

Vodafone Group plc
Half Year Results:
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Operational Review

Vittorio Colao

Chief Executive Officer, Vodafone Group plc

Good morning, welcome. Thank you for coming again to our half-year results. Today, I will go as always through the highlights, then hand over to Nick for the detailed financial review, and then I will come back with countries and the detailed progress of our strategy. So, first of all, financial performance: in Q2, Group service revenue was down 1.5%, with improved performance in most of our key markets. Q2 Europe service revenue was down 5.0%, but emerging markets was up 6.8%. Our first half EBITDA was £5.9 billion. Today, we are narrowing our guidance range to £11.6-11.9 billion. First half cash flow at break even, and this morning the Board resolved to increase the interim dividend per share by 2% to 3.6p.

A bit of highlight of the strategic progress. Spring is going very well: European 4G coverage now 59%. This is up from 32% a year ago. We have in Europe 10.5 million 4G customers. We see continued increased data usage and a monetisation opportunity materialising. Data is also doing very well in emerging markets: 103 million data users, 14 million 3G users only in India. Vodafone Red continues to do well: 16.1 million customers. The ARPU on migrations is stabilising; dilution of ARPU is actually the smallest we have seen since the launch. Enterprise continues to grow in key areas. VGE is up 1.2%, machine-to-machine up 24%.

We are making progress in our unified communication strategy: ongoing KDG integration; started integration of Ono; progress of fibre builds in Spain, Portugal, Italy, Ireland, and we launched quadruple play in the Netherlands, and we're planning to launch in the UK next year. Today, fixed broadband base is 11.2 million customers, including of course now 1.6 million from Ono. These are the highlights from the first half. Nick, over to you for the detailed financial review.

Financial Review

Nick Read

Chief Financial Officer, Vodafone Group plc

Thank you, Vittorio, and good morning. Firstly, I'd like to go through the first half financial highlights and then move onto an update on my key priorities. So, firstly, turning to slide 5, Group revenue increased 8.9% in the first half to 20.8 billion, including KDG, Ono and 100% of Italy. Organic service revenue was down 2.8%, and, if we strip out the effects of mobile termination rates, we were down 1.8%. AMAP grew strongly at 5.7%, offset by Europe, which declined 6.5%. The trends improved in quarter 2, with organic service revenue falling 1.5%, but that was a 2.7 percentage points improvement quarter-over-quarter. Now, this really had four factors to it. Last year's comparatives were

slightly soft last quarter. We also have the lapping of MTRs. The third is the improving commercial performance, and then, finally, the early benefits of our Spring investments.

EBITDA, at £5.9 billion, resulted in a margin of 28.4%, down 2.1 percentage points on an organic basis. Total depreciation and amortisation increased by 3% organically as a result of our Spring investment. Adjusted operating profit decreased to £1.8 billion from £2.5 billion. That was driven by a higher reported EBITDA, offset by a higher reported depreciation and amortisation, both impacted obviously by KDG, Ono and 100% of Italy, and also there was a decline in the associate line, because we now consolidate Italy.

Moving onto slide 6 and the lower half of our income statement, net financing costs were higher year over year due to mark-to-market losses this year versus an exceptional gain last year, and this was mitigated by a lower average net debt position. Tax for the half was £373 million. The adjusted effective tax rate of 30.6% was impacted by foreign exchange losses on the US-dollar-denominated debt that we have in Ghana, for which we're unable to take a tax deduction. If we exclude this, it was around 29.5%, in line with our expectations for the year. You should anticipate an effective tax rate of high 20s in the medium term.

As you know, we recognised a significant deferred tax asset last year. In the first half, we recognised a further £5.5 billion. The movement year over year is a key driver to the decline in earnings per share. If we take that £5.5 billion, there are really two factors. One was £3.3 billion, which was the utilisation of recognised historical losses through the financing arrangements of the Ono transaction, and £2.1 billion was driven by the revaluation of our Luxembourg investments for local GAAP purposes. Total deferred tax assets now stand at £25.4 billion. You can note that there is actually an additional breakdown in slide for tax in the appendix.

Discontinued items last year relate primarily to the Verizon Wireless profit contribution, and, for the purposes of our earnings per share calculation and to align with our peers, we've excluded the amortisation of customer base and brand intangible assets. This increased year over year due to KDG, Ono and Italy. So, at the bottom of the slide, profit for the period was £5.5 billion, and our EPS was 2.63p. Finally, we announced our interim dividend per share at 3.6p, a 2% increase year over year.

Turning to slide 7, now, Vittorio is going to talk about the individual performance of countries, but I thought it'd be interesting just to see the sort of overall context of our service revenue. So, in the middle in grey, service revenue excluding voice MTRs for the Group was down 0.9% in Q2. As you see, the AMAP countries in blue – strong growth of 7.9%, and the European markets in red, which remain challenged; service revenues declined 4.6%. Now, if I bring along the bottom, what you see is the quarter-over-quarter movement for each of the countries, and, as you can see, there was a consistent performance across the whole portfolio, with the poor exception of Portugal, which remains challenged from convergence pressures.

If we then deep dive into Europe and just some of the underlying key statistics, our European mobile service revenue trend improved 2.4 percentage points quarter over quarter to a negative 5.1% in quarter 2. Contract net adds were positive: 272,000 in the quarter, driven in part by lower churn. There is strong evidence of stabilisation in pricing in many markets, and we had an acceleration in data volume growth of 64% in the quarter. European fixed service revenue trends also improved, due to higher organic

broadband additions. Including Ono and KDG, we now have 10.5 million broadband customers throughout Europe.

Turning to AMAP. AMAP now represents about 30% of our overall Group. We had an acceleration in service revenue trend in Q2, up 2.1 percentage points quarter over quarter, and this was largely driven by continued strong base growth, voice usage up 9%, even though, in a number of markets, we were taking pricing actions, and a doubling in data volumes. India is now the biggest OpCo we have for data usage, representing 20% of the overall Group, and M-Pesa continues to grow by over 16% year over year to 18.5 million active customers.

If we move onto slide 11, I want to take – on the left-hand side, I want to take revenue over a slightly longer timescale, and this is done in constant exchange rates. So, as you see, in quarter 1, we had stabilised our revenues over quarter 4, and what you see is an uplift in quarter 2. Now, I want to point out that quarter 2 obviously is a seasonally higher quarter for us, especially in Europe, and also we had a 0.2 percentage point improvement due to change in revenue recognition in prepaid top-ups in South Africa. However, you see on the right-hand side this stabilisation of our revenues starting to have a positive impact on the year-over-year trends. As Vittorio will point out later, the outlook remains positive in terms of 4G data usage and monetisation. However, I think we should remain balanced. A number of our markets continue to be highly competitive, particularly price competition in Enterprise and in converged markets, and regulatory and macroeconomic risk remain within our business.

Let's move onto slide 12, and, turning to EBITDA performance, our reported margin declined 0.9 percentage points, or 2.1 percentage points on an organic basis. In Europe, the EBITDA margin was 28.3%, a decrease of three percentage points on an organic basis. This was largely driven by price competition, customer investment, especially in Germany, Spring investments, with a partial offset of ongoing opex reductions. In AMAP, we held margins broadly stable at 30%. We had strong top-line growth, good cost control, offsetting the inflationary pressures and Spring investments.

Turning to slide 13 and cash flow, the first half was impacted by Project Spring. As you can see on the capital expenditure line, out of a total of £3.9 billion, we invested £1.3 billion on Spring, on top of the half a billion that we invested in quarter 4. Working capital was unusually strong last year; a normal level at half 1 is an outflow between £500 and £600 million. Plus we also had the impact of KDG, and, on top of that, we have a normal swing in any given day of about £200 to £300 million of a business of our size. Net interest payments were broadly consistent with the prior period. Payments for taxation fell as a result of the disposal of our interest in Verizon Wireless, which also impacted tax distributions received.

The average cost of debt increased slightly to 5.4% in the first half, compared to 4.9%, and this was largely driven by a mix in our debt ratio, with higher emerging markets ratio and obviously lower US-dollar debt. The trend will continue, and so expect that cost of debt to be around 6% for the current year. Finally, it may be reassuring to note that, when confirming our positive free cash flow for the year, we had a slightly higher number than the £1 million you see on the chart.

Moving onto my key priorities, of which there are three, I talked about these six months ago being the delivery of the integration synergies from acquisitions, ensuring Project Spring returns and cost optimisation, and I just want to take each of these in turn. So,

moving to slide 15 and starting with KDG, the standalone business has continued to perform strongly, with Q2 revenues up 6% year on year. We've had strong net-add momentum for internet and premium TV business. Total cable broadband net adds accelerated in Q2 to 108,000. 12% of our gross adds are coming from cross-selling activities. We launched a market-leading 200 megabit per second cable offer, and will be launching our new convergent proposition this month.

