the numbers down just under £400 million; underlying voice is down a little, but the growth in data is more than compensating for it. Data revenues are up +15.3% and are now running at an annualised rate of £6.5 billion. Messaging revenues were fractionally down, albeit messaging volumes overall were, actually, fractionally up. So slightly lower rates of volume in Spain and the Netherlands than in the previous year, and India, because of some regulatory constraints, also had the volumes constrained, but, notwithstanding that, the overall volume in messages was up very slightly. Fixed revenues were up marginally, and the wholesale revenues up reasonably strongly, particularly in Germany, Italy and in Spain.

So, let's now have a look at the second quarter. As Vittorio said, the second quarter had an overall rate of decline of -1.4%. On the top right of this chart, you can see the split of that between the three regions that we're now reporting under. So, Northern & Central

Europe was up slightly, +0.7%; the Southern Europe region, as one would expect, was down -11.3%; and the AMAP region was up by +4.1%, that giving the Group average of -1.4%, the countries on the left that have been performing very strongly, the Turkey, the Ghana and the India, and the countries on the right that have been performing less strongly, not surprisingly, mostly the Southern European businesses and Australia, which we are still in turnaround mode on. In terms of the growth in the second quarter compared with the first quarter, clearly it has been slightly weaker. Some of that is to do with the MTR cuts in Italy, which have bitten in to the second quarter results more considerably than the first quarter; some of it is about the general competitiveness in Europe; and some of it is AMAP, whilst growing, it is growing slightly less quickly than it was before, weighed down a little bit by the performance in Australia.

Interestingly, if we take the same chart and we put Verizon Wireless in on a proportionate basis, Verizon Wireless grew in the second quarter by +7.8%, and that actually changes the overall Group average from, essentially, -1.5 to +1.5 percentage points. Also worthy of note, I think, in terms of geographical span and spread, is that, actually, on a proportionate basis, Southern Europe represents only 16% of the total revenues of the Group.

So, with that, let me talk a little bit about the major operating businesses. So, first of all, Germany: I think a robust service revenue performance albeit at a slightly slower rate than in the previous quarter. So, overall service revenues in Q2 were up by +1.8%, with data revenues up by +14%, enterprise revenues up +4%, and a strong performance in wholesale. Particular focus in the German business on smartphones and getting more smartphones with our customers, so the proportion of our customer base that now has smartphones has gone up from 18% to 28% in the space of a year. The EBITDA margin is down 2.6 percentage points; however, we took some restructuring charges in the period. If you ex those out, the margin was down -1.2%, and that is very largely about the push on smartphones. On the LTE front, progress there is good. We now have just under 3,700 base stations live. We have about 47% outdoor coverage. We have 260,000 customers and are typically seeing a €10 per month premium on the ARPU.

So, if I then move on to the UK, I think the fair summary would be a competitive market but one where we are at least holding our own and probably gaining a little bit of share. The Q2 service revenue was down -3.2%, so slightly lower than in the previous couple of quarters. Within that, data continued to grow, at +6%. We had margin down one percentage point, which was primarily investment in new customers. We have now got contract customers representing 56% of our total customer base, compared with about 52% a year ago, so the quality of the base definitely improving. We have done a change in the price plans that Vittorio will mention later on, Vodafone Red. We now have 84% of our consumer contract revenues coming from integrated price plans. Obviously, the next big event in the UK will be the auction of spectrum in the early part of next year, and then, hopefully, going live with LTE service during the middle of next year. And finally, the UK business is very proud to have won the UK best network award.

Now, let me move then, on to Southern Europe, where, clearly, things are more tricky. So, Italy first: the service revenue declined in Italy by -12.8 percentage points. Roughly half of the deterioration compared with the first quarter is to do with the impact of MTRs, but, nonetheless, pressure across the business. Enterprise revenues were down -6.7%, fixed was down about -8%, as we deliberately put more investment into more profitable mobile customers. Having said that, mobile on the internet revenues were up by very

nearly +36%, so definitely making good progress on the data front. The margin in Italy was down -4.3 percentage points; that is very much about the compression of the top line. We have taken operating costs out of the business. We have been disciplined on commercial offers, but, nonetheless, it has had an impact on the margin overall. Again, we have done a refresh of the pricing, with the recent announcement of the Vodafone Relax price plans. And finally, LTE has also been launched in Italy, in Milan and in Rome.

So, moving on to Spain, as we all know, still from a macro point of view, a difficult market with high unemployment. Service revenues there were down by -12%. Data, however, was a strong performance, +17% increase in the data revenues. The proportion of smartphones in the customer base has gone up by 11 percentage points to 44% during the period. Margin is basically stable year-on-year, impacted by changes in the acquisition subsidy model that Vittorio will talk about later. We now have 34% of our consumer contract revenues coming from integrated tariffs, which has moved ahead nicely year-on-year. And Vodafone Red has actually been launched yesterday, reintroducing a level of subsidy but a lower level than previously and with more visibility, importantly, of the handset price for the customer.

So, let's move away from Southern Europe and move down into Africa. The Vodacom Group has had a good half-year, so, in the most recent quarter, service revenue for the Group as a whole was up by +4.6%. That comprised South Africa up +0.7% and the non-South African businesses up a very significant +29.7%, very much fuelled by increase in size of the customer base and very much fuelled by good performance on data revenues, which were up +17% in South Africa, or +22% across the Group as a whole. Also, very encouragingly, as you can see from the chart, in the bottom left, the EBITDA margin has moved significantly ahead, so about a two percentage point improvement in margin, with the scale benefits really starting to come through. LTE was launched in October in South Africa, and M-Pesa is taking off extremely well in Tanzania, with 4.2 million active customers.

So, on to India: service revenue growth here was +11%, so still very, very strong performance, albeit at lower levels than previously. Reason for that: lower customer growth generally in the market and some regulatory controls that were applied during the period; however, growing our share of revenues; our net promoter score still leads in the market; our ARPU's grew by +3%; and generally I think a very, very strong performance commercially. Also, like Vodacom, big focus upon margins, and we've actually seen a three percentage point improvement in the margin in the Indian business, partly about scale and partly about lower relative A&R. We now have 32 million active data users in India. M-Pesa, we have just announced, will be launched shortly. And clearly, we have another spectrum auction in progress as we speak.

So, let me move on then, from the individual businesses and just a couple of comments on other aspects of the financials. So, first of all, the EBITDA margin: I mentioned earlier on, 30.5% margin for the half-year. A year ago, we published 32.0%. However, within the change, we have got the impact of M&A, particularly Cable & Wireless coming in with lower margin, and foreign exchange. That basically takes the reported number down by -0.5% and, as I said earlier, some restructuring charges that take it down by a further -0.3%. So, on a like-for-like basis, 31.2% plays 30.5%, so down about -0.7 percentage points. I think, put simply, this is about Northern Europe and investment in customer growth; it is about top-line pressures in Southern Europe; and it is about improvements generally in the AMAP region, particularly in Vodacom and India, as I have referred to.

We are absolutely still targeting to get the rate of reduction in the margin down year-on-year again for the full year. Why are we confident we can do that? We have got the scale improvements coming through in the AMAP region, as you have just seen. Those businesses are growing faster than the average in the Group and, hence, in a mix effect, those also have a benefit. Some of the price-plan changes we have introduced, we think, should have a benefit on subsidy levels. And finally, we continue to drive on a number of cost initiatives which will bear fruit during the latter part of the year.

Talking of which, just one or two examples of things that are still going on on the cost front, the top left here looking at customer service: the number of calls into call centres down about 11% year-on-year, with a significant increase in the number of customers who are serving themselves online, so up from 15% of the base to 30% in a year; the number of customers who are solving on device has gone from virtually none to about 15% during the period. On the top right, on the technology side, the bars there are the total petabytes of data going through the system, so up about 80% over a two year period. During that two year period, we have held the operating costs absolutely flat and, in that period, we have moved from almost no single RAN to 44% of the base having single RAN, and also have now got about 50% of our global sites now shared with others, so I think really strong progress there.

Vodafone Procurement Company, on the left hand side: we're putting more and more volume through there. Generally, we have managed to reduce the headcount. We are increasing the savings. I think the savings per employee in our supply chain activity are up over 50% over a three or four year period. And then, finally, on the bottom right, we have had the Europe and central operating costs at around the £6.7 billion each period; we are now targeting, for the next financial year, to get that down by £300 million in absolute terms.

So, a change of tack again, Verizon Wireless: many of you will be familiar with this, but Verizon Wireless has had another strong period, so the service revenue growth there +7.8%, shown in the chart on the top left. Contract net adds were 1.5 million in the most recent quarter, and the business is regularly taking more than 100% of the net adds growth in the market overall. You can see, on the bottom left, the margin progression, with the business having hit, in the last quarter, for the first time in its history, a 50% margin. And the free cash flow, on the bottom right, which is shown before the dividend distributions, have grown, first-half on first-half, by +24% and, in the last 12 months, have been \$16 billion on their own, hence the dividend payment that we agreed last night, which I will come on to again in a minute.

