Vodafone Group Plc
Analyst and Investor Conference Call

Q1 Interim Management Statement
Friday 22 July 2011

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Interim Management Statement (IMS)

Vittorio Colao

Chief Executive Officer, Vodafone

Good morning everybody. Thank you for attending our Q1 results call today. I'm here with Andy Halford, Nick Read and Michel Combes. I will give the usual highlights to open and then pass to Andy to cover the operating companies. I will then summarise before we open for questions to all.

Highlights

Let me start with slide three, highlights. Group service revenue grew 1.5% or nearly 4% excluding MTRs. This is less than the previous quarter due to the impact of additional termination rate pressures in the UK and weaker growth in Spain as tariff reductions added to the ongoing macroeconomic pressures. However, we also see improving performance in our other core European markets – Italy, Germany, and continuing momentum in Vodacom and in India.

In our strategic growth areas we continue to perform well with data up 25%, driven by smartphone penetration, fixed up 6%, and AMAP, which mainly covers our emerging markets, up by 8.7%. We also saw continued good growth in messaging, +5%.

We continue to execute our strategy to realise value from non-controlled assets with the sale of our 24% stake in Poland and our 44% interest in SFR.

Following the quarter end, we announced an agreement to buy the Essar stake in India for $5.5 billion. The original £2.8 billion share buyback completed during the quarter. Net debt reduced from £30 billion to £23 billion in the quarter due to the £7 billion that we have received from the sale of SFR. This is the lowest level in the last 4 years. However, this includes only a small share of the current £4 billion share buyback: it started only recently and will take about a year to complete.

Group: data continues to drive revenue growth

Moving to slide four, service revenue was at £10.9 billion, up 1.5% on an organic basis. Excluding termination rates, Group service revenue grew 3.9%, with Europe at 1.6%. Africa, Middle East and Asia Pacific was up by 8.7%, lower than in Q4 in part due to weaker growth in Australia following network outages and MTR cuts in New Zealand.Voice trends remain weak but data and fixed continues to compensate, increasing by 25% and 26% respectively.

Capex in the quarter was £1.2 billion – £200 million more year on year as we funded our supermobile strategy with 3G and 4G network enhancements in key markets such as Vodacom and Germany to maintain our network advantage.

We generated £1.3 billion of free cash flow in the quarter, a decline of £0.5 billion on the prior year. This movement was expected and reflects the phasing of working capital and higher capital expenditure.

Group service revenue growth

Slide five: this chart walks through the key factors in the change in Group service revenue growth: Q4:2.5% and Q1:1.5%. Europe contributed 40 basis points to the decline because of tariff reductions in Spain, which have added to the pressures on the macro-environment and MTR cuts in the UK.

Another 50 basis points in the fall was in AMAP due to the negative revenue growth in Australia following the network outage and the MTR cuts in New Zealand that I have referred to. However, we continue with good momentum in India and Vodacom and initial signs of recovery in Egypt.

I will now pass to Andy for the financial review.

Andy Halford

Chief Financial Officer, Vodafone

Europe: growth from data and enterprise

Thanks Vittorio. Let me start by giving you a little bit more colour on Europe, on slide six, starting with the top left chart. If we exclude the impact of MTR cuts in the quarter, most notably in the UK, underlying service revenue growth of 1.6% a decline of 60 basis points over Q4, primarily due to deteriorating trends in Spain.

The top right chart shows positive underlying trends in our northern European businesses, with German service revenue excluding MTRs, growing at 4%, the UK at 5.3% and the Netherlands at 5.6%. In contrast, economic pressures dominate performance in our southern European businesses, which continue to show negative growth rates.

The bottom charts focus on two key drivers of European growth. The bottom left, European data revenue of £1.1 billion, now represents 14.4% of European service revenue, an increase of 25 basis points on last year. Data revenue grew nearly 19%, led by mobile Internet revenue up 44%, offsetting weaker trends in mobile broadband revenue up 6%.

Finally, on the bottom right, while macroeconomic pressures continue to impact on consumer spending, particularly in southern Europe. Europe Enterprise revenue grew 0.7%, driven by a 7% increase in customer connections, and continues with strong data revenue growth reflecting increased smartphone and email usage.

Within consumer, contract revenue growth continues to be positive whist prepaid revenues remain under pressure.

Germany: underlying growth continues to improve

On slide seven, German service revenue growth in the quarter was 0.2%. Adjusting for MTRs, underlying growth improved on the previous quarter with overall service revenue up 4% and mobile service revenue up 4.6%. Data revenue grew 21%, with nearly 300,000 net additions to the Superflat Internet customer base which increased to 2 million.

Enterprise revenue increased 4.4%, benefiting from contract wins and particularly strong growth in fixed Enterprise revenue of 9%. We continue to see good progress with our LTE services, which were launched in December, achieving 27,000 customers by the end of the quarter, with customers experiencing average usage speeds of up to 6 to 12 Mbps.

Italy: strength in data, fixed and enterprise in a challenging environment

Moving on to Italy, on slide eight. Here retail spending remains weak and the market continues to be very competitive. Service revenue declined 1.5%, which was a return to the levels seen in Q2 and Q3, as you will recall that Q4 was distorted by the impact of loyalty schemes. Promotional activity drove outgoing minutes up 5% and SMS revenues grew 6% reflecting the impact of value offers introduced a year ago.

Enterprise revenue picked up to 7%, led by sales of our Vodafone One Net converged solution. Fixed broadband revenue increased by 24%, due to strong customer growth through promotional offers.

On the commercial front, we were the first operator to introduce consumer prepaid integrated tariffs in June.

Spain: strategic repositioning underway

Now, on to Spain on slide nine. Economic conditions clearly remain challenging in Spain. We have recently re-based our tariffs to offer customers more value. Effective outgoing prices declined by about 15% year on year and usage growth remains low at 2%. As a result service revenue fell by nearly 10%.

However, our commercial actions, including price re-positioning, are already showing signs of success.Churn rates in contract and prepaid have reduced, and we achieved positive mobile number ports in June, the first time in over two years.

As you are aware, we are participating in a spectrum auction in Spain at the moment, which is likely to conclude in the next few days.

Trends in Spain are likely to remain difficult for several more quarters.

UK: leading data attach rates

In the UK, on slide 10, Q1 service revenue grew an encouraging 5.3% excluding MTRs. We added one million contract customers over the last 12 months, many on integrated tariffs, leading to an 8% rise in consumer contract revenues. Data revenue was up 22%, reflecting increased smartphone penetration, and an 82% data attach rate, the highest in Europe.

We continue to invest to enhance the network, and recently won the Best Network award for the second year running.