On the network, we have now migrated 70% of IP transit and peering traffic, and we aim to complete this by about the middle of 2015. We are also in the process of creating one common national backbone network, and we've migrated 23,000 ULL customers onto the cable network at an average cost saving per customer of €10 per month. Finally, the senior management team has now been fully integrated.

Moving onto Ono, which of course we completed in July, commercially the performance of the business has been good, with retail net additions of a positive 9,000 in quarter 2. Underlying revenue, excluding wholesale, was flat year over year, which was an improvement on the overall trend of the business, and Ono now has a total 1.6 million broadband customers. In August, we started cross-selling products and launched the 200 megabit fibre service for residential and 500 for SME, and can now offer products and services to 7.3 million households throughout Spain. The cost and capex synergies are in line with expectations. Migration of DSL customers to fibre has commenced. Negotiations with Orange have been completed and we've now revised our fibre-to-the-home network build, with a saving of €250 million versus our Spring investment case. We've completed the operational steps which enable technical migration and mobile traffic onto the Vodafone network from Q1 15/16, and, finally, as of 1 September, we now have one integrated leadership team.

Moving onto Spring, I talked previously about four phases to Spring: build, communication and experience, commercial drive and then monetisation. On the build, we are now 40% through the mobile network build-out programme. We spent about £1.8 billion, of which 76% of that is mobile, of which I would say we are slightly ahead of our plans, and 15% is fixed, and we've probably slightly behind where we had wanted to be. On mobile, we're on track to meet our planned network deployment targets, with 70,000 radio sites, 38,000 high-capacity backhaul sites and 49,000 single RAN sites all added since last September, which I think proves to me that Steve is a man of action behind those airbrushed ads.

In fixed, we have made good progress. We've deployed high speed NGN technology to pass a further 1.6 million households in Europe year over year. In total, we now pass 42 million households in Europe, of which 24 are via our own infrastructure, and 19 million are via wholesale. In addition, 26% of the targeted 8,000 stores across the Group have been refitted to our new global design, and, in Enterprise, we've extended our global coverage and can now provide IP VPN to 60 countries via 211 PoPs, and we are aiming to reach 90 countries next year.

If we then move onto the customer experience that goes with Spring, on slide 18, our investment in network quality is starting to result in a tangible difference for our customers. If you take the top left chart, 4G network, Europe, it's now up to 59% population coverage, up from 32% a year ago. AMAP excluding India, our 3G/4G coverage is now 79%. If you go to the top right, dropped call rate across Europe reduced 0.2 percentage points to 0.7%, which, for an average customer, means one dropped call a month. Bottom left, on data, 82% of all data sessions now are at speeds greater than three megabit per second,

with our valuable 800 megahertz spectrum starting to play a key role. Independent network tests have been verified across our 20 markets, and, in 15 of those, we are best or co-best for data in 15 and for voice in 18. Our goal is to get to all 20 for next fiscal year.

Our Spring investment is also directed at innovation and enhancements to service: high definition voice in 15 markets, 4G carrier aggregation rolling out across Europe, voice over LTE under trial, as well as superfast broadband product, as mentioned earlier. At the end of Project Spring, our networks will be leading edge.

Moving onto slide 19 and cost, last year, we had initiatives in place to deliver a £300 million saving in Europe, which would mean that our Group opex remained flat year over year. This year, we maintain that cost discipline and again are holding Group opex flat year on year, including the impact of Spring investment. The cost story, as I covered previously, has sort of three phases. Phase 1: we continue to increase the scope of centralised procurement, currently €13 billion. Phase 2: we continue to expand our captive shared service centres, now up to six, with over 15,000 professionals employed, and we are targeting 21,000 by 2016. We're accelerating phase 3 as we look to standardise our front-end services and drive digitalisation. One good example: mCare, where we have an increase in our users of 68% year over year to 10 million. Finally, we've now established a cost efficiency management office to systematically drive the programme to achieve multi year savings.

Moving onto net debt, on page 20, net debt at the start of the year was £13.7 billion, and we closed at £21.8 billion, excluding £3.2 billion for the Verizon Wireless loan notes. The key major movements you see on the charts, being Ono and Cobra at £5.8 and £0.2 billion respectively, and full-year 13/14 dividend payment of £2 billion. Overall, we remain comfortable at around two times net debt to EBITDA, and our credit rating agency reviews have had no material impact on our overall cost of debt. Our full year net debt outlook remains £23 billion, excluding the Verizon Wireless loan notes and spectrum costs, and, per the chart on the bottom left, I've tried to illustrate by adjusting out the exceptional Project Spring capex that our underlying free cash flow generation comfortably covers our dividend, which will be then evident when we return to normal capital intensity of 13-14% post Spring.

Onto guidance on slide 21, given performance to date, outlook for the rest of the year and key potential risks that didn't materialise, namely in India and Italy that I referred to previously, we were able to narrow our EBITDA guidance to the upper end of the original range, to £11.6-11.9 billion. With respect to our other key guidance metric, free cash flow, we maintain our position, which is positive after all capex.

So, in summary, on slide 22, we've made good progress on the key priorities, namely the integrations are on track of both KDG and Ono; we have strong momentum in Project Spring, with clear evidence, with 40% of the mobile build done; and we have ongoing focus on cost savings. Our performance, coupled with better visibility for the rest of the year, has allowed us to narrow our EBITDA guidance range, and, finally, we have announced the interim dividend per share of 3.6p, an increase of 2%, reflecting the Board's intention to grow the dividend per share and our confidence in the free cash flow positive position post Spring investment. With that, I will hand back to Vittorio.

Countries In Depth

Vittorio Colao

So let me first start with the countries, and I will go in order of service revenue. Then we move to the strategic update. Therefore, we start with Germany. So Germany is really two stories. There is the story of the improvement on the Vodafone side, and very, very strong performance on the KDG side, as you can see from the top part of the chart, with the red and the blue bars. So let's start with the mobile business. In the mobile business, we have an improvement quarter on quarter in absolute revenue in euro; you see at the bottom part of the chart. For the first time since Q3 13/14, we are actually increasing revenues there.

We have stable quarter-on-quarter ARPU trends. We have good net adds, 121,000 in the quarter, and I have to say we are making good progress on Spring. You will find in the appendix the detailed tables that Nick has introduced a while ago. Here, I can say we have 71% 4G coverage in Germany. We have modernised our network in the top 30 cities and the latest network tests show us now leading on 4G availability and dropped-call rates in inner cities. So I can say that, from a technical point of view, we have been basically closing the gap with Deutsche Telekom. I also say, from a financial point of view, based on the results that they announced last week, the gap is not opening anymore, and, actually, if you include KDG, we have gained a little bit.

On the KDG side, the blue part of the graph, clearly, growth 6%, growing ARPU, which is good, and also growing customers, and Nick has said 108,000 broadband connections, net adds, in the quarter. We are progressing with the integration and moving the DSL customers into cable, and those on the Vodafone side, I would say the performance in fixed is improving and is good.

At the EBITDA level, we are losing – we have lost 4.5 percentage points. If you look at the absolute amounts, this is broadly half an impact of revenue from the previous quarters' performance, and the other half is more investment in customer acquisition. So, going forward, three priorities: one, of course, continue the integration of KDG and accelerate the number of migrations per week from DSL to cable; launch the quadplay offers in November; and then continue to make network enhancements.

Second, the UK: in the UK, we had a good performance on mobile, which is offset by short-term weakness on the fixed side, even if part of this is quite frankly technical

So mobile service revenue – it's minus 0.3%, which is I think a good improvement and better than some competitors. Strong growth in content: plus 4.3% in content consumer, which is clearly led – and I will cover it later – by 4G take-up.

Lower part of the chart: the contract ARPU in the UK is actually going up again, at £27.3, which, again, is very good. We have made good progress on distribution. We have acquired 139 shops from Phones 4U. They are all going to be rebranded by the end of this month. You can see some pictures. This is not the perfect rebranding that Paolo would consider required by the Spring standards, but it is very quick, and it is I think pretty good for the Christmas season. We had, in the UK, the programme to get to around 500

stores by the end of spring 2016, so this is really reached basically now, so this is 'Spring '16 happening in Fall '14', and we are also enjoying a new revised contract with Dixons Carphone Warehouse, which allows us now to have visibility of our own brand in their shops, which I think is also good.

On the fixed side, I was saying there is a more complex story. There is some solid underlying performance, with some impact of regulatory headwinds, some sales kit timing delay and also some delayed connections with customers, so we expect that, in the second half, the performance will be good. Margin year on year is slightly down due to customer investment, and, today, we announced that, next year, we will launch in the spring our consumer broadband proposition.

Italy: Italy is a story of strong quarter-on-quarter trend improvement. There is a bit of MTR benefit here, but, essentially, there is a good underlying performance. ARPU stabilised or being stabilised in prepaid. Very strong performance in Enterprise: as you can see, we are, in the second quarter, essentially at zero in growth rate after big dives in the previous quarters, and we have also some growth in fixed, at 2%. It remains a tough market, so, to be clear, Italy, given the prevailing nature of prepaid, remains a very fragile equilibrium where prices can swing very quickly, but at least we have made some good progress, I think.