How have they done that? Focus top left, on smartphones. So smartphones are now nearly 80% of all sales and they are now 53% of the customer base. The spend per account, the US has now moved to per account metrics, has gone up, in the bottom left hand chart, by +6.5% over that period. And LTE, where Verizon Wireless is very, very advanced, over 250 million of the 300 million US population now covered with LTE. They have now got 15 million LTE devices connected to the network, and about a third of their total data traffic is now on the LTE network, so well, well ahead of the competition in terms of moving to LTE.

If I take a look at Vodafone including its proportionate share of Verizon Wireless, so, this is Vodafone plus 45% Verizon Wireless, then some interesting stats here: the first-half service revenue would not be down -0.4%; it would actually be up by +2.2 percentage

points. The EBITDA, on the bottom left, not a £6.6 billion number but £11.1 billion. The margin about 3.8 percentage points higher, on the top right, and the free cash flow at £4.6 billion rather than £2.2 billion, all of those being half-year numbers, so very, very significant numbers when you look at it on a more global basis.

Briefly on the free cash flow, I mentioned earlier £2.2 billion of free cash flow, which you can see on the bottom here. That compares with £2.4 billion a year ago. Remember, a year ago, we had £0.2 billion of SFR dividend as part of the exit arrangement, so, actually, we have seen, on a like-for-like basis, about a £0.2 billion reduction in the free cash flow, much as we expected. If you look at the top line, the EBITDA is off, a £0.9 billion reduction in the EBITDA, of which £600 million is due to foreign exchange, so, in essence, we have managed to cushion very, very significant FX effects down to a relatively small impact upon the free cash flow, and that is what we have maintained levels of capital expenditure, so we still spent £2.5 billion, particularly focusing upon single RAN in Vodacom, the LTE rollout in Germany, and the fixing of the network and the rollout of single RAN in Australia. So, overall, we've said £2.2 billion; we are guiding to the same guidance range on the free cash flow, but the lower half of that range for the half-year, which will mean we have generated about 40% of the full year cash in the first-half of the year, which is similar to what we did last year.

Moving then, on to net debt, we have closed the period at £26 billion of net debt, about 1.8 times EBITDA. The opening net debt was £24.4 billion. A number of moving parts in there: the free cash flow of £2.2 billion, that I have just talked about; the SoftBank proceeds, which were received at the very start of the half-year of £1.5 billion; the conclusion of the previous share buyback programme £1.1 billion; equity dividends paid £3.2 billion; spectrum £0.3 billion; and importantly, Cable & Wireless and the acquisition of that, £1.3 billion, with some FX movements in the other direction this time. So overall, about a £1.6 billion increase in the net debt, but you could say £1.3 billion of that is from the Cable & Wireless acquisition.

In the second-half of the year, we will have a number of spectrum payments going through. We will pay for the TelstraClear business, which was cleared just very recently. Obviously, we were very pleased last night to agree the \$8.5 billion dividend from Verizon Wireless. I know there have been some questions about why £8.5 billion, why not £10 billion, as in the previous year. I'll just leave you with this one thought: the business generates roughly \$1 billion of cash a month. Last year's dividend was paid out on 31 January; this year's dividend will be paid out mid December, so, in essence, it's being paid out a month and a half early, so there is just a month and a half less cash in the bank and, actually, it has maintained it at that level, despite having just spent \$4 billion on spectrum. So, this is purely about the time phasing and the early receipt of the cash this time round. So, anyway, with that £2.4 billion coming in, we have committed, as you will have seen, to £1.5 billion of it going back by way of buyback.

So, in terms of guidance, then, guidance ranges have been left unchanged from the start of the year, albeit we have said we expect, on the adjusted operating profit metric to be in the upper half of the range, and on the free cash flow, we expect to be in the lower half of the range. And the free cash flow, obviously, excludes the £2.4 billion from the Verizon Wireless dividend. We're expecting capex, on a like-for-like basis, to be similar to last year; and are still pushing to get the range of margin erosion down for the year as a whole.

Now, before I draw to a close, one topic I'm sure you've all been desperately waiting for: a quick update on one accounting change which will happen next year. So, some may be familiar with the fact that the way joint ventures are to be accounted for is going to change in the 13/14 year. The primary impact for us is on Italy. It does also impact Indus, Australia and Fiji, but the numbers there are not quite so significant. What it essentially says is, rather than taking a proportion of the Italian revenues, a proportion of its EBITDA, etc. and putting them into our P&L on a proportionate basis, we don't put anything in at that level, we purely go down to the net income from the Italian business and take our share of its net income and put it in the associates line, much the same way as we do with Verizon Wireless at the moment. So, without boring you with all the detail, the table on the right shows that, at the published level, that will give the appearance of lower revenue, lower EBITDA, a higher associate contribution, some small changes on tax and interest. However, by the time we get down to an earnings level and an EPS level, then we get back to exactly the same number as we had before. There is a slight difference on cash, in the past, we have shown our proportionate share of the cash generation of the business, under the new rules, we will instead show the cash dividend received by the plc. So, those changes will happen next year. We will, in the fourth quarter, give you a restatement of history, so that you can see that, but, more importantly, we will continue to give you proforma visibility on Italy as we go forwards, so that, broadly, you can still continue to see the full picture, as you do today.

So, in summary, emerging markets doing reasonably well; US certainly doing well; Northern Europe holding its head above water; Southern Europe is the challenge for us, hence the big focus on costs, hence the commitment to further improve the margin trend over the full year. Just remember: including Verizon Wireless, we're talking a business that's generating £7.5 to £8.0 billion of cash each year, with, I think, a reasonably conservative balance sheet, 1.8 times EBITDA as debt. And finally, confirmation of the full year guidance.

So, with that, I will hand back over to Vittorio.

Strategy Update

Vittorio Colao

Good. So, in order to discuss how we are progressing in our strategy, let me start by recapping my take of the situation, re-grouped by region, and in a more qualitative way. So, first of all, Northern & Central Europe: here I see more positives than negatives. These are stronger economies, more stable markets. We are still growing, even if only by +0.7%. The margin pressure is there. There is a bit which is, as Andy has said, restructuring. There is some A&R pressure which, however, is mostly linked to an absolute increase in smartphone penetration, which, per se, we think is good. So, it's a volume effect, not a price effect. If I have to be critical, the real bad news is the collapse of the prepaid market, which was down by -9.3% in Northern Europe, but, in general, it's a pretty solid region.

Where I see, quite frankly, more negatives than positives is in Southern Europe. I still see good data growth in Southern Europe, it's +11%, but there is pressure. There is pressure on pricing coming from MVNOs and no-frills operators. More importantly, there is clearly some economic environment type of pressure, which is very visible in enterprise. Enterprise is down almost 12% in Q2 in this region.

Then finally, the third region AMAP, where we have our emerging markets¹: the reason here I really see a more positive and very important positive is, first of all, as Andy has said, the EBITDA margin of this region is now 30.3%, which is broadly in line with the Group margin. And the weight of this region on revenues and EBITDA is 30% and, on operating free cash flow, is 33%. So strong performance, over time growing in weight, very strong brand perception. If I have to find a small negative, it's that the growth is slowing but it is still positive growth.

Now, if we take a higher-level view and a more strategic view at how the company is going, the most important thing is that we continue our healthy journey towards a better revenue profile. If you look at the top part of the chart, mature voice revenues are now 35% of the total, which means that they are trending towards a third, and the healthier and the more future-proof part, which is emerging markets and data, are now heading towards two-thirds. And, as the bottom part of the chart indicates, penetration of smartphones is up; 50% on contract in Europe, 30-31% on the whole base, which is very positive because, again, it indicates that a move from a metered telco to a new data company continues, and continues at a good pace.

The implication on our revenues is indicated in this chart. If you take Europe, 54% of contract revenues are now coming from integrated tariffs. You see the difference between the grey and the red bar is significantly up versus last year. And the effort that we are making is to make this happen not just in the 'smartphone lands' type of markets, like the Netherlands or the UK, where the numbers are very high, but also in places Italy or Spain, where we went up significantly this year. And, as a result, on the right part of the chart, we have in-bundle revenues now 46% of the total, up eight percentage points, and out-of-bundle only 44%. So, why I'm saying this, I'm saying that the journey towards making the revenue profile of the company healthier continues, and actually, in some cases, has even accelerated.

Now, of course, if I share with you my view of the outlook, there is clear rain in the short term. There is clear rain because the macro environment in Europe is not expected by us to improve, especially in Southern Europe, which, of course, is reflected in the impairments that Andy has talked about, because we don't want to take a particularly optimistic view at this stage. There is the tail impact of regulations: the MTR cuts which are going to bite in the next couple of quarters in a significant way; there is a bit of roaming regulation effect as well; continued pressure from no-frills players and MVNOs at the price level; impact of disintermediation from IP-comms players in markets where SMS revenues are still high, I can mention Spain or the Netherlands. And, in the short-term, some A&R pressure, more coming from the volume component of it than the price

¹ Our emerging markets include India, Vodacom, Egypt, Ghana, Qatar and Fiji which are included within our AMAP region. Turkey is also an emerging market but is included within our Northern & Central Europe region. AMAP also includes Australia and New Zealand which are not emerging markets

component. Here we had a question mark on handset costs because the reality is that there is more choice, we can manage better our mix, but the volume of adoption [of smartphones means] A&R is actually going up. Now, we can discuss whether this is positive or negative, and there is probably a short versus long-term thing, but, for the short-term, I put this under the British weather chart.