Turkey: continuing strong performance

Now to Turkey on slide 11: the business here continues to deliver exceptionally strong revenue growth, up 32%, while adding high-quality customers and increasing ARPU by some 23%. Our commercial actions are having a significant impact, leading to strong growth in data and Enterprise revenue. We continue to drive data adoption and how have over 5 million data users and 9% smartphone penetration.

Going forward, our focus is on driving profitability alongside scale in this very attractive growth market. We anticipate that the percentage rate of growth will be in the high teens over the remainder of the year, as we lap last year's price increases.

AMAP service revenue growth

So, turning to the AMAP region on slide 12, which explains the movement in service revenue growth from Q4's 11.8% to Q1's 8.7%. Nearly half of the reduction is Australia which is included in the organic calculations for the first time. India and Vodacom, which I will discuss shortly, continue to show strong growth, but at a slightly slower pace.

In the rest of the region, we have seen initial signs of post-unrest recovery in Egypt, with service revenue falling only 1% compared to 3% in the previous quarter, and continued strong growth in Ghana, up 27%. These positive movements were offset by the adverse impact of network outages in Australia, which have led to negative revenue growth and MTR impacts in New Zealand.

India: good momentum continues

India, slide 13: Q1 service revenue grew by 17%, reflecting strong customer growth and stabilising voice pricing. Data grew by 70%, led by increasing take up of data services. We now have 26 million data users, some 24% of our active base. Our cash flow position remains positive. And we have now signed bilateral 3G roaming agreements to enable nationwide 3G coverage.

The data growth in India has been supported by strong take up of our Opera Mini browser, which enhances the mobile Internet experience through faster page downloads. As a further step to drive data in emerging markets, we will soon launch a new handset which has been specifically developed to bring the social networking experience to mobile.

Vodacom Group: data continues to drive growth

On to slide 14: Vodacom, which released its results yesterday. Revenue grew 7.8%, mainly driven by South Africa, where data increased 35% supported by strong customer growth. We are seeing increased penetration of smartphones and data bundles, and continued growth in mobile connect cards.

In the international operations, revenue continues to recover, up 25%, led by strong customer growth and higher ARPU in both Tanzania and Mozambique.

The rebranding of Vodacom has proved successful and was very well received.

Robust cash generation continues

Moving onto cash flow on slide 15. Year on year free cash flow at £1.3 billion was £0.5 billion lower than last year, due to the phasing of working capital and Capex movements. Q1 Capex of £1.2 billion was £0.2 billion higher year on year, mainly due to investment in the South African data network, and ongoing LTE deployment in Germany.

We remain confident of meeting our free cash flow guidance for the full year of £6.0 to £6.5 billion.

Net debt fell sharply from £30 billion to £23 billion in the quarter, reflecting the receipt of the proceeds from the sale of SFR, but it should be noted that only £0.1 billion of our most recent £4.0 billion share buyback programme had been executed by the end of June. As of today we are nearer £0.4 billion. The other £0.7 billion of share buyback cash outflow relates to the completion of the previous £2.8 billion programme.

In the quarter, we made £1.2 billion of initial payments for the Essar stake in our Indian business, but as we have historically always included the put options in our published net debt so this has not impacted our overall closing debt position.

Now I will hand back to Vittorio.

Vittorio Colao

Chief Executive Officer, Vodafone

Group: delivering strong data and SMS growth

Good. So before closing, slide 16 – my favourite topic of data. Data remains central to our growth strategy. Revenue grew 25%, as I said, driven by rising smartphone penetration and the data attach rate. In the same period SMS revenue grew 5% with volumes up 19%, which is similar to the previous quarters. So we have no material evidence of IP-based apps hurting our overall growth.

Two key reasons for this: first VOIP, which only accounts for about 2% of traffic today, and of course, early adoption of integrated tariffs, which today accounts for about 25% of our consumer contract revenues in Europe. Also our proactive traffic management has contained data volume growth to around 30%, but without impacting revenue.

The bottom left chart of this page shows the mix of our European revenues. Today Enterprise in Europe is around 31% of revenues, consumer prepaid 26%, and consumer contract, as you can see from the chart, 39%. Of this last area, 18% of our total mobile service revenues are out of bundle, or metered revenues, which is where we see the greatest potential substitution to IP-based communication apps. Therefore we are focusing on this section with our integrated tariffs.

Looking forward, the prospects for data, we are convinced, remain strong given the low penetration in key growth segments such as prepaid but also emerging markets. We now have new offers such as sub-€100 handsets, attractive data roaming offers to maximise the data roaming take up in our footprint, and 'charge to bill' services now available not just for RIM and Nokia but also for Google.

Summary: we are delivering a more valuable Vodafone

So slide 17: overall summary. Overall another quarter of good commercial performance in what remains a challenging macro, competitive and regulatory environment.

- Revenue growth remains strong in data and the emerging markets. We're driving smartphone penetration across our customer base, and delivering growth in markets such as India and Vodacom.

- We have achieved £15 billion of disposals in total, following the sale of Poland and SFR, and returned over £3.2 billion to shareholders to date via buybacks.

- We delivered strong free cash flow while maintaining Capex investment to enhance the network experience of our customers.

Our priorities remain improving our performance in southern Europe, especially in the context of the macroeconomic situation, driving forward our supermobile strategy, managing profitable data migration and growth, and I would add, of course, maintaining a strong focus on the cost base and the operating excellence that we have been aiming for.

Thank you very much for listening. I have here Michel Combes and Nick Read for questions.

Questions and Answers

James Britton, Nomura

Thank you very much. If I can just start with a question on the Netherlands: you cited some slower service revenue growth rates there because of a few issues, one of which was slower messaging growth rates. Can you just quantify how big the slowdown was in that market, and I guess how you can compensate for that going forward? Do you feel that you can follow KPN's lead in re-pricing your data plans?

Vittorio Colao

We can pass the first half of the question to Andy and the second half to Michel.

Andy Halford

Yes, James, overall the service revenue growth is about 0.5%, which is slightly lower than in the fourth quarter. But actually if you track excluding the MTR impact, it was still up around the 5% level so I think that's a pretty healthy performance there. Within that, messaging growth was slightly lower at 8%or 9% growth in the revenues. So I think performance on that is probably pretty high. More generally I know your question is specific to the Netherlands, but interesting that the overall messaging revenues in the Group were up 5.3%, so volumes were up, so the overall performance on the messaging side of things has actually remained quite strong. Michel can say a bit more.