4G continues very well. We have 64% coverage in 4G. This is measured with the Vodafone standard; using Italian market standards, it would be more low 70% or thereabouts, and I would say this is clearly, at this point, market leading, and, with the rest of Spring, we think we will again spring ahead. We have almost 1 million customers on 4G and we are reaccelerating the deployment of our fixed broadband. We have today 2.9 million homes between the VULA offer and the Metroweb offer. Our target is confirmed to be 6.4 million households. Year-on-year decline in margin, essentially ARPU and customers. Very good cost control in Italy; very important opex reduction there.

India: India, I have to say here, I am really proud. India is accelerating again: 13.2% growth in India in the quarter. This is both growth in customers, but also growth in data. I kept repeating that we had two great stories in India: one is the India story; the other is the data story in India, and they are both working very well. There is some price pressure at voice level, or at least there's not any more price increase at voice level. There are some circles where we have price competition, but data is really ramping up: 57 million data customers; 14 million 3G users; and this is doubling from March.

We are pushing aggressively the roll-out. As you can see, we have essentially doubled our 3G base stations thanks to Spring in India. We launched Red for the high end of the market, of course, in India, and M-Pesa now has 400,000 active customers in India, with around 80,000 dealers. The margin in India is flat, but it's flat at 30% essentially, which I, I think a good level compared to the other Opcos.

Vodacom: Vodacom announced yesterday, so there's not a lot to say. Stable underlying quarter on quarter – I would call it a good performance. In South Africa, there is still pressure on pricing. We are compensating, with very smart pricing and dynamic pricing, the reduction in prices in South Africa. Data is the key story in South Africa as well: 25% growth. Now about half of our customers use data. On the bottom left, you can see that South Africa is in a sense an emerging market, but also with some mature market characteristics. Also 30% – already 30% coverage of 4G in the country, which helps us maintain a certain premium to other competitors, and M-Pesa now, after the re-launch, is

gaining traction. On the non-South Africa, on the international front, we have a lower growth rate than the usual, 4.2%. It's impacted by some price pressures, especially in Tanzania, but, again, here we have very good and very strong data revenue growth and strong process on M-Pesa, which I will cover later.

And, finally, Spain: Spain is a market where I think now we have the right set of assets, and, with the Orange move on Jazztel, probably we will also have a better market structure. There is some improvement in the chart, quarter on quarter. Quite frankly, it is flattered a little bit by the lapping of the Lyca Mobile thing, so I will not overplay this. This remains, as Nick said, an aggressive converged market where the fight will continue to be tough until consolidation starts having some impact on the market behaviour. We have some good commercial trends, as you can see in the lower part of the chart: improved contract performance – positive now; not a huge number but positive – and good churn. Fixed line in Spain is going well. We have almost 13% growth. We have about 50,000 net adds in the country, and, as Nick said, Ono service revenues, once you take our wholesale, is de facto flat, which means that we are compensating with customers the decline of ARPU. EBITDA has been down sharply in Spain. It's clearly both number of customers and ARPU. We have compensated a bit with opex, but it's not enough, of course, to keep the margins where they were. So I would say Spain, it's still hard work, waiting for the benefits of consolidation to go ahead, but we have the right set of assets.

Now, I could talk now about Turkey; I could talk about whatever – Egypt, the Netherlands, Eastern Europe – all situations that, quick frankly, are doing better. I will leave that to questions, and I really want to move to the bigger strategic update and exciting stuff about data.

Commercial Update

Vittorio Colao

Let me start with data. Data is accelerating and is clearly driven by 4G. As you can see from the chart, the quarter-on-quarter increase of data is accelerating, so, year on year, we are up 80%; we used to be 70, 68 and so on. One fifth of the data in Europe is 4G, and the emerging markets is now c.40% of the total data story, so this is really a generalised data story; it's not just a 4G or an emerging market one. We have 9.7 million smartphone customers. The number is really 10.5 million if you add tablets and other devices, and, if you want to compare with competitors who use handsets instead of customers, the number is 16.2 million, as you can see in the green part of the chart.

4G is driving, clearly, also, a per-user increase. We are now at 627 megabytes per month. This is not only increasing but is also accelerating, as you can see from the bottom part of the chart, and, if you compare 3G to 4G, you can see that, in UK, Germany, Italy and Spain, 4G is driving more usage per customer, almost doubling in certain markets, and, where it's not doubling, like Italy, it was already high. This is important, because we have been talking a lot in the past, especially here, about the American situation and why Americans use more data. As you can see, as we have said many times, as soon as you have the good frequencies, as soon as you deploy 4G, Europe is getting there.

Content is clearly important. We bundle content now in 10 markets. We have Netflix; I think we can say, Paolo, it's in four markets now, not in three, despite the chart. I think we can announce also Germany, so we have Netflix also in Germany, and it's clearly very important. Specifically, what is important is video and audio. Video and audio today – red part of the chart – is 40% of the total traffic. Video is increasing almost 90% in Europe, so, again, another American type of trend. YouTube and Facebook are behind this – more than 100% use – but also there are some technical reasons why people use more data, and the two we have put here in this chart are, on one hand, the mix of higher definition screens that are in the market – now the number is 54%, so it's going up very quickly – and the larger size of the screens, which, as we all know, is a trend that goes only in one direction.

So the question now is: this is all very good; are we monetising it and how? Different data points: there is not a completely common story, but there are positive elements in all the different parts of the business. First of all, customers exceeding the bundles – this is a UK and Spain example. As you can see, the percentage of customers that are exceeding the bundle usage is going up; it is now 21%, and, within the bundle, the usage is moving to the higher end, so more moving to 75%; the 75% is moving higher up, which is good.

A question I always get from investors is: what happens in prepay markets? What happens in prepay markets is on the right part of the chart. This is the Italian case, which is, as we know, a prepay market. We are doing data packs, so it is kind of €5, one GB type of thing. This is getting a lot of good traction from customers, and, as you can see, in the second quarter we had 1.6 million customers using data packs, with revenues that, on a yearly basis, are going above €100 million. This is very good. The other factor which is very good is content. We made a comparison in the lower left of the chart between customers that have no bundle content and customers who have content, and, as you can see on the left part of the chart, the no-content customers, in 23% of the cases, take the higher red bundles. Well, if you start having content, the percentage goes up to 52%, and, as you can see, Netflix or Spotify are the big drivers of this.

Now, why is this important? We just put for reference the different pricing points of the price plans. There is a £10-15 differential if you move from the no-content to the high-content type of plan, so it's very important, and this has been, I think, a very good choice, also because the customers tell us that they like it: 22 points higher NPS from the customers who have content. This has been a good, I think, decision to go in this direction.

Now, how big is the potential, would be the question, and this chart tries to answer the question. First of all, more penetration: as you can see, 50% of the customers use data, but there is still 50% of the customers that don't use it yet, and so the red part of this bar indicates how much of the potential penetration is still untapped. Personally, I find more interesting the other part of the chart, which is the distribution of customers in the use part of the bar, and, if you see, the low-usage customers still represent the majority of the customers, and the high-usage customers are less than a third or less than 30% of the customers. So here there are two opportunities: one, of course, convince more people to use data; but also trade people up – previous story – trade people up while they get used to content and to richer use of data.

Smartphone penetration is clearly already 50%. If you break down how many people really use 4G for data, it's a much smaller number: 6-7%. So opportunity here, again, with

4G being deployed with Spring, clearly indicating the benefit of the experience and the beauty of the experience, is there. If you are concerned that this would mean a lot of subsidies and a lot of cost, of course, at the high end, it would mean more customer investment, but the thing which almost, I have to confess, surprised even me is that, at the bottom and low end, we are now giving 10% of the volumes with our own Vodafone-branded devices, and these, in the lower part – the sub-€120 – represent already 30%. So we are also finding that there are very high quality, good video-audio-capable handsets, at a much better price point for the 50% that don't have the smartphone yet. And this is not just for South Africa; this is South Africa, but this is also Italy; this is also Spain.

So we think that, again, this trend will continue, and that's why we are advertising very proactively the quality of the network. Of course, we are very grateful that our celebrity CTO is here with us today. I can reassure you that he cost us less than Kevin Bacon cost to one of our competitors. But, of course, the most important thing is that we have now moved to around 30% of our spending or our advertising spending into not just Steve Pusey but more broadly quality oriented communication, because we really feel that we need to increase the perception of the quality of the network and the perception of the quality of the experience that we are giving to the customers a little bit if we want a la Verizon or a la American, and we really are happy that things are going in this direction, even if competitors follow, because, quite frankly, I think it's the industry that has to move in that direction, not just Vodafone.