But there is also better weather that we see in front of us: first of all, the data story. The data story is good and there is some new news here. There is an acceleration of usage of data in Europe, or at least we have it, which we are triggering at the customer level. iPhone usage is, on a per-customer usage level, up 30%. Android usage is up 25%. Tablet usage is up 65%. So, customers, I hope, and I really want to believe that also as part of our actions and our pricing choices, are using more and more data, which, for the long-term, is good. In emerging markets, data is more about penetration and, again, it's rising but still very low, so there is a very good opportunity there. Adoption of multiple devices: we all see more and more tablets. I remember questions from many of you: 'Is it only an iPad thing or is it a tablet thing?' Well, now the answer is: it is a tablet thing, it is not just an iPad thing. Different formats, different price points, different operating systems, more competition, which is also good.

We continue to see good trends in enterprise favourable to us: bring-your-own device policies, unified communication policies, which require more assistance from our side. And the good, as Andy mentioned, take-up of and extension into new markets of mobile money transfer and M2M and the innovative services that I discussed in the previous meetings. So, our strategy needs to take care of the rain but also make sure that we are in good shape for the good weather, and therefore our strategy has been to mitigate short-term headwinds, but also make sure that we leverage on the long-term opportunity.

Now, I talked in May about Vodafone 2015 as a strategy which helps the transition from metered telco to a scale data company. This is really about leveraging our scale; this is about making sure that our growth in data is profitable; that we innovate exactly where we have the right assets and not necessarily across the board; and, of course, that we improve our efficiency. So, I would like to cover quickly some of the updates in the various areas.

First of all, consumer: I will talk about pricing and our pricing strategy in consumer in more detail. There are some other aspects that I will just briefly touch. It's not just about pricing and bundling; it's about differentiating the customer experience, making sure that the retail new format puts together service and sales and integrating the approach across channels; it's about improving profitability of ARPU versus A&R. I'll make a few comments on the Spanish case, which I think is a passion for many of us; it's about really focusing only on services where we do differentiate, and we picked machine-to-machine, financial services, mobile advertising as the key ones, but also having the courage to terminate services. So, for example, on our side, we are terminating Vodafone Music, we are terminating Vodafone App Select, these are very good services but, to be honest, they are not really differentiating versus other alternatives, so we need to focus our money where we can make the difference and, of course, leverage on the network investment, and I will cover that again a little bit more later.

Let me talk about pricing, because this is important. So, consumer pricing: I think we have launched, really over the last three months, a very big re-pricing strategy across Europe, which I would say simplifies, in a radical way, pricing for our consumers, but also

is very focused on stimulating data usage and consolidating ARPU. And if this sounds familiar to those who have followed Verizon Wireless, I don't think it is a total coincidence. This is about clearly providing customers with unlimited voice and unlimited SMS. This reduces the threat from the over-the-top players, because once you have unlimited voice and you have unlimited SMS there's not a huge advantage in using WhatsApp or Skype or whatever. It's a very strong value proposition because it simplifies the life, but also makes clearer, in the chart we say 'separates'; the real word should be 'identify clearly', what price is for the service and what price is for the handset or what is the intrinsic cost of the handset, but leaves the choice with the customer, which we think is right and, of course, gives larger data allowances, freeing up usage. We always have this issue of Europe being below the US and both of them being below Asia, and making visible what is the network quality provided by us. It also helps content owners and app owners develop apps without the constraint and give content without the constraint of how much usage will be seen by the customers as excessive and, therefore, customers would not use it. Plus, we are adding additional features to increase whatever: roaming services, shared plans, early upgrades, cloud and other stuff.

Now, this is not a theory. We didn't want to talk about this in May. We are talking about this now because it's launched, it's operational in our markets and I have to say I don't want to give numbers today, but the early uptake, at least in Italy and in the UK where we have been in the market for a few weeks, for many weeks now is, I have to say, really positive. There are fewer downgrades than what we thought and more upgrades than what we thought, which is good news, and of course customers are very, very impressed and very happy. This is called the Red family of plans. Now, it's not everywhere Red, because in some places we have issues with the Red name, but clearly it has been something that we have launched already in Spain, in Italy, in UK, in Germany, in Hungary and it will be launched everywhere across Europe.

Let me go a little bit on the right-hand, because this explains a little bit the philosophy behind. Unlimited calls, unlimited SMS for all plans. Data at different levels, of course, because there are different usage levels and some differentiation on speed or on cloud services given, which of course reflects how much data you're getting. The important point is that there are different price points and, as you can see from the example, which is a Spanish example, different price points are different depending on how much subsidy, as we call it, but at the end of the day the price of the handset which is included with the phone. So if you want SIM-only, you can get it for €35 unlimited, all inclusive of data. If you want a nice phone, you can pay a little bit more. If you want a very nice phone, €55, and if you really want an iPhone for free and be able to do whatever you want, you go to the €70 tariff. Again, these prices will be different by market, they will keep changing, but we really think, as you recognise, it's very similar to what has happened in the US recently and we think it's the right way to address the switch from the old metered world to the new data world.

Now, in emerging markets, of course the data game is a little bit different. Now, here, penetration is still low; it's 22%, as you can see in the chart. There is a great opportunity. If you think that in Vodacom we have 18 million data users with 58 million customers, you can see how much we can progress. In India, as Andy said, we have 32 million users, but only two million are on 3G and there is big demand and now low-end phones are available, so we see this as a continuing phenomenon. We are expanding our footprint in emerging markets through partner market agreements. Last year, we did Conexus; this

year, we did Zain, which is Saudi, Bahrain, Kuwait, Jordan and Iraq. And we'll continue of course to expand our financial services presence with the deal with ICICI in India, with the ability to do international remittances and to really bring to these markets basic financial services which are data, non-voice type of revenues, but with very high value added.

Now, if I move to enterprise, I don't want to cover enterprise in great detail because we had a specific day a month ago. Clearly, it has been an area of success in the last three years for Vodafone and we want to build on our strengths, which basically are three:

- We have a very good geographic footprint;
- We have a fantastic customer account coverage internationally; and
- We have the ability to serve customers now with platforms which are multi-country; so several of the platforms that service enterprise now are shared across our countries.

We already talked about these things a month ago, but basically we want to accelerate One Net and IP-VPN; it's an area which is growing +15%, so it's good for us. We are accelerating machine-to-machine, also going into new verticals. We've been fairly successful getting big customers in: growth is +22, +23% here in the traditional vertical sectors, now we want to expand larger than that. Vodafone Global Enterprise +5.2% growth in the first-half, so still pretty healthy and probably the largest, international account base in the industry. And of course leverage on Cable & Wireless Worldwide cloud and hosting services and expanding our catalogue to include also these capabilities.

So, I will not go into the details. The one thing that is relatively new is we decided to create, given the strength that we have in enterprise given the arrival of Cable & Wireless Worldwide and the ability to work now on a cross-country basis, we have decided to create a Group Enterprise Division at my level, at Group level. This will have four verticals dedicated to the areas that I just described: Global Enterprise, Carrier Services, Machine-to-Machine, Hosting and Cloud. These will be full worldwide business units with presence in 50 markets worldwide. We will, of course, continue to have centralised development of platforms and product management and, of course, all the market Enterprise business units that continue to be part of our Opcos.

In terms of strength, this is, I would say, c.2,500 people working on the verticals and another c.7,000 people about working in the markets, so it's a pretty, pretty big presence in the market that we want to continue to leverage.

Final point: this mirrors the Verizon organisation and it will make it easier to work with Verizon Business worldwide.

A few words about Network. Of course, we need to ensure the readiness and the capability of our network for the future, so Vodafone 2015 is really to put the company in good shape, after the rain, for the big data growth. Network is essential here. As Andy has said, we have good growth of data: +53%, actually re-accelerating after the past, with traffic mix moving, as I said, to smartphone and tablets out of mobile broadband.

I always report these numbers because there are always questions, 'Are you really able to cope with this?' The answer is: stable network utilisation, 35%; stable percentage of sales which reach saturation, 6%. As I always say, these are not the same sales as six months

ago; they keep changing because we keep investing. We are now using, to give you comfort about our capability, we are using 51% of our second carrier and 5% of our third carriers [in Europe], so we have a lot of radio capacity which we can still add at low cost. And we have 91% data coverage and, interesting enough, we now moved up 13 percentage points to 29% of our sites in Europe being at 43.2 Mbps, which is a very good speed, but also, especially important, a very high capacity that we can give. And 44%, as Andy has said, of our network is already single RAN. So the radio part of the network is really not only very stable in its performance, but also able to accommodate much more at a marginal cost. Hence the comment that Andy made about the stability of our capex in the future.

The other question that I often get on Network is always, 'Yes, yes, this is very good, but what about the backhauling, Vittorio? You will have a problem with the backhauling from the base stations', which probably is an integrated whisper that some of my friendly competitors must have made. And let me say how we respond to that. This is a bit of a conceptual chart, but we basically said okay – we said to Steve Pusey, 'Steve, put on a site everything that you really would like to have. So put LTE, but not just LTE, LTE at 2600MHz and also 800MHz, so that you have coverage and capacity, and put the maximum amount of megahertz that we can have, four blocks and two blocks. Then let's also put 3G, because a lot of customers have HSPA and let's put three carriers at 2100MHz and let's also keep a little bit of 900MHz, because of course some people will also have 900MHz. So what's the total capacity that this site will require?