Michel Combes

Yes, so on Netherlands, just to highlight, revenue is still growing as far as messaging is concerned, of course slightly less than in the previous quarter. It's completely consistent with what we had flagged three months ago, that we started to see some cannibalisation of our SMS by messaging over IP. Nevertheless as we have said, we have introduced integrated tariffs in our base that we have pushed quite significantly, meaning that today 80% of the customers that we acquire are on those integrated tariffs, and more than 60% of customers that we retain are on those tariffs as well, which means that more than 50% our customers in the base are on integrated voice, text and data – which means that we are quite well protected for the migration of customers to voice and text to those IP-data type of services. So we are quite confident that we have taken the right measures. We have just announced this morning that we are already enriching our pricing in order to give even more tiered data pricing and even more SMS in the different pricing that we are offering.

So basically I would summarise by saying that I think we see what was expected, and our integrated tariffs have pushed in this market quite ahead of the competition is the right answer to this one.

James Britton, Nomura

Can I ask a follow up please? It's a general point on the transition into revenues into the monthly fee. How quickly do you think this transition to flat rate will proceed? So if I can make that specific: you cited some very interesting pie charts on page 16 showing the percentage of revenues out of bundle and no monthly fee. How do you think those percentages might evolve on a one or two year time frame, just to give us a sense of how quick this could develop?

Vittorio Colao

Let me take it myself because I don't think this is a question for a specific country but is more a broader question. The answer is the speed will be different by market and I would say it depends on two or three things. It depends on how much is prepaid in the market.

It depends on the level of subsidies. Quite frankly it also depends a bit on the state of the economy and consumer confidence. The more contracts, the more we control distribution, the more there is consumer confidence, the quicker the transition will be, and *vice versa*. This is why, as you have seen and Andy has said, in places like Italy we are introducing bundled tariffs on prepaid. This is why we have just announced that we have, as Michel has said, enriched the value in the Netherlands. This is why, as you have seen in the UK, there have been enrichments and different pricing strategies for consumer contracts.

I think it's a multi-year game but it's going in the right direction everywhere.

Akhil Dattani, J.P. Morgan

Hi, good morning. Just a couple of quick questions please. Firstly, starting on Spain. Obviously we are well aware of the price cuts that you've announced in the quarter. I just wondered if you could give some colour on the revenue trends and how they've progressed through the quarter, just so we have a sense of the rate of decline as you exited the period?

Secondly, moving on to India, your organic growth rate is very healthy, in the high teens. If we look at the market as a whole at the moment, you're talking about stabilising voice yields but equally we do seem to have seen some selective price increases recently. For example, today we are hearing that Bharti has raised its pricing as well. I just wondered if you could comment on how you think that market is going to develop going forward, and whether, in particular, on the 3G side you see the ability to introduce a bit more pricing power? Thank you.

Vittorio Colao

Yes, I will take a bit of it, very shortly on Spain, and then pass India to Nick Read who is here. On Spain, we don't give exit speeds or month by month data. We have reduced prices. We want to be, at the same time, competitive and also affordable in Spain. It's important that of course we manage our commercial costs consistently. I see a protracted period of pressure for us on revenues in Spain because of this lower pricing structure but overall in the long term,I think it's going to be a much better structure than what we came in, with high prices and high commercial costs.

On India, I will turn to Nick, just highlighting that the kind of pricing trend which we have in one of the charts clearly indicates that we are in a different phase of the market. Nick?

Nick Read

Yes, I mean I think you've made a clear point, which is pricing has stabilised. We were down around 11% in Q1 on outgoing pricing. You compare that to about a year ago and the declines were more like 27%, so clearly stabilising. I think you're seeing the market moving to a different phase where really there are sort of three tiers. You have the strong national players, you have a few regional players, then you have the new entrants that are really struggling. They have to make their economics work, so you are now starting to see all players in all areas starting to selectively put up pricing. We have done that in a number of areas as well, especially on our per second billing. We continue to monitor and review the situation. Yes, it's more encouraging.

Akhil Dattani , J.P. Morgan

Great, thank you. Just one very quick follow up for Vittorio, you mentioned that you're seeing some early signs of positive trends in Spain, following the price increases. I just wondered at this stage whether you can comment on whether you feel the price cuts you've introduced are therefore enough to address the market share issues that you're keen to stabilise.

Vittorio Colao

To be precise, I think you said 'increases'. I really said 'decreases'.In Spain prices are going down and have to go down a bit in order to be competitive with the fourth operator and the smaller players. I can say that we have turned a positive mobile number portability. I think we have some churn trends which are going in the right direction. But I would sayvery early signs.

Nick Lyall, UBS

Good morning, it's Nick at UBS. Could I ask again on Spain? Could you maybe talk a little bit about how fast those costs could come down in the Spanish market as well to try and match the weaker revenue trends?

Secondly on the UK consumer: you've raised the prepaid prices in June. Could you just mention the initial reaction of consumers to that and is it going to be a material change, do you think, to Q2, Q3 and Q4 revenue trends? Thanks.

Vittorio Colao

A perfect question for Michel.

Michel Combes

The first one on Spain, just to flag or to highlight again, I guess that we're very consistent with net net sales, so the first piece was to recover value in this market, with actions adding value to our existing base, meaning giving more for the prices paid by the customer for the time being. Second, rebates for our tariff for new acquisitions, and that's what we have done with pricing plans for the integrated tariff that we are pushing now. Third, accelerating the push and the data and smartphone which is set to give some good signs. That's for the commercial.

In terms of costs which we have always stated that our costs culture, except commercial spend is quite good in Spain for the time being. The ratio of opex to sales is literally one of the lowest that we have in Europe. Then it is about commercial spend. And as far as our commercial spend is concerned, of course, while we are just right now pushing smartphone, you can expect that those commercials will remain quite high for the next coming quarters in order to make sure that we can migrate our base from non-smartphones to smartphones. So that is for the cost. You can expect as I said three months ago, some pressure on the revenues line and still some pressure on profitability due to the push on smartphones which will pave the way for a healthy growth in the future in Spain, as Vittorio was referring to.

In terms of prepaid, I guess that what was seen in the market was a refresh of prepaid prices by nearly all players, which has not had a real impact on the market dynamic in the UK in the past few months.

James Ratzer, New Street Research

Good morning. Thank you very much. I have two questions please. The first one was regarding LTE in Germany. Andy, you mentioned that you're running speeds of 6 to 12 megabits on the network, but at the moment you have around 27,000 customers. Do you feel as customer numbers grow those speeds can be maintained and scaled up? Also, what are your plans to roll out LTE in urban areas in Germany?

Then the second question I had was regarding the pie chart you have for revenue allocation on slide 16, showing 18% is out of bundle. If I strip out the prepaid element it's suggesting about 26% out of bundle. I'm trying to reconcile that with the chart you showed at the Q4 result, where you showed Netherlands 61% being in bundle – so in other words 39% out of bundle. Are we comparing like with like there? So Netherlands has got a very high out of bundle percentage, just wondering if I could just reconcile those two data points. Thank you.