Second pillar of our strategy: unified communications. I think I'm happy that we are transforming Vodafone. If you look at this chart, before 2012, we had 11% of our European revenues in fixed. I remember when I was Head of Europe the number was more six, seven, eight. We really have moved at pace. We have made three acquisitions in Europe, one outside of Europe. We have four organic deployments. We launched in the Netherlands quadruple play last month. We are going to do the same in the UK, and, as you can see from the chart, from the 11%, we now move to 25%, so 25% of our European revenues today are not mobile, are coming from fixed or from converged services, which I think is very positive also for our Enterprise offers, because this gives a much stronger platform on which we can base our Enterprise services, quite frankly, more profitably than if we did it in other ways.

Practically, what does this mean? This means that, today, we can serve 42 million households in Europe. We can serve them with a combination of either our own infrastructure, cable or fibre, or, quite frankly, accessing the incumbent's infrastructure, when they are at good conditions. We are seeing solid growth in these numbers – 215,000 only in Europe – and clearly, with the Irish fibre appliance and with the UK announcement, we are de facto saying that, by mid next year, Vodafone will be capable of offering a full range of services both in Enterprise and in Consumer throughout Europe.

To be clear, this is not just broadband connectivity; this is also more and more TV. We are already active in five markets with TV: Germany, Portugal, New Zealand, Spain and the Netherlands, as you can see in the chart. We have 9.6 million TV customers in Vodafone. This is multi-screen, multi-platform customers, so fibre, mobile, IPTV, and we have a wide, wide range of content agreements – distribution content agreements with the usual suspects and the usual big brands, so we think we have a very solid competence that we can deploy further in this area, but please don't ask me today if I'm going to bid for football rights, because that's not the priority for the time being.

Third area of development: emerging markets. Emerging markets are today 30% of our Group revenue. They have EBITDA margins which are higher than Europe. In emerging markets, I think the important aspect that I want to stress today is the data story. In India, the data customers trebled, essentially, year on year. Data penetration is 30%, but a lot of it is still 2G, and 2G has an ARPU which is one quarter of 3G, which is why we are pushing a lot smartphone penetration. Now, smartphone penetration is 38% in the metro areas, but it's only 20% nationwide, which is why the deployment of 3G sites is very important, because, of course, we will go and tap into an 80% market which is not developed today.

Now, the bottom left chart is a chart I saw when I was in India, which I liked a lot, because of course they were trying to convince me to give them more money to deploy 3G sites. This shows the evolution of the extraction, as they call it, of a new 3G site when it goes on air, and, as you can see, it's quite surprising: the extraction in terms of monthly revenue per site progresses very, very nicely month after month in the first seven or eight or nine months, which means that there is a very latent demand for 3G services in India that we can, quite frankly, satisfy rather easily, given our infrastructure and given the Spring money, so this is going to be a good story. This is not just an Indian story. As you can see from the chart, 26 million customers in South Africa; nine in Turkey; seven in Egypt, so it's a story of improving life and livelihood of a lot of people in a lot of markets, and, again, we think we are in the healthy one.

M-Pesa is also a story of success: as mentioned, 18.5 million customers. It's clearly growing. We are now in nine markets. We are seeing good traction, not just in Kenya and Tanzania, which now are given for granted, but also in the DRC, in Mozambique, in India, and as I have said, we started; and we re-launched in South Africa. So this will be not just mobile money transfer; this will be about international remittances; this will be about saving and loans; this will be about e-commerce and many, many other areas of growth.

And, finally, as much as Serpil Timuray reminds me that Vodafone is not just Europe but it is 30% emerging markets, Nick Jeffery also reminds me that Vodafone is not just Consumer but is also Enterprise. Enterprise is 27% of the Group revenue; it is going a little bit down because of the new acquisitions. A quarter of this is fixed, again, so very similarly to the average, and I have to say today we have very good platforms for serving both the high end and the low end of the market. We have One Net for SMEs in 11 markets, which is now, again, one of the wider deployments in Europe. Vodafone Global Enterprise, the unit for the large accounts, is growing 1.2%, clearly the worldwide leader in serving the segment of multinationals. 24% growth in machine-to-machine, and even cloud and hosting and carrier services growing by 2% and 9%.

Now, all of this is being strengthened by Spring. Cloud and hosting has been launched live now in Germany. We have a broader IP VPN footprint everywhere, not just in North America. North America will go from nine to 30 PoPs. In general, we'll add another 30 around the world. Becoming stronger in India, and the acquisition of Cobra, clearly, is also strengthening us in machine-to-machine. Now, I'm not in the business of winning awards, but I have to say we were pleased that Gartner, which is a reputable organisation, defined Vodafone the undisputed leader in machine-to-machine, and I'm pleased and honoured at Aviva is now the largest account of Vodafone, and they're taking all of our services, so we are really becoming a fully-fledged enterprise player.

This is for the update on strategy. Two words on regulation: I keep being asked, 'Vittorio, how is it going? Will it be better?', and I have to say that, first of all, anecdotally, the commentary coming out of the new Commission is positive. They talk about return on investment; they talk about winning the second phase of the digital age, so I would say that at least the direction seems to be more conscious of the importance of our industry in Europe. On the four topics that are always mentioned, consolidation – I think it's more on the right side than on the left side; more positive than negative. Four to three is clearly good. Still too much talk about remedies, about mitigations, about wholesale conditions, but, directionally, going in the right direction.

Roaming is – I would say we have a bit more comfort that the cross-country risks are being now addressed and we are being defined good fair-usage conditions. For Vodafone, quite frankly, it's not a huge thing, because we already have a lot of customers on our daily tariffs and we already have a lot of customers in Enterprise who are basically immunised from roaming, but, again, more on the positive than on the negative. Net neutrality – I'm glad we decided to put the 'dot, dot, dot' thing, because it is still very debated, as you saw yesterday from the US. I think the Italian Presidency have made some good amendments to the Parliament position, so now traffic management is allowed, or at least is going to be proposed as allowed, and also security and child protection seems to be allowed. There is still lack of clarity on the core point, which is specialised services, and that's why we left the dot in the middle and we said we have to see.

And, finally, on NGN access, this is a point I don't touch very often. It is becoming more important because Vodafone today is one of the two largest challengers to incumbents in broadband at European level. We have access in a number of markets; in other markets, we don't. It is going to be very important for us and I'm going to work very hard at the European Competition Authorities and the local competition authorities, quickly when there are technical or commercial barriers that are created to fair competition, and, again, this is a very important point, given the importance for us of the broadband business in Europe.

So, to conclude, I would say we continue nicely our evolution towards unified communications, emerging markets, enterprise, data and innovation. The first half, we have some evidence of price stabilisation, but Nick correctly has illustrated that there are continuing commercial pressures and some markets are intrinsically fragile, like Italy. Accelerating demand for 3G and 4G: very evident in mature markets, the 4G; very evident in emerging markets, the 3G. Good progress on the Spring deployment and now a big-scale unified communications player in Europe. We also, as a result, increased the interim dividend per share by 2%, again, we said this morning.

Priorities going forward: we need to continue to mitigate the competitive pressures around the markets; continue the momentum on Spring, both on deployment and on communication; do well on the integration of the acquisitions in Germany and in Spain; engage very hard with the European authorities on fair competition on fixed line; and of course continue to be committed to shareholder returns, as we always have been. Thank you for your attention. I now ask Nick and Steve to join me for the Q&A, and my other colleagues are available as well, sitting there.

Questions & Answers

Polo Tang, UBS

Hi, it's Polo Tang from UBS. I just have two questions. The first one is just on Project Spring. Could you give us an update in terms of phasing, because, if I look at your capex in the first half of this year, it was actually quite low? So I just want to clarify whether the intention is still to spend £7 billion in terms of Project Spring capex over two years, and how should we expect the phasing of that capex over two years. And the second question is really just in terms of M&A, specifically in terms of Italy. There's obviously been a lot of press reports about Vodafone talking in terms of Metroweb, so I'm just trying to work out, if you do go ahead with that acquisition, how does that change the dynamics in terms of the Italian market? And also, specifically, does a deal with Fastweb still make sense, and would you consider a merger of Fastweb and Vodafone Italy?

And maybe just as a follow-up, in terms of M&A, how you think about your portfolio today: would you consider disposals? Thank you.

Vittorio Colao

Polo, let me start from the second question and then maybe pass to Nick and Steve the first. On Italy, we would clearly... It's one of our key markets. It's our second market. We would clearly do everything to have a better industry structure there. It has to make sense from a financial point of view and you need to clearly have willing parties in the consolidation. Italy is, like many countries, but probably more than many countries, is a country where there's a lot of talk. Quite frankly, everybody knows us. When contributions or roles will be needed, we'll be there. I would not comment specifically on any of the situations that you mentioned because, clearly, you never do it, but, of course, it's important that Italy gets a better industry structure and we would be willing to look into that.

On Spring, the only thing I can tell you is – and my colleagues can be more precise – I don't think we underspent. I think we are completely on-track; maybe, actually, just a tad ahead in most markets, with the exception of one, and I think we are very committed to spending our money.