Let's also assume that we have three sectors, and this is really probably Steve Pusey's Christmas tree, because there is also a lot of people around it that are using, on an iPad, watching a video, doing all of them the same thing at the same time. This is of course, a theoretical case, but let's assume that. And the total is 930 Mbps continuously required. Now, the capacity of a microwave backhaul to take out the traffic from that site is 1 Gbps already today. In how many places do we have already that capacity? 47% of the places and of course we continue to improve.

So, this is to say we are, and we have never cut capex, we have always progressed the network investment to accommodate the capacity needs that we see one year down the road. And therefore, both on the radio and on the backhauling side we think we are future-proof. We continue to deploy LTE, as Andy has said. In Germany, we have 47% outdoor coverage. We have it in Portugal, we have it in Italy, we have it in South Africa and we are almost ready in Romania and we will continue to build, but our network is able to accommodate this new capacity requirement coming.

Then, final comment, costs and operations. Here, there is a long-term component and a short-term component. After having worked hard on Network and making good progress there, we think it's time to move on IT. The convergence of price plans and the convergence of usage on data is enabling us now to tackle the IT complexity. We are working to eliminate IT legacy, to go to single IT stacks, progressively of course, not in a single move, and to move to common operation processes. This means avoiding replicating IT investment across Vodafone. This is clearly longer-term. And then of course we also need to do some short-term actions for the rain that I described before.

One word on the long-term action: the example comes from the UK. In the UK we are halfway in the introduction of what we call 'newco', which is really a simplified IT system. Just to give you an idea, we are going to move from 5,000 price plans to 500 price plans,

which is across consumer, enterprise, prepaid and everything. I know it sounds a lot, but it's still much less than before.

We are moving from a view of the customer which was SIM and device-based to a view of the customer which is account-based, because customers will have more devices and they will have families and other things. This is why, for example, Verizon Wireless talks about 'ARPA' and not 'ARPU', because it's per account and it's not per user.

We are integrating all the channel views, which is simplifying of course the way we manage customers, making all the policies simpler and more adaptable to their specific needs. Just to give you an idea, in the UK we had 30 ways of returning a handset; today we are moving to only six, and again, why do we need six? Because there are, unfortunately, six different channels, but this is clearly a great long-term cost simplification.

This will take time, so I'm not going to overemphasise its importance in the short-term, but in the long-term this is basically the equivalent in IT of what we have done in Network.

However, we also have a short-term. Andy has described that we need to make sure that next year we weather any kind of possible pressure, especially in southern Europe. We have kept opex stable in Europe. We now want to go down in absolute terms and the target for next year is £300 million delivered, not £300 million gross. This is going to be again continuation of the Network work, going not only to two network management centres in Europe, which is already the reality, but also moving to single engineering teams, reducing legacy capex, moving more to the business IT component, as I described, increasing from 7,000 to 11,000 in the long term the number of people that work in our low cost-high skill shared service centres. And, of course, thanks to the introduction of homogeneous IT systems, reduction of coordination cost by 10%. And this is again to mitigate the short-term winds that we have against us.

One final word on convergence, which again is another area that is often discussed, what's our strategy here? First of all, a few words about the new European approach to NGN. The new European approach, which is not yet fully finalised but has been stated, is no cost orientation on NGN, but price squeeze test and equality of input test to be passed country by country in order to be allowed not to have a cost orientation. We have discussed with incumbents, we are discussing with incumbents. There is a little bit of a mixed reaction here. Some say, 'Well, maybe we can share, maybe we can improve the return on our assets' and they are more open to this and some actually, quite frankly, are de facto refusing the access and saying, 'If I invest, it's my own stuff'.

In enterprise, we found it easier to acquire and put together assets, because again it's a market where wholesaling and integration is more culturally normal.

In residential, clearly our intention is to have a combination of LTE, DSL/VDSL and fibre/cable to provide our customers with services. So our strategy here is, first, require a fairly rigorous application of the two competitive tests to NGN and access infrastructure in all markets, which means that we will be very vigilant with incumbents and with authorities on that. If needed, we are willing to co-invest with other telcos and deploy our own piece of NGN where we need access to bandwidth. Continue to strengthen our unified communication offer to enterprise by putting together assets, and if value-creation is needed we are willing to acquire assets to get bandwidth.

Now, this is a country-by-country story. Different positions, different situations will require different strategies. Not a lot of read across from different markets, but a strong strategy of continuing to provide whatever is needed by the customer when demand is there.

On shareholder returns, this continues to be our focus. If you look at the chart, we have returned to shareholders from September 2010 £18.1 billion and if you add yesterday or today there's another £3.1 billion coming either by dividends or by share buybacks. The 7% growth for the third year of the three-year plan has been confirmed and Andy has illustrated the strength of our balance sheet, which will facilitate investment and spectrum acquisitions. And of course we see the Verizon Wireless dividend as a nice way to increase shareholder returns, but also preserve flexibility to reduce debt and support investment.

So, as a conclusion, six points:

- Continued growth in data and emerging markets, now with mature voice trending down to one-third of total service revenue.
- Very important new strategic approach to consumer pricing and bundling in Europe.
- Strengthened commitment to enterprise and expanded product catalogue there through a new dedicated division.
- Continuing consistent investment in Network without too much ideology in technology, but with pragmatism in how to serve in the most efficient way the data needs of our customers.
- Drive towards standardisation, simplification and cost efficiency.
- And, of course, a strong orientation towards maintaining strong returns to shareholders as a priority.

I thank you for your attention and now I would invite my colleagues to join me for questions.

Questions and Answers

Tim Boddy, Goldman Sachs

A couple of questions if that's okay. The first one, topically, on your relationship with Verizon Group, if you could comment a little. Obviously, as I think Andy noted, some people could look at the smaller dividend and see that as an indication of future intention. So if you could just talk about that relationship and where you think it now stands.

Secondly, in terms of your comments around convergence. Telefonica noted in their results, for example, in Spain they're seeing a very strong inflection in net add momentum on the back of their Fusion tariffs. I just wonder if you could talk a bit more about how you intend to react to these converged offers and also whether you'd consider, I mean, I know you hinted at it, joining either the Jazztel Telefonica fibre rollout in Spain or the Fastweb Telecom Italia fibre deployment in Italy.

Vittorio Colao

Yes. First of all our relationship with Verizon is good, very good. As Andy has noted, this year there are two distributions, one in February and one in December. The second one is a little bit smaller because of it being a month and a half earlier. We are accommodating their needs, they are accommodating ours. We work together well on the areas of cooperation. I don't talk about many new areas of cooperation because, honestly, they keep being the same. So we purchase together, we look at customers together, we discuss about one day maybe we'll buy terminals together but today it's too early. The plan is more of the same. It's delivering good value and I think it's a great relationship. We are very pleased with their performance and, I have to say, a bit jealous of their pricing. So, its positive.

On Fusion and convergence we are clearly watching and we immediately matched their offer. So what was previously available from them at €65/€70 is now available at €50. We immediately matched, I think it took one week to match. Whether this will create a trend in the market or not we will see. In the consumer space, clearly we want to deliver what we need to deliver to customers. Whether we will join Telefonica and Jazztel or do something else, quite frankly it takes two to dance, we will see. As I said, some incumbents in Europe see this as, well, maybe there's an opportunity to work together and improve the return on the assets. However others say, 'no way'. Telefonica is probably more in the 'no way' camp and, if that's the case, we will take a very strong regulatory position, but eventually we will have to make moves ourselves. It's a very market-by-market type of approach.

Simon Weeden, Citigroup

I wondered if you could elaborate a little bit more on Germany where your relative share in terms of postpaid net adds got quite a lot worse in this quarter versus the quarter before. And perhaps in respect of Germany and certainly in respect of the Group, could you talk a little bit about the outlook for growth in the second-half, given the quarter disappointed a bit against consensus? Are we going to see a sort of underlying further deterioration and will the price changes that have mostly been late last quarter or early this quarter, will that have an impact? Is there a timing issue we should keep in mind as regards the adoption of the Vodafone Red tariffs in Europe? Thanks.

Vittorio Colao

Do you want to take it?

Andy Halford

Yes, sure. Yes, the Red plans obviously coming out have not particularly been picked up in the last quarter, so the strong hope is that we'll now see the benefit of that coming through over the balance of the year. So time will tell, but hopefully we'll see the revenue pick up a bit more on that front. The customer growth was a little disappointing last quarter and, in some respects, it was in preparation for getting the new price plans actually launched out in the market. So we'd hope that that will address both of those points.

Vittorio Colao

James? Yes. And then we'll go back there.

James Britton, Nomura

Thanks very much. Could you say a few words about how you look at normalised spectrum cost when you're calculating the underlying free cash flow of the consolidated Group? And then also on spectrum, can you just say what your base case is for re-securing your 2G spectrum in Italy and also Germany in a few years' time?