Vittorio Colao

Good to have Andy answer the LTE question while the others find the old presentation and make the comparison quickly! Go Andy.

Andy Halford

On the LTE side, as you say, we've got 27,000 users at the moment. The speeds are very good, and the testing that we've be doing recently gives us great confidence that we can significantly increase the number of users and maintain the sort of user experience at those speed levels. So the early days of LTE are very encouraging on that front.

Vittorio Colao

Let me take, if I can, the second question. First a clarification: I think that when we spoke about the Netherlands in Q4 we're talking about consumer contracts and not prepay. What you are doing is something which, however, has a meaning, which is that you're saying that you have 18% which is consumer concept out of bundle, including incoming, and then you say 'well, but then there's also consumer prepaid, which has some kind of risk now.' Technically you're right: it's difficult to estimate how much because consumer prepaid is a combination of things. The comment that we made on Italy was exactly to indicate that even on consumer prepaid we're aware that there are risks, and we are working on those customers for which, given the high usage on prepay, the appeal of IP apps could be there. So technically you're right: it's 18% plus a part of the prepaid, and the part is different by market depending on the usage. But the comparison was only with contracts, the one with the Netherlands.

James Ratzer

Could I just ask on the LTE in Germany, what your plans are for rolling out in urban areas, what could we think of in pop coverage say by the end of this year and next year please?

Vittorio Colao

I think we have communicated our plans. We are progressively rolling in, so from non-urban to urban, and we will use LTE clearly more as a replacement technology for fixed access in the rural areas, and the closer you get to the urban areas it will depend quite frankly on the density. So your comment about the maximum speed is again valid. We still are confident that even in an urban area LTE has a pretty good performance, and so there could be an element of replacement strategy even there, but of course where the density becomes too high and the commercial success becomes too high then we'll have to use mixed solutions, LTE and physical access.

Maurice Patrick, Barclays Capital

Oh thanks, yes; Maurice from Barclays. I know we all focus on the voice messaging and data revenue trends, but as you move more towards integrated pricing I guess that distinction becomes a bit harder. Could you help us understand a bit about how you allocate on integrated pricing revenues towards messaging and data and how long you think it's right to keep focusing on these? Thanks.

Andy Halford

Yes Maurice, a good question, something which we've spent some time thinking about internally. The simple answer to the question of how we do it today, which follows various accounting guidelines et cetera is essentially one of taking what the individual component parts would cost in the market if bought individually, and essentially prorating the overall bundle proportionate to those. And that has been the consistent methodology across the sector for a period of time. I think the question actually more going forwards is what proportion of our revenues are coming from customers who are merely buying one product, customers who are buying two products, or customers who are buying three products, i.e. data messaging and voice, i.e. integrated. And we are giving some thought at the moment to whether actually, over a period of time, we may move our reporting so that actually we do it by the number of products people are buying rather than to have these well intended but nonetheless estimated allocations.

Maurice Patrick

That's great Andy. Just a quick follow-up, on the smartphone data attach numbers, it jumped up significantly in the quarter to 55%. Was there anything in particular that drove that, other than perhaps the UK being a higher proportion of the total with a higher allocation, or is there anything specific there?

Michel Combes

Well, I guess, as you point it out, that has a quite significant increase. It's a result of a deliberate policy, which is to push data attachment rate on every single smartphone that we are selling. As was pointed out in the previous presentation our ratio was already quite high for consumer postpaid and for enterprise, roughly around 60-70%, and we're now also pushing on prepaid. So you can expect in all the countries that we will push forward this data attach rate.

Justin Funnell, Credit Suisse

Thank you. Two questions please. I'm just wondering what impacts you believe you're seeing from the economy, not so much southern Europe, which you've explained, but northern Europe: markets such as the UK? For example, your minutes of use growth remains pretty lacklustre there. Just wondering what you're seeing, for example, on prepaid top-ups, prepaid usage, and whether you think that's a trend that can get worse?

Secondly, just wanted to understand a bit more what you think your smartphone penetration is of your contract base in Europe? I could estimate something like 60-70% now, and that seems like a trend that's going to slow down in terms of its growth rates as most people have got smartphones. Is that something that's going to weigh on your growth rates on the Group level over the next 12 months, please?

Michel Combes

So in the UK, more precisely, I guess that it was posted in the figures that we have discussed today. We have a slight slowdown, which we see in some of the usage, mainly roaming and voice incoming, which has slightly slowed down in this quarter compared to the previous quarter, and that we can probably attribute to the wider economic environment which is slightly tougher in the second quarter than it was in the first one. So I guess it is fair to explain it that way.

As far as smartphones are concerned, in the postpaid base, I guess that our smartphone penetration is roughly around 34% on average in Europe,, which means that in some countries we are not 50%.In the UK we are probably roughly around 60%, but in some other countries we are still much lower. So we still have a huge opportunity for us to push smartphone in the consumer contract. There is no reason why 80% of our customers within 2 to 3 years might have a smartphone in their hands. And then when I look at prepaid the penetration is just over 10%, which means that there is also a huge opportunity, and as you've probably noted we just launched in the market low end smartphones that we announced a few months ago, which should allow us to capture this potential growth. So we're quite comfortable in our ability to progress smartphone in the future.

Vittorio Colao

Vittorio here. I would like to take the conversation also at another level, which is that I don't see the job of getting penetration of smartphones, let's say for the sake of the argument to 80% or 90% as and then it's finished. The real job is then, once we are there, to do the whole work of increasing the profitability, the value and the usage of the customers from what it is today at European level, which stands more or less at a third of what it is in the US, to something closer to there. So I see penetration as an enabler for revenue growth, but the objective clearly is revenue growth, it's not just penetration.

Justin Funnell

Thank you. Just to clarify that 34% number: so that's the average smartphone penetration of your contract base in your European business, is that correct?

Michel Combes

Sorry, it's 34% on average in Europe, and as I was saying some markets are ahead a bit, and just to re-iterate what Vittorio has just said, we have one or two markets, such as UK, where we are north of 50%.And as I guess Vittorio referred to in his introductory remarks, we are now just changing our pricing in Netherlands in order to really start to drive revenue growth within base when the customers already have a smartphone. So the first battle was to put the smartphone in the hands of our customers, the second is now to drive up in the base by introducing more data, depending on the usage of our customers.

Vittorio Colao

If you look around Europe and for those of you who live in the UK, when iPhone was launched the £35 tariff was the reference tariff. Now it's becoming the £40 tariff, or the £42, or the £45. So as they said, our job is not just penetration, penetration is an enabler, it's revenue growth which is the real target. And quite frankly, there is a lot of room if I compare it with the US or other parts of the world.