Nick Read

Just to build on that, there is a slight phasing, if you like, on the fibre-build programme, so those were a slightly slower start and now are ramping up, so you get a slightly heavier bias in the second half that lasts through next fiscal year.

Polo Tang, UBS

And then just the question in terms of disposals in terms of the portfolio.

Vittorio Colao

Yes, sorry – I forgot. Yes, we would consider disposals but, as you say, we are not under pressure because we don't have dramatic situations to resolve. But yes, if there is a better owner of certain assets in areas which are not crucial for us, we would consider them.

Simon Weeden, Citi

Thank you. A couple of questions: one, just a very quick clarification on net debt to EBITDA. I presume the target of two times includes the put option around KDG. And can you confirm you don't feel the need to change that to a €250 price?

And the second thing was just on one area of Project Spring you didn't touch on so much is longer-term cost savings and the potential to, I think, simplify the IT architecture and possibly the whole of your customer-care organisation. I just wondered if you could clarify or update us on what you see as being the opportunity there, and when we might start to see that coming through.

Nick Read

Just on the first point, yes, KDG minorities are already in our net-debt position, fully provided from our position.

Steve Pusey, Group Chief Technology Officer

And regarding the IT estate, we aim to lower the percentage of revenue that our IT estate costs, as you would expect. We are using two principal models for that: we have two IT stacks that are reference models for the company, and all transformations and evolutions are now heading towards and following those models, as we feel the need to upgrade that particular element, be it online or retail or CRM. So, they're all headed towards two models. Those models have been pre-integrated in two reference stacks – one in the UK, one in the Netherlands – and we will reuse both the integration and the physical assets themselves on those journeys across any one of our properties.

Tim Boddy, Goldman Sachs

Just a few more detailed questions on the very interesting slides you shared on data monetisation. You showed us a slide which had 4G usage versus 3G on a like-for-like basis; i.e. when a customer upgrades. Can you share what happens to ARPU in your major markets in Europe on the same basis? Are we also seeing ARPU being increased commensurately on an apples-to-apples basis?

The other side of this is to what extent the back-book is still re-priced. Clearly, obviously, the first 50% of customers have taken data, and we haven't seen growth, so, as the next 50% take it, are we confident there isn't a commensurate loss of voice revenue that offsets that?

And then, I guess, this is a bit more of a strategic question: what was your reaction to the 'soft SIM' announcement from Apple in the latest version of the iPad?

Vittorio Colao

Let me give you a broad answer. Maybe Paolo, who's sitting here in the front, can integrate. The ARPU question is one of the most complicated things that you can imagine. I spend my days, quite frankly, banging on these two gentlemen's heads to get accurate, complete answers. It's very complicated because you are comparing pre/post in price decline with handsets, without handsets, with instalments, without instalments, with content, without content, so very complicated. What I can tell you is that, in the UK, to take an example, the pre-to-post, after the handset effect and after the content cost, is

positive, and is positive by a couple of pounds – more than a couple of pounds. Of course, there is more data in it, but it's a positive, and that's why we showed the chart and so on.

In other markets, where there is a price decline, it is positive relative to where the customer will go without the 4G or without the card, but, of course, it's more complicated to demonstrate, and I think, Paolo, maybe you can comment a little bit more on this.

On the soft SIM, again Paolo can comment. As you know, we didn't take it. It seems that, in the US, AT&T took it but they locked it. And in Europe, there is one who took it here. So, de facto, we are shipping the new iPad with a Vodafone SIM. We kind of prefer a Vodafone SIM. I don't know why.

Paolo Bertoluzzo, Group Chief Commercial and Operations Officer

I think, on data monetisation and ARPU, ARPU uplift, I think Vittorio summarised it, but when you look at the details, we can confidentially say that we see monetisation happening and ARPU increases happening. However, there are so many factors when you do a like-for-like, from roaming seasonalities, to other price dynamics, to out-of-bundle voice which is changing, and so on and so forth, that it is very, very difficult to show one number which is valid for everybody. But underlying, when you go deep, deep, deep, I think we can say it with confidence.

On the Apple SIM, at the end of the day we are not joining it for the time being because we don't like the way it's implemented, although we believe that there is a need for something which, at the end of the day, allows the customers, on data devices like tablets and similar connected devices, to have a little bit of a service out of the box. That's the reason why we're working with other operators and also device manufacturers and also SIM providers and technology providers within the GSMA association to provide a solution to that need, which fits with what operators see as the right way of operationalise that model, also to make sure that it's fully security-proof.

Maurice Patrick, Barclays Capital

So, early signs of Project Spring working, clear demand for data, and the EU is making the right messages around wanting a higher investment – €300 billion for new digital infrastructure. You are doing that now but, if this all works, how do you think about life beyond Project Spring? Are you going to tie yourself to that 13-14%, or can we think about a Project Summer which, perhaps, comes afterwards?

Vittorio Colao

The best satisfaction of my life would be to have Project Summer after Project Spring, because it means that everything has turned right and everything actually is on the way up. One thing at a time: so, we are investing in Spring. Spring is showing some good results but, again, early days. We cannot really claim victory. The European commentary are good but we have to see what happens in Parliament, we have to see what happens with governments. There's a lot of technical things that have to be sorted out. So, for the time being, we remain focused on Spring. We think this is a big jump ahead. If, at the end of the day, the markets end up like two plus others, and there are quality providers that can extract higher ARPU and higher value than the others, it would be a great case to

look at our investment, whereas, today – also back to Tim’s question – we don’t have enough hard evidence to start thinking about Project Summer.

Stephen Howard, HSBC

I wanted to ask a question about pricing developments in Germany. On the fixed-line side, from the sounds of it you’re following a parallel track to people like Liberty Global. You put up the 32 Mbps price. But on the mobile side, I don’t think – or at least I haven’t yet seen you really follow Deutsche Telekom’s recent moves. They’ve put up the price of some of their own-brand packages. That means that the discount gap between you and them, obviously, has somewhat widened, and I’m just wondering when you might think of closing that gap.

And that, of course, leads on to an associated question: what you think about the Drillisch tariffs. I guess we’d all agree that it would be great if the merger-control authorities imposed fewer remedies, but, given the presence of the MBA-MVNO, what do you think about Drillisch’s positioning and are they an existential threat?

Vittorio Colao

Let’s have Philipp answering the Deutsche Telekom question, remembering that we cannot talk publicly about intention to move prices.

Philipp Humm, Regional CEO Europe

So, that was a very short answer. But if you look at our strategy overall, we are in the market with three brands right now: we are there with RED, which is our premium brand; then we are there with Smart; and then we are with Otelo. And what we obviously try to do, as we try to position each of the brands well in the competition space, and typically our RED brand is very closely positioned to Magenta, and Otelo is very closely positioned also to the brand from Deutsche Telekom. So, I think that’s what we’re trying to do overall in the market in different stages, in different points in time.

If you look at Drillisch, Drillisch is at a price point today starting at €15, which is a very low price point for the German market. Now, the good news is that Drillisch is not really, from a distribution point of view, at this point in time, a big factor. So, we don’t think it is, per se, a good move for the market because it is a very low price point. We don’t think, today, it will lead to big consequences, but it could if E-Plus and other players might be enticed to go further down. But that’s not what we, at this point in time, would foresee, based on the distribution strength they have in the marketplace.

Vittorio Colao

And on the basic pricing level, I’m looking at where we are today. We are €33 Unlimited/Unlimited 2 [GB], and T-Mobile is €31 Unlimited/Unlimited 2, €37 Unlimited/Unlimited 5, and we are 39 Unlimited/Unlimited 6. So, I’m not seeing a huge gap, at least based on what I have here.

Andrew Beale, Arete Research

Just a couple of questions: first of all, one of the striking charts that you put up was European data usage, 50% not using, and 65 below 0.5 GB. I guess the question is: how do you go about changing that dramatically? Is that just a low-cost-smartphone push into

the base? When do you feel that the right time to do that is, bearing in mind where you've got to on your 4G deployment? And can you do that within a reasonable margin profile for the Group?

And I guess the second question is thinking about the consumer wire-line, where you don't have fibre or cable, and is there something that you can do using 4G to provide the burst speeds and capacity there that might differentiate your proposition, and is that an active push?

Vittorio Colao

Very quick answers to both questions: first of all, thank you for one of the striking charts. I think the answer to your question is in that striking chart. It's now the moment where we're pushing RED. The reality is that, once customers start getting the sense that they have generous amount of data – and 'generous' to me is more than one [GB]; now it's becoming two – they use much more. And the other interesting thing we are seeing is that, once they start using 4G and they have enough certainty that they're not going to eat up their allowance, they actually use less Wi-Fi, because there, first of all, a quality issue sometimes, and, second, why would you bother, and you just go there. So, everything is in the success of RED, and that's why RED has been not just a defensive move, but also an important move from a strategic point of view.