Andy Halford

Yes. Trying to do normalised on something that is as lumpy as spectrum is not the easiest of things. Our internal planning, clearly, is done on a country-by-country basis as and when there is either new spectrum or a renewal coming up. As best we can, internally we'll take a view as to what we think it is going to cost, but that of itself is not easy, because in advance of knowing the rules, in advance of knowing the number of competitors etc. in an auction, there is still a fair amount of guesswork that goes into it. So what we've tended to do is run the balance sheet reasonably cautiously. The last two years and this next year are probably the peak three years for spectrum since about 2000. We did sell some of the businesses, and we did retain some of the cash in order to do it and my hope would be very strongly that we'll come out of this three-year period with the balance sheet in good shape having bought significant amounts of 15/20-year spectrum. And then it will just be down to the occasional renewals, some of which I think may be more paid for on an annual basis rather than being paid for upfront. So hence when we get more clarity on that as well, it will give us a better basis going forwards, but it is probably the most lumpy cash item we have got in the Group.

Vittorio Colao

And if I can make a general comment, I think that there is a little bit of an increasing awareness around the world that the lemon cannot be squeezed too much. So we are starting to see rules which make more sense in the auctions and we are starting to see in some countries approaches which are more mindful also of the fact that in the end this is an industry that creates a lot of economic benefit outside of it. Its early days, but not as bad as some of you thought a few months ago.

Nick Lyall, UBS

Could I ask two please? Just on Spain, firstly, are you seeing any signs at all of regaining momentum given the new tariffs and the reintroduction of subsidies?

And then secondly, back on Verizon Wireless, should we now view the payments as being more frequent than annual payments and over any general period should we also expect you to receive more from Verizon Wireless rather than less versus, say, the \$10 billion received previously? Thank you.

Vittorio Colao

Let me take the Verizon question and maybe this is an opportunity for Paolo to talk a bit about Spain. So I will maybe introduce Spain and then you talk about Spain.

So, on Verizon Wireless, I think, honestly, I don't want to comment too much about the future, because we have been saying this for the last four years, this is a company which is very well managed, that creates a great amount of cash flow and both shareholders work in the interest of the company. So we have been very accommodating on a number of issues when they need investment and we will be accommodating on whatever schedule is necessary for them. Keep in mind this is a Verizon-managed company; this is not a Vodafone-managed company. But I think it's a very positive relationship. I cannot comment about the future, but I can only say that again we have demonstrated today or yesterday, actually, that when cash spikes up, cash gets paid and it's relatively simple. It's the amount of cash which is very good.

On Spain I have a general comment and Paolo can probably expand a little bit. On Spain there was a lot of excitement about elimination of subsidies. We followed. Clearly not the whole market followed and it didn't really work. What we also found, is that a number of customers actually like to pay more for having the ability to have a handset and change their handset. So the real issue in Spain is the pricing of the price plans when you also get the handset, how much higher they are versus the SIM-only one. That's the real issue and we moved into a new scheme that I have illustrated, which I think gives the customers the choice to go €35 if they want without, or €40 or €50 or €70, depending on what they get. It's more about the choice and the pricing levels than an ideology of taking out or leaving in subsidies.

Paolo, do you want to be more specific?

Paolo Bertoluzzo, CEO Southern Europe, Vodafone

I think you said most of it on the subsidies. In terms of trends in performance they are recovering. I think since we reintroduced, on a promotional basis, subsidies at a lower level than before in the summer, we have regained speed in terms of gross additions and actually became leader in market share on country additions, even if it was partially balanced by changes in regulation on the retention side of the business.

I think it is clearly early days to comment on performance of the Red portfolio and the new approach there. I would add to the launch of the Red portfolio, what we are doing in the youth space, where we are actually launching prepaid which are very interesting and competitive tariffs with a completely different approach, which is somehow giving more

value to the customers with a good entry-level ARPU. And that's another important part of our strategy in Spain.

Robin Bienenstock, Sanford Bernstein

It seems to me that the risk for you with incumbents having to roll out more fibre is that they're going to get a bigger and bigger share of the higher value customers with lower churn through integrated offers. And I guess the risk is that you become a high-cost wireless operator with diminishing access to the best customers. And so I'm wondering how you more fundamentally address this, because Red, if I look at it, addresses the problems of the past of wireless data and how to monetize wireless, but it doesn't really address the more fundamental risk...

Vittorio Colao

It does. You can get a fixed DSL bolt-on as one of the ways to work, which is why I said we match their price.

Robin Bienenstock

Okay. So I guess related to that then, two questions around my concerns. One is are you not a relatively soft target when it comes to regulation, as you are the odd man out in most countries and, indeed, at the EU? And two, do you have the right organisational structure to allow you to really drive a much leaner organisation to deal with the sort of competition that you will likely deal with in the future?

Vittorio Colao

So, the second question is kind of an open-ended theoretical question, but let me first address your first question and then I will try to give an answer to the second.

The Red proposition is a part of our strategy. One of the components of Red in Spain is specifically also getting, as part of the plan, fixed DSL asset. The point that you still have, which is valid, is access to fibre. So once the market moves to fibre, if it moves to fibre, my information is that most of the connections are still on the 50Mbps, not on the higher level in Spain, but maybe I'm wrong. Once it moves there what happens? First point, keep in mind that regulation, contrary to what you say, actually we are the darling of Brussels because we are the only one that can really make sure that the countries behave. And so once, we get there, the price squeeze test and the quality of input test have to be passed otherwise those offers will not be legal in the European framework – first answer.

Second answer: my job is not to hire lawyers to stop the others from doing what they want to do. I slow them down until we get what we need to get, which is going to be either access to their NGN or our own access to somebody else. There's cable, there's the possibility that we might decide to build ourselves somewhere, maybe with some of the others, there's not just incumbents, there's also other people in the market who might have exactly the same interest. So I think that the picture that is being painted by the

incumbents is a little bit – it's very well-coordinated, which, tells you something, but also it's a little bit too rosy, at least relative to the timing.

On the second question, the kind of 'do you have the right organisational structure', I don't know what you refer to. You know, as I said, our strategy is market-to-market. I think we have been doing different things: in Germany we are deeper in fixed line; in other places we are deeper in enterprise; in other places enterprise is more mobile with third party assets. So we have different strategies by market. I don't think that leveraging the cost advantage that we have is the wrong thing. So I'm not sure exactly what you refer to.

Robin Bienenstock

If I may, what I'm referring to is the fact that you talk about scale in your business, but you don't actually end up with better margins than peers in most of your markets. So what I'm asking is: is it right to focus on the economics of individual countries and to have a cost structure that replicates an awful lot in each individual country, or should you think about your Group organisational structure of being really quite different in order for you to be leaner?

Vittorio Colao

Yes, you know, again, difficult to say should I not want to be leaner. I've just said we want to reduce £300 million of cost, 10% of support costs. But on the other hand, if I can share a big part of my IT cost, if I can share my network cost, if I can share what is not customer-facing or not heavily customer-facing and get an advantage, I think shareholders are happy if we do it. Life is not black and white.

Robin Bienenstock

Thanks.

Will Draper, Espirito Santo

One on cash flow and one on the US if I can. On cash, you missed consensus free cash flow a little bit in the first-half, so can I ask you what's consensus getting wrong on phasing and what's going to come back in the second-half that wasn't there in the first-half? That might be capex or working capital, but just something on the phasing of free cash to get you to the guidance number.

And second, on the US, we've seen a couple of quite big deals recently, one involving DT, one involving Sprint. Just if I could ask how you think that makes life for Verizon Wireless easier or harder going forward, the changes in the US market structure.

Vittorio Colao

Andy, you take cash

Andy Halford

Yes. So, I suppose, two thoughts on the cash flow. One is, with all due respect, it is difficult for an outsider looking in to get consensus on cash flow accurate, because there are a lot of one-off items on tax and things like that where the phasing is less visible. However, the second point, which is the more substantive, is the largest part of our capital spend, typically, for various perverse reasons takes place in the last couple of months of each financial year and that seems to be a truism of many telcos. The actual payment for that will, typically, go out in the first quarter of the following year. So actually, the first-half tends to be weighed down by the previous year's capex and the second-half gets a benefit from it. So that is why you tend to get this higher cash generation in the second-half than in the first-half.

Vittorio Colao

Yes, a comment on the deals in the US, okay. The T-Mobile deal, with all due respect, is a fine deal, but it's not a game-changer in the grand scheme of things. Sprint-Softbank is more interesting. Again I think very highly of Masa and his entrepreneurial ability. You have to keep in mind that the distance between Sprint, even Sprint with cash, and Verizon Wireless is pretty big. It's a different situation from Japan. The Board of Verizon Wireless has immediately received the analysis from management on what they can do and they cannot do, but there are some differences. I mean, there is a kind of coverage and technology difference which is very big and the pricing in the market at this moment in the US is totally different from what it used to be in Japan when Masa took over. So I think very highly of him, I wish him good luck, but I don't think in the short-term it will really be a game-changer. But Verizon Wireless management is very focused and very alert, as you would expect from such a successful group of people. So, interesting to watch.

Stephen Howard, HSBC

A couple of questions. Firstly, obviously the Red tariffs look quite interesting, but I was wondering whether you had been tempted at all to be still more radical and, in that vein, I'm just interested to know what you think of Swisscom's recent tariff initiatives, where the segmentation is done purely on speed rather than the caps.