Simon Weeden, Citigroup

Thank you very much. Can I just press a little bit more on revenue profile for the year, particularly as you're guiding to a slowdown in Turkey, and I suspect a little bit more to come on the price cuts in Spain? If that means the second quarter might be a bit slower, does that apply to the rest of the year as well, and in terms of the EBITDA, kind of thought in a similar vein versus second half?

I wonder if I could ask a bit of a leftfield question, given the focus on IP cannibalisation and text and VOIP – possibly this needs to be done offline, but what is the rough bit rate, on average, that you're seeing on VOIP at the moment? Obviously that's relevant for thinking about quite how much of a data bundle VOIP might consume if people use it a lot. Thanks.

Vittorio Colao

I'll take the last one, but the first two are for Andy, really.

Andy Halford

So, Simon, I think in your question you probably put your finger on it. There's a couple of markets: Turkey, just where the growth is so high at the moment, where obviously we're still lapping the price increases, we'd expect that to come down a little bit as we go forward. And Spain, where the re-pricing on some of the tariffs obviously takes a while to ripple through. So I suspect that might slightly reduce the number in the second quarter. On the other hand, as we go through the balance of the year, we've got one or two markets where the lapping effect of MTR changes a year ago, like Germany, will start to have a beneficial impact. But it's very difficult, I think, in a system to forecast to the nearest 0.2% or 0.3%, but directionally I'd say maybe a little bit low second quarter, but then some benefits will come through in the backend of the year.

In terms of the EBITDA, my only comment there would be that for the year as a whole we remain comfortable that we should see a further reduction in the rate of decline of the margins. I think like last year that will probably come through more in the second half than in the first half, so we are investing customer growth, et cetera, in the first half, so that will obviously weigh a little bit on the margin, but second half then, as we saw last year, should see an improvement relatively. So bottom line is, overall still comfortable that we should see a reduction in the rate of margin erosion for the full year, compared with last year.

Vittorio Colao

On what you call the cannibalisation, I call substitution: first of all, keep in mind that we're talking about something which is between 1% and 2% of our total data traffic across Europe, and of course it's much less in emerging markets. So you're talking about a small percentage of our traffic. Skype is used, for example, in Spain, by about 1% of smartphone users. So we're talking about a small percentage of customers; some of them might be using it a lot, but as a general phenomenon, when you have bundles which have, like the Dutch one which we announced today, or many of those that you can find in the UK or in Germany with 500, 600, 1,000 SMS; 500, 600, 1,000 minutes, and data included, then using VOIP becomes more of a feature functionality choice than a price substitution choice. So that's why I don't like the word 'cannibalisation' and I prefer the word substitution: it's a free choice of a customer to substitute a service with another, but if it's priced correctly the operator will manage it in an intelligent way. It's not cannibalising revenue, it's substituting usage. Or it's going to be.

Robin Bienenstock, Sanford C. Bernstein

Yes, thanks very much, this is Robin from Sanford Bernstein. Two questions if I may, about India and the US. The first is that you seem to have left more than $400 million on the table for the Indian taxman recently in exiting your relationship with Ruia brothers. So I'm wondering if you're confident or have any optimism that the Indian state might recognise the gesture and whether you can give us an update on your expectations there around the tax case.

And second, with the US, given the recent tariff changes that we've seen, it may be that you get a distribution even sooner than what you might've hoped, and I'm wondering if you can say anything about how that might affect your approach to your balance sheet and whether you would need a policy or whether just a one-time payment would be enough for you to think differently about you balance sheet and your leverage. Thanks.

Vittorio Colao

Yeah, well, in India I would say you are making a link between the transaction with the Ruias and our main tax case. These are two very different transactions. One is two non-Indian subjects, offshore transaction. The other one is more complicated, because there was an Indian subject, but a Mauritius company. We judged why we think the Indian-Mauritius treaty should still apply and cover this situation, we thought it was practical and better to pay this and also to sort out many other items or issues we had with the Ruias in a pragmatic transaction. I don't have news on the India tax case: it's been delayed the first hearing in the Supreme Court by two days, and we remain confident that tax is not due. Whether they'll be benevolent or not, because of these things, I'm not so sure that there is a link between the two.

US, there is no news: Verizon keeps doing well. They announced today their results; you will make up your mind on how they're doing. For the time being, there's no news and whenever the time is appropriate we will communicate what we have to communicate. Depending on what we will see, clearly, as we have said many, many times, it'll be an interesting meeting for our board to discuss, but no news today.

Emmett Kelly, Bank of America Merrill Lynch

Yes, good morning; a couple of questions on the southern European economies and then one on India. Firstly, if I look at the Portuguese market – also Greece and Ireland – looks like these markets are showing quite a bit better top line trends than before. It's still negative, but quite a bit less negative than it was before. Do you think we're finally seeing a little bit of light in these markets and maybe we're reaching a bottom there?

And then over in Spain you've talked about tariff cuts. Are you just focused on price reductions in Spain, or is there also a broader retention effort going on? So I'm asking you putting maybe a bit more handset retention cost into the market to maintain your subscriber base.

And then lastly, just on India, you've talked about a potential disposal of a small stake to comply with the ownership rules, could you just give us an update on your latest thoughts there, whether you're thinking about IPO, or maybe private equity or maybe a friendly Indian shareholder, and also maybe say a few words about and Indus Towers IPO as well. Thank you.

Vittorio Colao

Let me take your thing of India, then Nick will cover Indus and Michel will talk about the fortune of the smaller European countries. I think you are putting together two things which are fairly separate. One is what we are doing today to handle the FDI requirement of our stake there as a consequence of the transaction with the Ruias. As you would expect, we are exploring a number of solutions with local reputable partners, and it would be premature to declare anything. I think we said it at the moment of the transaction, we will be complaint with the requirement. Second different thing is longer term whether we are going to IPO or not with the company. There are several steps that have to happen. First of all we have the short term handling of this 1.35%, and then we have the tax case, then there is the regulatory reform of the sector, and I would say that within this fiscal year we will probably, or calendar year, depending on whether you want to be optimistic or not, it's unlikely that we'll even think about an IPO. So in the short term we focus on the FDI requirement and Indus; Nick, you follow it more closely than I.

Nick Read

Yes Indus, we're going through the mechanical step of demerging our tower assets and then merging those assets into Indus, and, if you like, unwinding the IRU that was in place. So that's a sheer mechanical process we have to go through with the courts, and that's proceeding well, though it seems a bit long. Commercial operational performance has been strong. We have a tenancy ratio now up to about 1.9, so we want to get over 2. I think we've got all the right ingredients in place, and are actively considering the right timing of an IPO in the future.