In terms of phones, that's why I put on that chart the mid end and low end. Vodafone-branded devices, 10% of the total, but then you can add Samsung and all the other ones, which are in the €120-150 range. So, now is the moment I think it's happening and, if anything, I think it will happen quicker than what most people think, because I see the progression of those services on a daily basis, essentially.

On the second question, the 4G; quite frankly, I'm not so sure. 4G can deliver broadband in rural areas but, as soon as density goes up, it's very difficult. To the contrary, we can use 4G bonded with fixed services – and we have some interesting products that are going to be launched very soon – to improve the performance of fixed, thanks to LTE, or to give continuity when fixed has some problems. So, we can actually improve the performance of the wholesale that we get from somebody else, which is an interesting distinction point, but I don't think we will have a complete 4G true broadband, because bigger screens of televisions, more content, more HD, the bandwidth requirement will be big.

Nick Delfas, Redburn

I've got two questions. The first one is: how happy are you with the retail strategy as it stands today? Speaking as a middle-aged white man, I noticed you seem to have quite a lot of middle-aged white men, including Steve, in the adverts, and I know that Softbank, in the past, has had talking dogs, and T-Mobile has had girls on motorbikes and the Chief Executive wandering around in a pink T-shirt. So, I'm wondering: do you need to spice it up a little bit in terms of the retailing strategy? That's the first question.

The second question is on Enterprise. You said that Enterprise is still a soft spot. I don't think you've given us the number for Q2 Enterprise – you've given Vodafone Global Enterprise up – so maybe you could give us some indication of what the decline is and whether it's getting worse or better.

Vittorio Colao

The easy answer to the second, minus 2%, still dragged down by southern Europe but improving. That's the easy answer.

On the pink shirts and the pink T-Shirts, first of all I strongly reject the idea of the CEO in a pink shirt. I am not that type of CEO, so, I think, if that's a key requirement, I think a job search should be put out. Instead, you're talking more about communication and positioning than retailing and, to be honest, apart from using Steve, we have a lot of what you indicate, in many, many markets. It's a matter of, to be honest, the phase and the segment you're communicating to. Specifically in the UK, the communication was about the seriousness, the quality. Keep in mind we have 800 [MHz]; 800 is high quality. People start realising it. There is a technical element to it. If you go to other countries, to be honest, you find boys and girls on Vespas and things like that, so don't misread only the UK white, middle-aged CTO.

Nick Delfas

Can you measure the effectiveness of the advertising in some way across countries?

Vittorio Colao

We have very good... Paolo, correct me if I'm wrong: the last four campaigns – three or four campaigns – are going very well. We don't see yet a full impact on NPS, but there is always a lag, typically. Typically, you go from zero awareness to awareness, to appreciation, and so now we are in this phase and that's why we're ramping up to the 30% I was talking about.

John Karidis, Oriel Securities

I just wanted to ask a few questions around your plan with Cable & Wireless to get into the consumer-broadband market. First of all, it would be really nice to get an idea of what the scale of the network is in terms of number of exchanges unbundled and where this will go in however many months; secondly, trying to understand whether you're trying to defend your mobile business or, actually, win incremental value from the fixed-line business; and as part of that, whether you'll be following, for example, EE's plan to give away TV boxes.

And then maybe Steve could comment on the latest RootMetrics result, which didn't go, again, your way, please, for the first half of this year.

Vittorio Colao

I think Steve will take the RootMetrics one, Philipp will take the UK one, without giving commercial details, please.

Philipp Humm

Maybe briefly to the networks, we are fortunate with Cable & Wireless that we actually have quite a good consumer network, which is kind of known, and we have more than 500 exchanges, which deliver a VDSL-like speed. It's technically not exactly VDSL but I think Steve can give you a little bit more technical detail what is really the difference between the two. Covering about a little bit more than 50% of the homes here in the UK. And then we have a little bit more than 900 exchanges, also Cable & Wireless, which then cover, with, basically, ADSL, about 60% of the exchanges. We are looking at ways to further

enhance, so that we have a good national competitive offer at launch. You will understand that it's very early today and, even if it were not very early today, we would not definitely comment on giving out set-top boxes like EE does at this point in time. We'll have to see what we do once we have then the things ready and launched, but we are fully committed, using the strong asset we have with Cable & Wireless now to be able then to be in the market with a competitive play. We see it more as a defensive game but we will see, dependent on how the market overall is evolving, whether we need to be more or less aggressive, but it's really, first, very important to defend our strong mobile business overall.

Steve Pusey

Just to add to that, to have a little bit more colour on that, the UK's got a two-tier exchange system, which is not common everywhere. Our Cable & Wireless assets – Vodafone assets now, of course – are in what's called master exchanges predominantly – the 948 exchanges. Each one of those generally has four or five junior exchanges off of it, which are your locally serving exchanges, so, by being in the masters, you can reach through to a much higher population in the juniors, and that's what we'll do with these high-speed-broadband capabilities to, initially, 60% of the marketplace. So, that's how we do it: reaching through the master/junior-exchange infrastructure in the UK. Hopefully, that helps.

On the second one, there's a number of reports coming out of the UK; RootMetrics is one. We don't subscribe, ourselves, to RootMetrics, so we don't have full visibility of their methodology, but the fact, in the UK, is we're in the noise of everyone in the pack, and that's not where we want to be; we want to be leading the pack. So, the honest position is we're probably lagging on coverage, of 4G particularly, because we started a year late – ourselves and O2 – due to frequencies and licences. We're catching up fast. We're investing over £1 billion this year in the UK to do that. We have publicly committed ourselves to a high-90s coverage in 2G, 3G and 4G. Call-drop rates are coming down rapidly, particularly here in London, where we're already at 0.74 in London, which is getting towards European norms. We feel we're leading in London, by the way, especially on 4G. Our superior frequencies on 4G are giving a much better 4G experience for the customer, and we win every single report on 4G that's been done, including RootMetrics.

So, it's a work-in-progress for the UK. We're not where we want to be but we are throwing the kitchen sink and every engineer we can find at improving it fast and, hopefully, you'll start to feel the benefit of that where you are, including a lot of the buildings in the City of London, where we're aggressively putting in-building coverage to supplement the external coverage, and some of you, hopefully, in this room have experienced in the last three or four months.

James Britton, Nomura

The first question is Project Spring-related. It's quite difficult for us to really get a sense of how much opex is being spent on the programme, so I was wondering if you could just clarify how much opex was Project Spring-related in the first half, and how this then evolves in the second half. Does it start to substitute existing spend in any way? And then, I guess, next year, when you actually pick up the commercial drive, what's the likely change on Project Spring opex?

And then the second question, also probably for Nick, is really around the seasonality of margins for Vodafone. We've done a little exercise to just look at, in the last five, six years, and on a pro-forma basis, trying to do the like-for-like. H2 margin tends to be about 150, maybe 200 basis points below the H1 margin. Can you just clarify why that's likely to perhaps change this year?

Nick Read

So, I'd say, on opex and Project Spring, what we quoted six months ago was that the opex for Spring this fiscal year will be about half a billion. We remain on that. Can we precisely say what sits in H1 versus H2? Not necessarily. I'm not tracking every base station we put in and say, 'Is that Spring versus business as usual?' So, what I'd say is see it as slowly ramping up through the year. We also said that, by year three, we would be breakeven from an EBITDA-impact perspective. Obviously, opex is always ramping up in that period but, as you rightly say, we start to earn revenue, we have A&R that goes with that etc, so we start to earn a margin that offsets the impact of the opex that we put into our business. So, that's how I would summarise Spring.

In terms of seasonality, if I was going to look at EBITDA, I'd say first half was down in absolute terms, rather than do it on a margin base, because we look at absolute, £600 million organically. Of that £600 million, look at it as, broadly, £400 million is revenue-gross-margin impact of the big European four slightly offset by a positive in India; we did about £100 million extra on A&R spend; and we have about £100 million extra in terms of India opex for network expansion. So, that's how you get to the 600. Obviously, when you go into the second half, a number of those first impacts – the gross-margin impact that we had in our four big European operations – we start to annualise on the second half. So we talked about the fact that, in the second half, you should see an improvement in our decline on EBITDA margin second half versus first half, and also we annualise on the Germany A&R increase in spend.

James Britton

So, just to clarify on the Project Spring point, the costs probably will increase next year, but obviously the revenues start to come through too. Thank you.

Robert Grindle, Deutsche Bank

I think the first question has to be: can I have the phone number for Steve's makeup artist?

Steve Pusey

That's what my wife said.

Robert Grindle

I think it's great to have the network guy on the big picture, given what you're doing in the UK. My questions are: firstly, on Ono, you've got a spot of bother there post acquisition with regard to, it seems, VAT issues. Can you just confirm – and I know you can't comment about a court case but, given it is VAT and it's tax and things like that, can you confirm that there's no operating risk to your EBITDA, basically, as far as you see it today?