Second question relates to the first of your points in the list of strategy objectives, namely to become or to be a scale data company. Obviously that's laudable, but I think it's fair to say it's proving difficult to demonstrate traction there so far. I guess what I'm concerned about is are you not worried that some of the network-sharing arrangements that the industry has come to and the terms on which wholesale is made available, is there a risk that those factors have effectively undermined the opportunity here? In other words, that everybody in the market winds up thinking they're a scale data player. Thanks.

Vittorio Colao

Can you remind me the market share of Swisscom, please, because I think that there are some differences? I mean, Swisscom, I don't know, they're a partner market that I should know, but what do they have, 56%, 57%? Sixty percent market share. So you cannot exactly compare how radical you can be when you control 60% of one market from when

you don't control 60% of our market. We looked at a variety of options. We were also very mindful of what's the departing point, which is why the pricing levels would be different by market. Eventually, being a scale data company means we move from a metered, classic telco mentality of premium pricing and a scarce network provision to thick network provision and ARPU focus, which is a totally different type of company. It is a journey, as I said, we are going there but we still have 35% of our revenues which are mature, relatively highly priced voice, but the fact that we made progress enables us to do more. We go along, do more, we can do new things, which is why I'm very excited and very optimistic about the fact that despite the short-term difficulty of evolving, Vodafone is doing the right things for the future and we are really getting ready for the future of data.

On the wholesaling, scale data thing, I think you have absolutely a very valid point and we are very aware of it. We are very aware that every network deal, every wholesale deal that we do has to pass some test to make sure that we are not undermining our own strategy, which is why now everything has to be approved at Executive Committee level, so that we are sure that we are not trading off the short-term for the long-term. You have a point and we are aware of it.

Andrew Beale, Arete Research

A couple of questions around investment if I could. You were talking a bit about the Global Enterprise Division and how you saw that developing over time. It sounded a little bit like there might be some more capabilities that you needed in individual country operations to do that, perhaps hosting capabilities in some of the geographies. I'm just wondering if you can talk a little bit about the investments that you might need to build up that global capability.

And more broadly on investment, I guess if I look at some of your competitors, I think it's increasingly likely that we're going to see rights issues from a bunch of them as they need to, you know, sort out their balance sheets as their EBITDA declines a bit faster than they originally expected. I just wondered what your inclination is to start to put your foot on their throat a little bit more to up the investment to try and create a sustainable network advantage, which might help your margins, to perhaps push into LTE, to drive fixed network substitution in the 25% that might never get fibre. That sort of area to try and drive returns on a longer-term view.

Vittorio Colao

Do you want to take...

Andy Halford

Which one?

Vittorio Colao

Well, I'll take the final point, the 'put the foot on the throat', I like that.

Andy Halford

Okay. Well, let me start on the enterprise. Clearly we see capability and potential in that space and hence the new organisation. I think compared with most of our competitors we have got a spread and a control of network inputs that puts us ahead of the pack. Cable & Wireless brings some new skills and particularly in the sort of hosting space and then starting to think more about cloud, there clearly is opportunity there. Now, whether that's going to require investment to acquire business or not, I think it is early days to say. I think we need to understand what we have got and what the capability is to move that forward organically, but certainly in those sorts of spaces we do see reach into new revenue pools that we have hitherto not been able to go for.

Steve Pusey, Group Chief Technology Officer

Yes, I would just – good morning, by the way. Just to add to that, Cable & Wireless brings us some interesting and attractive additional product suite consistency: IP-VPNs and hosting, cloud, as you say. Some of the skills that we need to expand are on the people side of things, the delivery capabilities and execution speed, some of the IT tools to make that consistent across all our properties as we standardise IT and some of the project management are the basics to getting a scale business rolling faster. So a nice set of product assets that we're acquiring; it's now the people and volume to get that rolled out at scale across all of our properties that we'll be adding to.

Vittorio Colao

Yes. Enterprise is a journey, is very important. When you talk about cloud services, cloud services is a massive type of thing. Do we want to get into software as a service? I kind of doubt, to be honest. Do we see a strength in infrastructure as a service for SMEs and the customers that are served by the 7,500 people that we have in the field? Absolutely, yes. And then on platform as a service I'm not so sure, but again it depends by market, because in Germany we have a certain position and in the UK we have another one. In the UK it's easier to acquire capacity and capabilities from third parties who lease stuff. So the answer will not be a total homogeneous answer, back to Robin's point, given the catalogue that Group will make available, every market will have to come up with some kind of different thing, but everything that we can share we will share. And this is the reason why we need to put all these resources together, to get maximum traction there.

On the 'foot on the throat', it's a very tempting and fantastic image. I don't think it's, unfortunately, as simple as that in the sense that we are using already using IT as a very powerful substitution in Germany and we will use it. We launched in Italy, we launched in a number of other markets, Portugal is the next one, for sure South Africa in a complementary way, will be very important. So answer: yes. It's not just LTE; it's also HSPA++, which is, in some environments, very competitive.

Do we see the opportunity to increase investment? I would say selectively yes in some markets, but very selectively. We also have to take into consideration the fact that it cannot be a strong price-driven attack, because we have seen what happens when you do strong price-driven attacks into oligopolies: that basically people just reset the profit

level one level down. And my objective is really to create value and not just to gain market share in absolute terms.

Can we afford it? I think Andy said, I think we have a coverage of x1.8 net debt to EBITDA now, so our debt level is nothing compared to most of our competitors. We have money coming from the US, part of it we give it back, part of it, as I said, can be used for funding these investments.

So, we are in your space. I wish I could use the same iconography that you use, but unfortunately I don't think the 'foot on the throat' is exactly what we want to do. It's more of a progressive journey of gaining share and gaining traction.

Ottavio Adorisio, Société Générale

Thank you for taking the question. I've got three questions if I may. The first one is on pricing. Your strategy is pretty clear but it looks pretty good on the spreadsheet. And when I look and try to make a few numbers together what I see is that volumes in the most challenged part of Europe, Southern Europe, is actually is going up. Italy, in year-on-year, is 2.1%. I look at revenues, even excluding MTRs, it is down -8%. It looks to me that you have an issue pricing more than probably macro, over there. Similarly in Spain, volumes are down there -2%, but MTRs, taking MTRs out of the questions, it's -10% service revenue down. Again, looks to me an issue of pricing. Data of course is going up on volumes. You don't disclose any sort of metrics how much it's going up by country. But I believe that volume is going up anywhere, service revenues deteriorating. So it looks to me that it is an issue of pricing. You come with Red, so what's happened if I really want to sum up on my side – you throw up everything now into unlimited voice, unlimited SMS, so what's happened next? If ARPU doesn't stabilise, have you now shot all the potential opportunities you can to stabilise ARPU? Because you reckon that you give everything now for a fixed price.

Then the second question is a bit more straightforward for Andy. The first one is on restructuring cost. It's good that you actually give the breakdown, restructuring costs for Germany, but reading the press release of full year last year, there was also another restructuring cost in Germany, but I didn't see how much it was, so if you can tell us. And the second question is on depreciation. Now, again, you are one of the few, probably the only one telco that has a guidance on EBIT. Therefore unfortunately you have to track what's happened on depreciation. Your depreciation is down -8% year on year; amortising intangibles down -28%. So first of all, what's going on there? Second, if you give a bit of colour for the full year on which sort of number you had to pencil down for the depreciation. Thanks.

Vittorio Colao

Good. I'll take the question on pricing and I'm glad to pass the question on depreciation to Andy, who has now time to prepare. On pricing, a couple of points: first of all, everything you said is, let me say, directionally right. But don't forget the impact of MTRs, which is particularly heavy for us, because of course we lose the mobile component, but we don't pocket much of the fixed component, or at least not as much as people who have 60%, 70% market share. So once you take the MTRs' impact out – and you know, in a couple of years from now probably it will be totally out, then you get quite frankly a

different picture, first point. But this is kind of a tiny point; it's not the big answer for the long term. But at least it mitigates the sense that, 'Oh my god, this is a lot of work for nothing', which is basically what you said. So first point, take out MTRs, look at the broader situation. It is less bleak than what you describe.

Second, long-term Red pricing. Look at the US case. This is, and we are really convinced, this is about ARPU. This is about increasing the revenues that you get from the account, one day the family, the company, and so on, more than the individual metered pricing. On the reason why the whole industry is actually in a difficult trend is because we priced voice very high and we priced data very low. Now we all know it doesn't take to be an engineer, we all know that actually the whole telecommunication infrastructure is moving into data. And therefore, if you price voice high and you price data low, you are bound to have years and years and years of decline. In many markets, Swisscom was mentioned, Verizon can be mentioned, the Asians can be mentioned, it's happening, people see the transition to smartphone as a great opportunity to say, 'Instead of giving me €12, €15 per month, you give me €20, €25. You give me €40 if you want an iPhone, but that's another story,' and then you can really use this thing as much as you can, and so there is a lift-up of the low-spending customers which in the long term is very healthy. Of course, in the short-term, you have some kind of wobbles. I remember when Verizon launched in June last year there were same type of objections but eventually it's working out. So I really think this is future-proofing more than small adjustments that we can look at. Now, on depreciation and amortisation.