Michel Combes

As far as southern Europe is concerned, that's true those trends are slightly better, but I would be cautious. I guess the main explanation is coming from two things: first improvement of our competitive position in those markets, and second we've been able in some of those markets, mainly Greece, to slightly increase the prices in the recent months, which has allowed us to post revenue figures which are slightly better. However the macroeconomic situation remains extremely tough and we have new austerity measures which have been announced in Greece and Portugal which should still have an impact on customer behaviours and customer spending in those countries, so I would be quite cautious there.

As far as Spain is concerned, as I said earlier on, the first focus is to add value to our existing base, which means that we have rebased our prices for new customers, but we are trying to enrich the value that we give and we deliver to our customers and to improve our retention of our existing customers. As Vittorio has already mentioned our churn has been reduced in the last few months, which is the result of what we're doing also in terms of base management.

Tim Boddy, Goldman Sachs

Yes, couple of questions. Just starting on Italy, just helpful to get an update on how you see competitor dynamics in that country? Obviously encouraging to see relatively stable underlying trends in pricing in the markets.

And then, smaller question: you noted at the start that mobile broadband growth has slowed to only 6%, which is perhaps a little surprising when you think about the takeoff of things like iPads. Could you just talk a little bit about what's happening with mobile broadband? Thanks.

Michel Combes

So, on Italy the competitive situation remains quite strong, with mainly Telecom Italia still quite aggressive, with some type of aggressive price plans which have been launched, mainly focusing on the youth in the recent week. Just to give you an example: €6 for 1,000 texts cross-net, and 1GB of data. So we believe that those prices are probably a little bit irrational from an economic point of view, and we'll see how it will evolve in the future. So quite strong aggressiveness from Telecom Italia still in the market. But up to now we have been quite good at managing our own customer base and strengthening our position in the market.

So second, on mobile broadband, I would say that we have seen a little bit of slowdown in terms of mobile broadband, with some penetration which is still rising, but more on our prepaid and occasional type of price plan, which has an impact in terms of revenue - dilution impact in terms of our revenue from those types of equipments. Tablets are not yet completely there in the market. iPad is coming in Europe right now, and that should pave the way for additional growth in the future.

Vittorio Colao

I want to comment on that, because it's very important. I'm a great believer and personally a great fan of tablets. However, keeping in mind that tablets for the time being have a behaviour which is more similar to the one of smartphones than to the one of heavy broadband, in the sense that they are media light consumption objects. And of course they also work a lot on WiFi when they are in the home. So it's early days, as Michel has said, in Europe, and usage of a tablet is closer to the usage of a smartphone than the usage of mobile broadband, which, by the way, is good also, because from a network perspective it's a very manageable new thing.

Jerry Dellis, Jefferies

Yes, good morning, thanks for taking the question. You mentioned in the slide pack that 25% of consumer contract revenue is now on integrated plans. I just wondered whether you could comment on how customers are behaving as you move them across to those integrated plans, are they generally spending more as you move them across, since you are trading them up, presumably, to a smartphone at the same time, or is there an element of tariff optimisation associated with that migration?

And then the second question, please, just related to the data numbers that you highlighted, particularly your smartphone penetration number. It looks like in the last financial year smartphone penetration in Europe was typically increasing at a couple of percentage points every single quarter, but that's slowed a bit in this quarter. I just wondered why that was happening: seems possibly a little inconsistent with the comment that we should expect a bit more margin pressure in H1 than H2 because of associated commercial investments. I just want to understand that please. Thank you.

Vittorio Colao

I'll take the first half of the question, which is the broader thing on smartphone economics and data economics, and then pass the more commercial question to a combination of Andy and Michel; probably Andy more. The effect of the transition to smartphone, I think we said in the beginning was the €2 to €10 thing. I think we are confident in saying that we are exactly in this range – actually, exactly in the middle of this range. It's difficult to say exactly the behaviour, because as you would expect it takes time. The usage in Europe is pretty smaller than, for example, in the US, but clearly goes up but goes up slowly but regularly. A number of changes in deliverability of content, video, and in generally richer experiences are actually going in the direction of making us confident, more confident that usage will keep going up, which is why tiered pricing is very important. Customers will be alerted when they are at 90%, are alerted actually, when they are at 90% of their usage, and they will be offered the opportunity to trade up, and this is the whole strategy. It'll take time; keep in mind, as I said, the average usage in Europe is about a third of what we see, for example, in the US. So there's a promising future to go: more choices, more operating systems, lower cost of devices will improve over time the economics. We see a very good success of the Smart: for €99 in retail, fantastic touch screen, a good experience, customers pay a little bit less than on a fully-fledged iPhone or fully-fledged Samsung. But of course the economics are very good for us. So going in the right direction over time and monitored very closely. Michel or Andy, actually, in terms of forecast?

Andy Halford

Jerry, we've gone up 1% or 2% per quarter. This was more 1% than 2%. I think you can't just take individual quarters completely in isolation. There's been more focus on making sure that where we are investing we are getting the highest quality of customer that we can possibly get. We've been very focused on that, so that may have a slight impact on the number of devices but nonetheless should be good for the top line and equally it will mean that we invest slightly more to get to better customers, so I don't think you should read anything untoward in the numbers that are here over a period of time. This is moving definitely in the right direction. We are very focused on the right economics to make sure that we are getting the best out of it that we can do.

Robert Grindle, Deutsche Bank

Good morning, all. Why do you think we have the very high data attach rates in the UK? I would like to think we are a bit hip over here, but is that just the reason? Is it possible also to know what European data volumes did in total in the quarter growth-wise?

And then just since you flagged your largely completed disposal programme, and the strong balance sheet, any new thoughts about acquisitions and areas where you might be interested in picking up assets rather than just selling assets? Thank you.

Vittorio Colao

I will take the last one, and I will make some comments on the UK, because I am not sure what the question was about. On the disposals versus acquisition question, I do not think the two things should be linked. We had a strategy we set out in September 09 to handle our minorities and other assets in a kind of orderly and sequenced way. The sequence has worked, but that does not mean that because of that we need to look now with different eyes at things. We continue to look at everything that is consistent with our geographic strategy, the three areas, and consistent with our Supermobile and total communication strategy, and is of course capable of delivering returns in line with our M&A policy.

So we are pleased that we have sequenced well and got the right values out of our assets, but that does not mean that we have never stopped looking at opportunities, or we will look at opportunities in different ways.

Michel Combes

As far as the UK is concerned that in previous quarters, BlackBerry were not fully included in the data attach rate, which means that we have had a big jump because we have rectified this. Many are in the enterprise sector. Second, UK has been one of the two markets, with Netherlands, within which we have pushed this attach rate earlier than later so that the reason why these are rated higher than in other countries for the UK.