Secondly, on KDG, to an earlier question, minority investors are making a bit of a fuss. Can you confirm that this is just noise and you can absolutely push ahead with KDG as much as you would like to do, despite all that stuff which is sometimes a bit tricky to understand from a legal perspective?

And then, thirdly, on Enterprise, very struck, actually, by the growth in cloud and hosting relative to, say, carrier services, which is the more traditional business. I wonder why that growth is so lacklustre. Is it just internalising your hosting capacity and it's more of a cost-saving initiative, or is it taking a while to bring that on stream, or is it just that people don't go to Vodafone yet for that sexier stuff, on fixed at least?

Vittorio Colao

Let Paolo answer the third question, and I'll take the first two because I learnt my legal script very well. So, on the Ono thing, it's a small thing relative to the size of the transaction, so it's not material relative to the size of the transaction. Of course, we are still, given the criminal nature of the thing, very keen to know who knew, what they knew and when they knew, and that's what I can say today. But again, for your purposes, it's not a concern. It's a small thing relative to the transaction. And of course, it doesn't impact at all the operating life of the company.

On the Elliot thing, I would say it's nothing new under the sun, essentially. It's a well-known game. I don't think it's particularly surprising what is happening. If anything, I think we are very relaxed. We are very long-term. If anything, there is more nervousness, I think, on their side, probably, but I don't know. We can do what we need to do with the company. The company keeps going. There is no interference whatsoever on the operational front. I think the German system works like that, so we will live through the phases of this thing.

On Enterprise...?

Paolo Bertoluzzo

I think cloud and hosting is an important part of our Enterprise strategy. We see it as a growth opportunity. It's not necessarily a standalone one; you have to see it in the context of offering managed services and connectivity to our customers and, therefore, you should see private cloud integrated with public cloud in every cloud and connected with our own IP VPN high-quality, high-security connectivity and, therefore, it's a big part of it.

Let's be clear: this does not mean that we will build data centres around the world. That's something that we are very careful with. We have inherited data-centre assets from Cable & Wireless. We are opening up for business a data centre now in Germany and we are extending our data-centre footprint in South Africa. We will be very careful in building more infrastructure like that, because we understand the capacity issue but definitely we'll integrate this type of products and services in our overall offering for our Enterprise VGE customers but also local corporates and more and more medium enterprises as well.

David Wright, Bank of America Merrill Lynch

A couple of questions, please: I think one of my colleagues over there asked about the margin year on year. Obviously, there's the whole iPhone 6 seasonality, and you guys are a premium provider, I would have thought. You carry a lot of iPhone 6 volume, so just whether there's anything we should be thinking about that was good this half that's maybe

less good next half on the subsidies, and whether there's any kind of materiality we could get, that would be great.

And then a question for Steve: it always seems to me in Spring – and I'm sure you disagree with me – that the backhaul seems a little bit left out. I think you've talked about low 20s fibred with a lot of the backhaul being microwaved, but it still feels, with all this incredible data growth, that you guys are experiencing that that could be, at some point in the next three to five years, a bit of a bottleneck. There do seem to be one or two Spring savings coming through, where maybe you're spending a bit less. Is that potentially money for backhaul or are you still absolutely convinced with the current plan? Thank you.

Nick Read

So, just on the first one, we had a little bit of probably iPhone delay, especially around upgrades, I would argue, in the first half. I wouldn't call it overly material. There will be an uplift, probably, experienced in the third quarter in terms of upgrade volume as a result, but over the balance of the year, I wouldn't call it significant.

Steve Pusey

That is our point of focus, backhaul always. Currently, we're at 76% high-performance backhaul in the European footprint. By that definition, we mean capable of 1 GB. The microwave component of that, we watch. I've just come back from Asia, actually, to check on microwave performance, and that's going up towards 40 GB now, so it can take care of the need, but microwave is inconvenient in a different way. To get to those speeds, you have to continually upgrade, and it costs you more in opex, so, of course, we'd prefer to have further longevity and to have directly connected fibre. The Spring plan takes us through over 30% of fibre connections, which is all city-centre locations in all major countries, so we're looking to increase that through the programme as and when, but certainly 30% and all the big cities will be directly fibre-connected through Project Spring.

David Wright

If I could just add, maybe: if that number were to increase to 40-50%, is that a big number on the capex?

Vittorio Colao

Again, I'm not a technical specialist, but keep in mind that, as Steve said, the important thing is where you have very high density, and that's the city centres or the high-density areas. In the other areas, a microwave solution – he says 40 but I think 20 GB is more than enough, because you will never have to carry out of a base station, even with all the kind of technology you have, more than that. So, it's much more progressive. No, I'm not saying we'll never get there; actually, I wish, one day, we'll get there, but it is very progressive. The crucial thing for us is the city centres, which is why, in Spring, we will be on 30%. That's the core of it. And in the mean time, he goes to Asia and finds better ways outside.

Akhil Dattani, JP Morgan Cazenove

Two questions, please. Firstly, on the European revenue outlook, I guess when we look at the last year or so, one of the big dilutive effects on revenues has been the adoption of Vodafone RED and the bundling effect, and we've obviously seen the compression on your out-of-bundle revenues. But if we look at the last three-odd quarters, that out-of-bundle-revenue contribution has actually stabilised out, at about 25%, so I'm just trying to understand: has the composition of that change? Are you more confident that that 25% is now sustainable? If you can just give a bit of colour around how you think about that evolving.

And then, secondly, just moving back to the whole mobile-data theme, I guess with the slide that you were showing around consumption and, I guess, the point being that there's a very big difference between average and median usage within the base, when you run the numbers and you look at how the business evolves, do you have a sense or any thoughts around that tipping point? Is it a certain bucket size or a certain level at which you feel the incremental data consumption helps or changes?

And you also talk about, as consumers get large enough data plans, the incentive to Wi-Fi offload diminishes. In that context, do you think there's any need or incentivisation for you to reconsider whether it would make sense to tier data on speed rather than price?

Vittorio Colao

Let me give you a very generic answer, and then maybe, Paolo, you integrate it. First of all, on out-of-bundle, it's one of those things where we have a lot of mixed feelings because, on the one hand, we like customers to be in bundle and to be sure, to be safe, to be used [to data], and so on. On the other hand, almost by definition, what I described requires customers to be, in any way, pushed to the limit and out of bundle for one month or two, and then upgrade, and then they are back into bundle but you don't want them to stay. So, we often discuss: is it good or is it bad? And probably, there is an equilibrium point where, at any point in time, you want not too many customers to be out of bundle but enough to be pushed. Personally, I'm trying myself a lot of usage to see what happens, our messages, how we do that, and Philipp is doing a piece of work on how we can induce customers to have a better experience. There is more to learn, to be honest, but it will always be a mixed thing. A little bit is good; too much is bad. This is my non-very technical answer.

On the rest, I think, Paolo, you can comment on the mobile levels and the Wi-Fi thing.

Paolo Bertoluzzo

I think, on the out-of-bundle piece, Vittorio already gave you the high-level story. Trust me: managing the out-of-bundle for data in a way which is customer-friendly but also supporting monetisation is probably one of our top three areas of focus for myself and my team, and our teams – Philipp's team as well – because we really believe that's an area where we can do much better in terms of customer experience and satisfaction, putting the customer in better control but, at the same time, monetise in a customer-friendly way. So, that's really important.

At the same time, we'll continue to go with RED, because RED has other advantages, such as, for example, giving worry-free on voice and messaging, and we see happier customers and more loyal customers into RED, so we'll continue to go in that direction

also because, when you see Wi-Fi calling, Voice over IP coming and so on and so forth, that's actually continuing to protect our base. And today, we have about 50% of our contract base which is now protected into RED.

On tipping points and so on, it's very difficult to say. Our perception is that, when you start having customers with a 1 GB type of bundle, they start to behave in a more worry-free type of way. Still, clearly, there is room to go. We are tracking our biggest users, which go, really, without limits because they don't pay and so on and so forth; for example, like people in the company that still control usage and spend. A serious customer can easily go to 10 GB per month – easily, easily – and still doing some Wi-Fi loading, but as soon as you really go into video and bigger screens, that's where you go, and that's an ambition against which we are planning our investments and we're planning also our commercial activities.

I think this is the story, when you look at Wi-Fi substitution, it's interesting because, when a customer migrates to 4G, they increase 5-10 percentage points of 4G network versus 3G network utilisation across all applications, not just video, which means that, at the end of the day, they don't feel the need to disconnect from our network and connect into a Wi-Fi network, because (a) they have very often a better experience, (b) they have better continuity of services, and (c) having bigger bundles, there is less of an economic need to do it.