Andy Halford

Yes. So restructuring is the first one. Second-half, I haven't got the numbers with me, but by memory we took a slightly higher charge, £70m or so on the restructuring. But it was a second-half charge last year, so first-half on first-half, this year has got a charge in that wasn't there a year ago. The depreciation intangibles, depreciation that is an FX impact, because obviously we're having to translate euro-denominated depreciation charges back into sterling. And on the intangibles, the impairments for last year may have had a small impact upon the impairment charges but I will have to come back to you on the detail of that.

John Karidis, Oriel Securities

Thank you very much. It's John Karidis here from Oriel Securities. Two questions, please. What needs to happen for Vodafone to start moving to shared data plans? And then secondly, next time Verizon gives out a dividend, how will you go about deciding whether to pay it out as a special dividend versus doing a buyback? What are the issues that you'll look at, please?

Vittorio Colao

On shared data plans, there's a lot of different ways of applying them, a lot of different theories. And to your point, there are pros and cons and different things. The advantage is that we have inside views of what's going on in the US. And as I said, it will be a market-by-market decision, where and how, most importantly to launch the shared plans.

So I cannot give you a blanket answer because again we need to do what is right for each market condition.

John Karidis

How soon do you think?

Vittorio Colao

I'm never talking about commercial initiatives ahead of them. I always talk once we have launched.

Andy Halford

On future Verizon dividends, the way I'd look at it is this – at a point in time when we know we've got the dividend coming, we will have a look at the cash flows, the business, the debt level in the business, future spectrum or otherwise requirements, and basically put it all into the melting pot. A year ago, we concluded that we would do it by way of the special dividend return. We already had a very significant buyback programme underway at that point in time. This year is different. Clearly the previous buyback programmes had finished. All of our returns were completely dividend-related, and our view was that actually to do some buyback and get the share count down was probably a good thing to do this time round. So I think it is very much going to be at points in time. You know, in the next 12 months, hopefully we'll go back to the previous question; the rump of some of the spectrum purchases, so that will be clearer. Hopefully our stance on India on the tax there may become clearer, maybe in a positive way. We'll see what happens there. So I think we'll just have to judge it at that point in time.

Christopher Nicholson, ORACA

Could you just give us a little bit of a refresher on Australia, where you are on that? And just remind us what the problem is with the brand perception in the Australian market?

Vittorio Colao

We have here Nick Read, CEO for emerging markets and Australia.

Nick Read

So, what I'd say about Australia – I think we have said several times for the last x number of quarters what we'd been doing operationally in terms of the networks, service improvement, etc. So I won't go through all of that. I think what my boss says on a regular basis is, 'But is it translated into commercial performance and financial performance?' So just focusing on that; if we take call complaints, they're down by two thirds from the peak. If we take contract postpaid handset churn, it peaked around sort of mid-30%'s. It's now mid-20%'s and improving. Prepaid active base is now stabilising. So the really important data point is service revenue quarter over quarter. Quarter 1 we were down -4.5%, but this quarter we've stabilised, so we're virtually flat, quarter over quarter. So what I'd say is, customers are starting to understand that there is a material

improvement in the network. We've made good advances in the quality, stabilising revenue, improved customer value management is improving our A&R metrics and of course you heard our restructuring. So my view is, next fiscal year, starting to get back into the double-digit EBITDA margins that we expect.

Christopher Nicholson

Is it still core? Or core to the business in Australia?

Nick Read

Is it still core? Our job is to turn around the operations, so we're absolutely focused on that. We've got a great management team under Bill Morrow. I was down there July, I was down there September. I'm meeting again in November. I think that shows how much time and attention it's getting.

Jerry Dellis, Jefferies

Yes, good morning. It's Jerry Dellis from Jefferies. Two questions, please. I think your margin outlook calls for underlying margin trends to soften a bit in the second-half. I just wanted to confirm that's the correct reading of the guidance. And I wondered what it assumes about Europe; specifically, how much room for manoeuvre are you leaving yourselves if competitive conditions were to deteriorate a bit further? And then secondly, there's some important cost-cutting initiatives obviously outlined, but in general terms is it really possible to sort of stabilise and control EBITDA, or control free cash flow, without really stabilising the top line? What really is your outlook for the time that it takes between the point at which the short-term chart evolves into the long-term chart and the revenue trend really does stabilise?

Vittorio Colao

You're absolutely right. I mean, the reason why I said there are short-term cost initiatives which are really going into kind of the direction of being lean and being more efficient, which we have to do – first of all because now we can do them, and second because there are short-term pressures. But in the long-term the reason why I first talked about pricing and about data and about what we want to do, and the questions, the last set of questions about plans and so on, there's no doubt that is the way that our industry and therefore also Vodafone will get into a positive cash flow and EBITDA. There's only a certain amount of things that you can do on cost. I don't like the concept of room for manoeuvre, because that's not the way I see things. That's not the way we have managed the company in the last four years. Even when we were under pressure we have always invested what was required to invest. We have not cut capex, which is why we didn't end up, you know, in bad places from a technology point of view. We are where we need; like in Germany, we are investing in smartphone penetration and you know, improving. Germany was only 18% smartphone penetration, it's now 28%. It's still lagging. I mean, it's still behind, so we will continue to invest. I don't corner myself with the room to manoeuvre thing, but I still think that reducing cost is, in the short-term, the right thing to do.

Andy Halford

Yeah, I'll try not to use too many double negatives on our reducing rates. Typically, over the last three or four years the margin in the second-half has been lower than in the first-half. Probably last year it was about 1.5% lower in the second-half than the first-half. Clearly our endeavour this year is not to see such a big reduction in the second-half, and hence why we are still targeting the improving rate of margin deterioration overall for the year.

Justin Funnell, Credit Suisse

Two or three questions, please. Just coming back to the pricing question again. Obviously moving to flat rate voice and SMS, but still with data tiers, puts more and more emphasis on the need to grow data. In the last few years, you've done a pretty good job of controlling data growth, and that's kept capex sales down. Is there perhaps a stronger argument now to try and accelerate data growth, even at the expense of capex, perhaps by encouraging more tethering, tablets, that sort of thing? Just thought I would let it rip a little bit on data.

Secondly, I'm just wondering if you have any views on the ongoing discussions in Brussels about consolidation in Austria and whether you see any sign that that's going to go in a direction that encourages you to try and consolidate the industry, or on the other hand give up.

Thirdly, any initial views on what the credit rating impact would be of this IFRS11 move? It clearly would change debt/EBITDA. One would have thought it shouldn't change it, but you never know.

And then finally, the fact your dividend's grown 7.2%, not 7.0%, any signs that that's more bullish on dividends for next year, or something?

Vittorio Colao

I don't know. Was there behind the fraction of the pence that we can use to hit exactly?

Andy Halford

If we'd done it to the 0.01, we would have come fractionally below the 7.0, and we didn't want to be accused of walking away from our 7% commitment.

Vittorio Colao

On Austria, honestly we don't have any insight because we're not part of that process. We read the same things that you read, we interpret the same statements. We have a sense that there is a little bit of a softening of what seemed initially a pretty hard position. Honestly, any consolidation case we could look at would have to stand on its own feet and if we are convinced that it is a good chance of being pushed through, we'd just pay some lawyers to make our case. There's not a huge amount of read-across. Different

situations, different markets, different pricing levels, I wouldn't draw a conclusion from that.

On the flat data rates tethering, to be honest we have not been constraining usage. We have been eliminating abusive, or excessive usage in markets where this was the case. But if anything, we are actually trying to encourage usage, and as I said, I'm very pleased that iPhone is going up, tablets are going up. We are still behind the US, and if I look at the LTE results on Verizon, the US, we are much more behind. But this is a good sign because with more content, more applications coming, the data component will be appreciated and used much more with virtual reality on maps, with all our augmented reality on maps, and all the new things – we will all use more and more of these things. So I think we are going in that direction. There's no intention to constrain. There's a contention actually to take away the psychological barrier. We did a lot of analysis on why the Europeans use less than the Americans, and it turns out it was basically self-restraint, not the fact that we are pricing in a particularly wrong way. So that is what we are trying to do with the worry-free type of positioning that we are taking.

Andy Halford

I don't think there'll be an impact there. I mean they're more influenced by controlled cash flows, etc, and I think the accounting rules here are slightly secondary to that.

Paul Marsh, Berenberg

Point four on your strategy slide, you say if it's value-creating you'll acquire assets to enable access to bandwidth; does that include residential local access bandwidth? And then secondly, on the LTE uplift, you're saying an incremental €10 of premium ARPU. I guess what we really want to know is, how does LTE ARPU compare to what those customers were spending before they migrated on to LTE? And particularly on services, once the handset recovery is stripped out.

Vittorio Colao

The question about convergence or residential access, I mean the logical flow is very simple. If quadruple play, to use a simple expression, if quadruple play becomes the norm, if there is proved willingness of customers to pay for that type of thing, we are going to be there. And we are going to be there with our own assets or third-party assets, depending on the market. This is, you know, very simple. Very simple statements is what we have done in Italy when, you know, it started many years ago – in Germany, in Portugal, in New Zealand. In New Zealand we acquired, and we are integrating, TelstraClear. So we are willing to go to there. Now, it says if value accretive, because some of it is proven to be value accretive, to be honest, not the whole of it, so it will depend by market, depending on the value of this market, how much customers are willing to pay, what alternatives we have, and so on. But this is to say a scaled data company plays basically where the customer's needs are.