You had a second question, which was on growth rate of data in Europe, which is still growing year on year by roughly around 20%, and which is a slowdown compared to the previous quarters, which is also the reflection of what we have always said. Of course, all the measures which have been taken in order to manage the traffic within the network. And second, the fact that now the growth is mainly coming from Smartphones more than from mobile broadband. And as Vittorio was referring to Europe, usage in Smartphones is slightly lower than in mobile broadband. By the way that is quite good news, which means that the traffic is growing more or less at the same speed as our revenue, which from an economical point of view is obviously paving the way for healthy growth.

Nick Delfas, Morgan Stanley

Just two follow-ups on things that have already been asked. On the Q2 outlook I guess there is some sensitivity over the 1% to 4% revenue range, and I guess that with a worse Spanish and Turkish performance you could challenge the lower end of that. I guess that will be rectified at the end of the year, but presumably a one quarter dip is not a big deal, but I just wanted to understand your views on that.

Secondly, a lot of the in-market consolidation opportunities which you have talked about in the past are in southern Europe. I'm just interested in your perspective on whether you'd be willing to allocate more capital to southern Europe today, or what would need to change in order for you to think about that. Thanks very much.

Andy Halford

I will take the first one there, Nick. The 1% to 4% was an annual number over a three year period, it wasn't an endeavour to forecast any particular quarter, or a month or a week of the year. For sure, we are likely to be at the lower range of that in the nearer term. We've still got recessionary impacts and we've still got MTR cuts, but for the year as a whole I think we should be in the range. And certainly taking a three-year period we still believe that range is certainly achievable.

Vittorio Colao

Yes, in market consolidation, first of all I can see something also outside of southern Europe, so it's not just necessarily southern Europe. And quite frankly, we know very well those environments, as always we will look with discipline whenever these things pop up, at revenue synergy and cost synergy, knowing that cost synergies are pretty sure and we know how to handle them. And revenue synergies clearly, especially in a difficult macro-economic environment will have to be discounted somewhat. But at the end of the day we are pretty confident that we know very well the whole environment, and we have demonstrated that we are disciplined, and when we don't see value or enough value to be created we take a different position. Recently I think we have displayed that.

Laurence Sugarman, Royal Bank of Scotland

Firstly, just going back to the very helpful pie chart on the mobile service revenue mix, you describe 30% of revenues coming from enterprise. I assume the majority of that is contracted, but I would also think that some of it is usage based and there may be some opportunity even within the enterprise customers, I assume, for some substitution. Perhaps you could give a little bit of colour on that.

And secondly, within the service revenue split, looking at the growth rate differences between the fourth quarter and Q1, the line that changes the most is other service revenues, and I assume that a significant proportion of that revolves around the slow down in roaming revenues. Perhaps you could give a little bit of an idea as to how that's shaping up between countries and whether that trend will continue aggressively as we progress through the next year.

Vittorio Colao

Let me take the first question. In enterprise clearly you have a split in bundle and out of bundle. However, it is less relevant in commercial terms than in consumer, because the moment where you define, if you want, whether you have the customer or you don't have the customer, given the fact that there is a difference between the payer and the user, is when you negotiate the contract. And there the pressure is to lower the cost.

More and more large companies are going into broader contracts where we include data, we include roaming, we include other things. But it is not, at least not directly, a pressure coming from the migration to IP apps. It is a broader pressure coming from just competitiveness in the sector. In that sense, our sales force, our presence, our relationship with this company is much more important than the technological evolution. In the consumer segment it is different because clearly every user is also the chooser and is also the payer, so it's a very different dynamic.

Andy, on the Q4/Q1, other services, for sure, roaming is…

Andy Halford

Yes, the roaming is a little bit lower than in previous quarters. Obviously that is in part to the price reduction in that space, but equally we are coming into the summer period now, so one would expect that to pick up a little bit. On the other hand in there we have got wholesale revenue as well, which actually has been generally on an increasing trend over the period of time. So I think it's probably those two aspects that are the most prominent within that number.

Ottavio Adorisio, Société Générale

I have got three questions, if I may, a couple are just follow-ups. The first one is on the Indian tax case, hearing what you replied to the first question it looks like there is no change in your thinking about that particular liability. But if we look at your accounts, or at least the statements you put out today, there is a change in the language as you dropped a sentence where you used to say that the Group is not liable for any withholding tax. But you kept that sentence for three years and now you have dropped. Has it changed anything in your position there?

The second one is on the VOIP side. Now, you say that you haven't seen a lot of substitutions. It also looks that Vodafone stopped the use of VOIP on a number of data packages and prepaid. That probably explains why there is a low usage of VOIP. Therefore my question is what will be the strategy if net neutrality would be more widely enforced in markets other than the Netherlands, where the presence of an aggressive infrastructure based operator risk impacting your churn if you would increase prices.

And the third one is just a qualification. If you can quantify the Capex increase in Germany. Thanks.

Vittorio Colao

Ottavio, I'm sorry you had to wait and that's why you're entitled to three questions, I suppose, than only the two that others had. Andy, why did you drop a sentence?

Andy Halford

I apologise for that. Let me just hopefully be clear on this, and I think Vittorio partly covered this earlier on. We have had two sort of separate issues. One, separate in terms of the party with whom we are contracted, the country in which the transaction took place, etc. So in terms of the Essar put and the Essar situation, we have agreed the next arrangement there and the tax will now be paid.

In terms of the tax case that has been around for some period of time, which is due to go into the Supreme Court in the next few days, on that one our view remains literally unchanged. The facts are there with the law, we are very comfortable, our advisors are very comfortable that we did not have disclosure there, and that is the issue that is going to be debated in a court case that comes up very shortly. So there isn't, I will check, I'm not actually quite familiar with the sentence that we have left out, but I will check it. But substantively there is absolutely no change in our positioning on the core tax case that case goes to the Supreme Court fairly shortly.

Vittorio Colao

On the VOIP question, I just have to recollect what I said before. First of all, on net neutrality, the European interpretation of net neutrality is that you can discriminate between different services, but you cannot discriminate between providers of the same service. I think we are fine with it. Clearly the Dutch interpretation has been more extreme, and we are concerned that if you let the usage of some customers subsidise the usage of others, eventually you can restore the market. We will live with it, we will load with value like we announced this morning in the Netherlands the existing packages.

The reality is that the more we go into big bundles the less people care about the economic element of VOIP, and they care more about the functionality. So our job is to make sure the economic element is not a concern, i.e. that there are big bundles and big offers and big promotions on prepaid, and big bolt-ons that can take away the economic concern, and then work either ourselves or in cooperation with third parties to provide good communication platforms, address books, social integration of different communication platforms and so on. So it is a two-pronged strategy on the pricing side and on the functionality side. Capex in Germany...