Emmet Kelly, Morgan Stanley

Just one question, please: I'm just wondering how you think about the pricing of fixed-mobile-convergent products. If I look at what your competitors are doing around Europe, DT recently announced conversion products, and there's a pretty big discount in there if you're a DT customer and you bundle rather than take the products separately. And you've had a similar story over Telefónica when they launched Fusión. Obviously, Telefónica went early on Fusión but, obviously, it's had a pretty negative impact on their service revenue growth as the discounts went through. I hear a lot of sector bears out there saying it's the next form of deflation in the sector. How do you think about fixed-mobile convergent prices as you become more convergent over the next couple of years, as you start to sell fixed-mobile products in Germany and in Spain? Do you think you need to put a headline discount in there or do you think your better network means you can sell the bundle for the same price as the products separately, or can you throw stuff like Netflix in? Thank you.

Vittorio Colao

Emmet, let me give you the broader answer, as always, and then I'll let Philipp comment specifically on Germany. I might be wrong but I would not put the converged pricing of Deutsche Telekom in the same family as the converged pricing of Telefónica. Telefónica has been very aggressive in the fact of giving away €20-25 – Philipp, you can be more correct – and bundling everything in TV and fibre and so on, and the price point in Spain is now between €50 and €60. My information and our perception – and what we are going to do and we are doing in Germany – is that Deutsche has been more measured in their bundling trying to create an experience which is not necessarily purely seen as big-discount, so there's a big difference. And PT in Portugal is, if you want, the most extreme case, instead of going really down.

Philosophically, as Group CEO, what I ask Philipp to do is to do a country-by-country strategy; don't have a blanket solution which is the same everywhere because it doesn't make sense. Honestly, we are also not the leading force in shaping pricing in the markets. So, it's a bit like, in the UK, BT will do what they do and we will play with our own answer. On the mobile component, we are the shaping force but, on the converged, to be honest we play with them. Different in Spain, where we have Ono; different in the KDG part of Germany. But at the end of the day, they will shape more the pricing than us.

Philipp, on Germany specifically?

Philipp Humm

If you look at the markets, we have really the south, which is more aggressive – so, Spain and Portugal – but, if you go further north – the Netherlands, Germany, Italy – even Italy if you take Italy, let's say a little bit more into the middle part of Europe – all these markets have more moderate pricing. And also the new pricing move, which we, by the way, pre-empted on Deutsche on converged, is not a big change. We all had, in the market before that, a Vorteil, which was basically giving a discount on both sides, mobile and fixed, and it's not something which is pushed aggressively with the same aggressive objective to really lock in your customer base as we have seen it in areas now in the south, in Spain and in Portugal in particular. So, it's a completely different flavour, the way it is approached, and we, in particular where we have the cable assets, will play a lot on speed, because speed is where we are always superior with our cable assets to the copper-based assets, and that's where we play a bit the differentiation game as well.

James Ratzer, New Street Research

I had two questions, please, the first one of which is going back to the topic of data monetisation. If I take a backward-looking view of your business, over the last 12 months you've seen data volumes up 80%, service revenues down 1.5%, and we'll probably sitting here in 12 months' time and we'll be seeing data volumes are up another 80-100%. What do you think can be done differently in the industry over the next 12 months to actually monetise that that hasn't happened over the last 12 months?

And then the second question I had was, again, going back to KDG but not on the minorities. It was actually just on the operating performance on the EBITDA margin. I think the EBITDA margin down slightly year on year. I was hoping we might have started to see that go up, with synergies coming through, so if you could give us an update, please, on the synergy realisation there and whether we can actually start to see margins rise in KDG. Thank you.

Vittorio Colao

I take the first question and maybe, Nick, you can comment on the KDG EBITDA. What needs to be done by the industry, James? It's easy for me to say what we do is right and what others do is wrong. I think that the essence is very simple: voice is going to go unlimited or is going to be VoIP, if you think long-term. So, leveraging on voice, forget. SMS is, I think, the only thing which is negative everywhere in the world, because it's being disintermediated by IP. So, betting on data and on the possibility to increase ARPU through data marginal increases is the name of the game. What we are doing is exactly that; so, everything that Paolo said, everything that Philipp said, basically, is about taking customers who are at lower levels at a higher level, and trying then to build a nice

experience, a better experience, in terms of pulling them up with more video, with more usage, at pricing conditions which are, I would say, decent – so, not the crazy pricing of the early days.

What is wrong, in my view, is unlimited data because, if you go unlimited data, by definition you don't take anybody up. What is wrong is bad quality, because, if you give bad quality, people, as it was proven, don't watch the video. And what is wrong is giving for-free, which, by the way, also from a net neutrality point of view, is very dubious – giving for-free specific type of content, whether it's YouTube, Facebook or something – i.e. non-metered data with content – these are the wrong things, which we are not doing. Somewhere, sometimes some competitors are doing. I think it's hard to explain to investors how you will monetise things if you give, I don't know, YouTube for free because, by definition, it's one of the main drivers of usage.

Nick – KDG?

Nick Read

The quick reply would be KDG margin was down about 0.5 a percentage point – just over – but still a pretty high level at over 47%. Early days on the synergies. Obviously, our core business margins will improve in the second half in terms of the decline that we experienced on the first half. We'll get an improvement in terms of trends. And then I think you start to see the synergies for the combined business start to impact next fiscal year.

Vittorio Colao

We have four, five minutes maximum, so we can probably take two or three. Let's do them one after the other so that we have synergies on the answers, which we will report about.

John Davies, Santander

I'll only ask one question, so I'll be quick, and it's to Steve, I think: on the customer-care and billing systems, you said you're moving to the two stacks – one in the UK and one in Holland. Are we actually already there in the UK? Is this the billing system nirvana?

Vittorio Colao

Let's take another couple, because, at 11 o'clock, clearly, we all have the Remembrance.

Guy Peddy, Macquarie Securities

Very quick questions – one for Nick: when you set your full-year guidance at the start of the year, you highlighted India and Italy as being major driving points. Do they remain the major driving points in your EBITDA guidance range for the second half?

And for Steve, a very quick question: German dropped-call rates are going the wrong way. Why is that? And secondly, when you talked about industry-best-practice call rates, are you talking about getting down to the levels of Spain and Italy, which are materially lower than the UK and Germany? Thank you.

San Dhillon, RBC

A question on India: how optimistic are you on getting enough spectrum to support the durability of data-revenue growth there? And in Germany, your early experience of KDG: how much better is it being a cable-mobile operator versus a mobile unbundler/mobile reseller of fibre?

Vittorio Colao

Why don't I take the last one and then I pass to my colleagues the previous ones. First of all, how much better: it is better but it is also more expensive. It's been a pricy acquisition. So, yes, it is better because, of course, you can handle customers with higher speeds and better experience and, of course, you don't depend on somebody else; hence my point about being fair from a commercial and technical point of view on the incumbent side, because this is becoming very important for us, and that's why we are increasing our legal budgets and all these things, to be sure that we have good conditions, but it's inevitable that, if you're running your own infrastructure, it is a much easier thing to do. It comes at a price, so we have always to balance the two things.

On spectrum in India, clearly how much spectrum goes into each option and at what price is always a fluctuating thing. I think that there is more awareness of the positive impact that our technology and our industry is taking to the economy in a broader sense, and I think India is, again, keen to have growth go again above 6% and so on. So, at least there is more awareness, and this is not just to be seen as a cow to milk, but it's seen as an accelerator of the growth in the country.

Now, specific auctions, not in India, everywhere in the world, they're always subject to temptations, because there's always a finance minister who needs something, but I have to say at least the perception has changed from cow-to-milk to an industry that has to be dealt with.

I think I ask the others –

Nick Read

On the guidance point, I would say it's slightly shifted now, so it was Italy and India; I would say now Italy, below-the-line aggression, so does that impact above-the-line pricing? I'd say the second one is South Africa, where MTN are being a lot more aggressive in the market to recover their position, so how much of an impact does that have? And I would argue probably the third one is the German pricing. Just a two-tier market, does it bleed over or can we maintain the premium?

Steve Pusey

Two quick answers on those two elements: on the UK billing stack, consumer pre and post-paid is built; migrating the post-paid customers through that now – prepaid is all done. SOHO/SME on the Enterprise front done. The last module to do is the new fixed module, and then we'll have a standard stack, so one more element to plug into that, which is fixed. As we've doing it, we've been documenting all the plug-and-play interfaces, which is the expensive part of any IT stack, and we own the intellectual property on that, by the way, for reuse.

On the second question, on German dropped call, we suffer the seasonal uplift in the summer with the travelling, so that's why the figures appear to go up. As we closed September, we were at 0.76 in Germany, so it actually came right down in September, and I think it's okay to give October, where we're at 0.69 in Germany in October. So, obviously, what we're trying to remove through Spring is any seasonal variance and make it look like a Spain, where it's flat all the way through, so, when people do get in their cars, do travel to the beaches and the mountains, they get that 100% coverage and it's flat all the way through. So, still not quite there, and that's the whole purpose of Spring, but a big, vast improvement and 0.69 in October, so really coming in the right direction.

Vittorio Colao

Very good. I think we have an 11 o'clock deadline. Thank you very much for your questions, and thanks Nick for the suggestion about the pink T-shirt.