Paolo or Philipp, you want to have a comment on LTE pricing and the premium?

Paolo Bertoluzzo

Yeah, maybe just a comment on that. I think what we are seeing in the market now is more or less what our strategy is, which is try to place a premium on products which are currently in the market, which are basically mobile broadband for PC connectivity and tablets. I give you an example from Italy: both products are priced €10 higher than their equivalent products on 3G. There is more data allowance on a commercial basis because we all need to understand what the usage is going to be on those types of products, but basically that's the direction in the market. We see competitors in the same space. Same story would apply, for example, to Portugal, where we did launch back some time ago. Obviously, and therefore there is an ARPU increase versus the alternatives they currently would have in the market. Clearly, I think the interesting phase will become when we will have smartphones, LTE base smartphones with packages having data included. And actually we see us taking a very consistent approach also on smartphones.

Philipp Humm

I think for the North and Central European part, we basically pursue the same strategy. So we have two products up and running. One is more of a DSL substitution product which we employ in Germany, also at a premium, and the other one is our normal LTE included in our advantage plans, which also is at a premium in the market. And we are trying with that premium to then make sure we have products which are really worthwhile over time.

Emmet Kelly, Merrill Lynch

Just coming back to the situation in Austria, it seems that the European Commission is still playing a bit of hardball on in-market wireless consolidation, which is surprising, because Austria is such a small market in terms of population. However it does seem that they are willing to accept network sharing and deeper forms of network sharing. I know last year you signed a deeper agreement with Telefonica O2 in the UK. Could you say how much scope there is to go deeper in terms of network sharing in the other countries in Europe? I'm thinking in particular of Germany, Italy and Spain – I know the Commission has made noise about you being able to share spectrum as well in the future and how network sharing could fit in with your best network rollout in Europe as well.

Vittorio Colao

Yes. It's not an answer that we can give in a blanket type of way. We need to go market-by-market. It's not an answer that can be given regardless of the departing condition, the EBITDA levels and who would be the other party. So I think we did a lot of passive sharing deals, which actually now amount to 60% of the whole group. If you take out India it's probably around 50% in Europe. We did the deal in the UK for specific reasons linked to the spectrum and linked to the profitability of the market – and also, to be honest, the geography and the concentration in London. And by the way, in London we have not shared, so again, you have to qualify exactly what we are talking about. If you take a train up to Scotland, probably it doesn't make a huge difference whether you are fully alone or with somebody else, but for example, in London, we are very keen to keep our own

control over what we do. In the other markets, honestly, it depends, and clearly there are discussions going on.

Akhil Dattani, JPMorgan

Firstly, on Germany and the UK, we've seen a bit of a revenue slowdown this quarter. I just wondered if you could comment on whether you feel that's a sign that markets are worsening a bit in terms of competition, or whether you just think your historical outperformance is unwinding, and whether we should expect that to continue over the next couple of quarters.

And then secondly on the issue of restructuring charges, given that you're guiding to a £300 million cost education into next year, presumably we should expect further restructuring charges, and as such, if that's true, would you be able to give us some sense of what the numbers might be into H2 and maybe into next year as well? Thanks.

Vittorio Colao

Can I ask the first question to Philipp, since we've been commenting this morning on competitive performance in detail.

Philipp Humm

Yes, thank you. If we look at the two markets, the first one the UK, we are overall, from a market share point of view, pleased with our position. We are holding our market share, service revenue market share, year over year, in a very competitive market, and the UK is very price-competitive, as you all know. I think overall we are doing okay, with minus 3.2% service revenue decline. Net of MTR and roaming we are in the positives again. We launched in the UK specifically the advantage plans, where we will obviously only see the benefits coming out over the coming quarters, to strengthen the ARPU base, and we also went in the postpaid area into a price increase, another way to strengthen our ARPU base going forward.

If you look at the German market, on the other hand, in Germany we still are ARPU accretive, so we are still growing our ARPUs by 5% year over year, and we basically use the concept of our Red plans also in other areas, for example in the prepaid space, and are also now in the inflows starting to be ARPU accretive in prepaid as well. So we are very much focusing on the higher value parts of the market in prepaid and in post-paid, with the respective price plans to drive our service revenue up. This has here and there some negatives on the volume, but they are negatives we are very much willing to take, as they really drive our volume up, and we continue to lead the market from a revenue point of view.

James Ratzert, New Street Research

I had two questions, please. The first one was just regarding your EBITDA margin guidance, so looking for the second-half to be a lower decline than in the first-half. I was wondering if you could let us know specifically which geographic markets we are going to see that improving trend, and if costs next year in Europe are going to start coming down

in absolute terms, can we start thinking that year 2013/14, we'll actually start to see margins grow for Vodafone Group? And then the second question was just regarding the assumptions you made for your impairment tests, it looks like in Italy and Spain your five-year budgeting assumes capex to sales remains stable. Is that consistent with your thinking across the Group, that over a five-year view capex to sales should be stable?

Andy Halford

So, as I think I said earlier, in terms of the second-half EBITDA, there are things that will help us there. One will be the strong performance we have got in India and Vodacom flowing through further into the year. Secondly, those markets becoming a bigger proportion of the Group will help as well. Thirdly, the things we are doing on the operating costs are taking costs out, and finally, the new pricing model hopefully will take some of the acquisition subsidy out. It's a combination of those that gives us the confidence that we can still get the rate of margin erosion down year on year. After next year, to be honest, I'd rather not sit here with a crystal ball. It would be nice to think we could get to a point where margins were going to pick up, but it is so dependent on the top line and I think I'd rather handle that one nearer the time rather than forecast and speculate far ahead.

On impairment, we have, as you say, got a fairly stable level of capital intensity assumed for the two markets that we have impaired. Obviously, that is flexed according to the sort of top line prospects, by doing it as a proportion of the revenues, but overall our view is that the direction of travel on the capex should remain fairly similar to that we have seen recently.

John Davies, Santander

I have two questions, sorry. The first one is on data bundling: you said you wanted to give customers big bundles; they had the confidence to use all the services. Does that mean you have sort of moved away from the idea of potentially reverse billing content providers so they could zero rate the traffic? And secondly, a couple of your competitors over the last few weeks have referred to the actions of some of your companies in terms of their tariffing as being 'irrational'. Now I'm sure you'll dispute that, but can you think of anything which your companies might have been doing which would make them think that? Is it that you are further down the track towards this flat rate voice, or whatever it might be? Thank you.

Vittorio Colao

John, thank you for your questions. First of all, reverse billing or charging for content. Vodafone has quite frankly never been really supportive of it as a mandated thing. If somebody wants to come to us, but honestly I don't have people lining up out of my door, and say, 'I have this beautiful content and I really would like to push it to 500,000, one million, 10 million customers, it's a new movie, whatever. Can I get it zero rated in exchange for something?' Yes. They tend to do it for free, so they request, 'Can I push this for free?' Now for free, I'm afraid we're not in that business, but we're not in the opposite business, which is, 'I'm going to charge Google, I'm going to charge these

people,' because we do not think it is either a healthy nor a very likely model to succeed. That's more of a, I think, fixed line point than us.

Your point on data bundling. In general we are doing it because we see a potential to really liberate usage and we see a great potential to really increase penetration at the lower level. If you think about it, the problem is never to convince the high end of the market to take the iPhone and spend £40. It's to convince users those who spend £10 or £12 to go to £20 or £25, but those who spend £10 or £12 are many more than the other ones. It is a little bit about becoming a generalised data company vision that we share with our colleagues in the US. In the US it's much more visible. The aspiration is much higher, the ARPU's are much higher, so that's the type of vision that is driving this.

Now, on the irrational point, this is an interesting point because I don't know what you're referring to, so it's difficult to say. If they are referring to Red, which I know because I saw some strange faces, they refer to the fact that we move to that. Yes that is a big pricing change. That is a radical pricing change. Now, of course if you have a big legacy revenue and you are very fearful that your highly priced mature voice will collapse, of course they would call it irrational, but it depends on what rationality you're talking about. We are thinking about the company five years from now, 10 years from now, not for the next two quarters. In that sense, if that's what they referred to, I believe that when you see the number of people who use WhatsApp the number of people who use Skype, it's actually incredibly rational what we are doing, and I am convinced it is incredibly rational.

Now, if you're talking about the individual promotions, the little thing that happens in one market and all of that, can I exclude that in some markets? I read the Italian newspapers every day, I read British newspapers, I read – not every day, but often – Spanish newspapers. I don't read German newspapers but we have somebody who can. Honestly – that's why we hired him, really for that. I really honestly don't see Vodafone being, relative to our main competitors, being really silly or irrational or doing crazy things. In the UK, I think we are £1 more expensive than Everything Everywhere on the iPhone. They are the market leader and clearly they should be setting the price. We are £47, they are £46. Do I call it irrational? I say, 'No, fine. I mean, they can have their own policy. So I don't think that tactically we are irrational. I think we made a move with courage. Yes.

Closing Remarks

Vittorio Colao

I think we are done. Thank you very much for your questions. Again: some positives, some headwinds, good strategy to mitigate the headwinds, and long-term vision about the company. I look forward to seeing you in one-on-ones and in the various meetings between now and May.

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