Michel Combes

There is always phasing within a country, because on quarter to quarter you can phase from one to the other. I would probably flag that capex spend reflects the LTE investment and also an IP project for enterprise delivery, both have had a capex impact on the first quarter.

Ottavio Adorisio

Okay, quantify it, please.

Andy Halford

Sorry, let me just add two things to Michel’s point. First of all, actually the last year, the first quarter was abnormally low. Of the £6 billion we spent in the year on Capex only £1 billion was in the first quarter, so it was quite a low period. And secondly, of the £200 million increase I’d say roughly a third of it was Germany, a third of it South Africa and a third of it was the rest of the Group put together. So directionally I think that answers your question.

Adam Rumley, HSBC

Could you comment on how happy you are with the recent developments in terms of tiered pricing structures across the industry, and I guess specifically how you’re finding the competitive pressure from rivals like ”3”, who are sticking with all you can eat plans. Thank you.

Vittorio Colao

Yes, I have to say overall I am pleased with the way things are going. We have, and again, I'd like to take for Vodafone the credit, we have indicated ahead of time what was the right way to go. We have moved, and in most markets I would say with different timing, which is always the case. The general pricing structure is going in the right direction. I also think that, as is always the case with competition, you always have competitors, especially smaller competitors that have different pricing policies. Fine, I mean we'll see how their networks and their technology and their commercial machines will be able to cope with it. But for the time being we haven't really seen any major disruption.

Of course, if and when we see market reaction that will be unfavourable to us we will react commercially in the most appropriate way. But I would say structurally I think things are going in the right direction.

Michel Combes

Agreed.

Will Draper, Espirito Santo

Just a quick one on Capex. You overspent by a couple of hundred million in this quarter compared to last year. If the run rate and the profile of your Capex for the rest of the year follows the profile that it followed last year you will spend more than the £6.2 billion that you've guided. I appreciate it's partly success driven and all for good reasons, but do you feel that's a possibility, that you could spend a little bit more this year than you were initially planning? Thanks.

Vittorio Colao

Let me give you a little bit of a philosophical answer here, and then Andy will probably repair the damage that I make. I am not really obsessed with £166 million, which is I think the right number, a million more in a quarter, as long as I'm sure that it is going in the right strategic direction, i.e. data. I mean the fact that South Africa spent more on transmission being the outright leaders in broadband in the country is not a concern, it is actually a good thing. The fact that in Germany we spent on LTE having a greater customer experience and a great success confirms that super mobile strategy is right. The fact that we caught up in India in certain areas where we had invested less than peers.

So in terms of line by line Capex management, I have no doubt that my colleagues, and Michel and Nick here with me, are doing a very good job at making sure that the money goes where the returns are. This is the philosophical answer. Now, the guidance answer, Andy?

Andy Halford

Despite all of that, we said before that we expect this year we'll have similar levels of spend overall. I think the issue is much more about the phasing. You know, last year we had £1 billion of the £6 billion in the first quarter, we actually had 35% of the total year's spend in the last quarter of the year, and frankly that was very back end loaded, and I think we will see a more even phasing this year. And as Vittorio says, it will be very targeted to where we can make the returns.

Vittorio Colao

And my confidence comes from the fact that I know, because I was in Michel's job, and I see how Michel and Nick work, that we have a pretty robust and fact-based allocation system for capital that takes place at a very granular level of detail.

Will Draper

Okay, thank you very much.

Morten Singleton, Investec

I have got several very quick questions, several of them follow-ups to earlier ones. On the LTE in Germany, I think you mentioned that 6 to 12 megabits is the range of speed. Can you give us an average?

On Patrick's question on the allocation of the revenue in bundles, you have given us some good insight there, but I wondered if you could tell us that if allocation basis was on the basis of the whole volumes or the maximum volumes of the various products in those bundles, or on some kind of average utilisation of those bundles.

Within the UK I just wanted to find out whether you'd seen any impact associated with the Bank Holidays in this quarter, and the wedding, which seems to have had an impact on a number of people's UK based results.

And just finally, going to the pie chart on Slide 16, again I'm assuming that the reason the consumer prepaid doesn't come into your reckoning as an issue is because there is no real data attach associated with that, so your suggestion might be that you would get incremental data revenues to compensate for any shift to IP over the top solutions, or any comments that you might have on that one.

Vittorio Colao

Let me take the last question, and let Andy deal with the Royal Wedding, the Bank Holidays and the allocation – sorry, and also the other one – what was the other one? The average speed.

What I really said was slightly different from what you said. The reason why we look at consumer prepaid in a different way is because consumer prepaid is a vast ocean of low usage, occasional usage, medium usage, and in some cases there is also high usage. I have to reiterate, we cannot treat consumer prepaid as one thing. There are high usage customers that, for example, in Italy, that will need to be managed exactly the same way as you manage contracts.

So you give bundles, you give daily bundles, weekly bundles, whatever it is going to be.. But at the end of the day the dynamic of migrating these customers into richer platforms with richer experiences on data, on voice, on SMS will actually be exactly the same as contract. And then you have kind of occasional users, so low end users who don't use data today, they will be more similar to the Indian prepaid customers or the Egyptian prepaid customers. So it's not that there is no attachment rate there, there is an attachment rate issue, but it has very different dimensions. It is not for 100% of that slice of that pie.

Andy, Royal Wedding and other impacts?

Andy Halford

Yes, I honestly don't think that the Royal Wedding and public holidays, volcano-lag effect or whatever had any particularly material impact upon the progression of the revenue trends in the quarter, so I wouldn't be too concerned by that.

Vittorio Colao

Allocation impact, we allocate based on the equivalent price of…

Andy Halford

Sorry, I was slightly unclear on your question. Can you just…

Morten Singleton

Yes, it was in terms of the volume. So when you put out a bundle you might have say 100 minutes, 1,000 texts, what-have-you. Do you allocate the revenues you generate from those contracts on the basis of the maximum value of each of those services within the bundle, or on the basis of the average usage of consumers within the bundle?

Andy Halford

On the former. So if you were to go out and buy 1,000 texts, what would it cost you, rather than how much of it you end up using, which gets horrendously complicated. So it's on the headline level rather than the proportionate usage thereof.

Morten Singleton

Okay, and then it was just the average LTE question.

Andy Halford.

Nine.

Morten Singleton

Brilliant. Fantastic, thank you very much, Gentlemen.

Closing Comments

Vittorio Colao

Thank you all for your questions. Again, a good quarter, revenue growth strong in data and emerging markets. We have achieved our disposal target and we are progressing with our shareholder remuneration plan. We continue to maintain Capex and deliver a strong cash flow. We reiterate the guidance for the year. These are the main topics for today. Thank you so much for your attention, and a good weekend to all of you.