

Vodafone Group plc

Analyst and Investor Presentation

8 November 2011

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HALF-YEAR RESULTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

Vittorio Colao
Chief Executive

Good morning. Welcome. Thank you for coming to our presentation of the results for the first half of the year 11/12. The programme is, I would say, the usual one: I will give you the highlights for the first half, then Andy will cover the financial review and the guidance, and then I will get back to talk about our commercial performance and the strategic progress. Afterwards, we will be joined by Michel Combes and Nick Read to take your questions, and we have here also several other colleagues: Morten Lundal, CMO, Steve Pusey, CTO, who can cover all topics you are interested in.

So, results for the first half:

- Group service revenue up 1.4% in the first half; for the Q2, it's up 1.3%. Without the impact of MTRs, it would be 3.7%.
- Continued strong commercial performance in both mature and emerging markets.
- Something which is not on the chart: EBITDA up 2.3% to £7.5 billion. This is a margin decline of about 60 basis points, which is in line with our expectations and what we said last year.
- We confirmed a \$10 billion dividend from Verizon Wireless. £2.8 billion is our share.
- We have completed £3.9 billion of our £6.8 billion share buyback.
- This morning, the Board has agreed to increase the interim dividend per share by 7% to 3.05p, which has to be added to the special dividend per share of 4p coming from Verizon.

I will talk about the progress on the strategic priorities later on, after Andy does his presentation. So, Andy, over to you.

Financial Review

Andy Halford

Chief Financial Officer

Thank you very much, Vittorio, and good morning to everybody. So, let's just quickly go through the key numbers for the half year:

- £23.5 billion of total revenue. 4.1% increase. Take out the impact of FX and we're at a 2.2% increase for the half year.
- Adjusted operating profit was just over £6 billion, slightly down on last year, but remember last year we had the contribution from SFR in there, so, if you do it on a like-for-like basis, we are actually up by 4.4% on adjusted operating profit.
- I'll talk about the financing costs a little bit later.
- The tax line is very much consistent with our medium-term guidance, so 25.2% effective tax rate. The Indian court case has just finished, so we'll hear the outcome of that some time in the coming weeks or months; otherwise, I think tax is fairly much as planned.
- Below the line, we've got three line items there which, collectively, are about £2.7 billion of gain. Within that, we have got the £3.4 billion gain on the SFR disposal and we have taken, in an offsetting way, £450 million of additional impairment charge against the carrying value of our business in Greece.
- Adjusted earnings per share, at 7.75 pence, was down by 11.5%, but 10 of the 11.5 is because of the assets that we have sold in the last year, so the SFR, China Mobile and SoftBank assets.
- Finally, as Vittorio mentioned, we are increasing the interim dividend by 7%, consistent with our medium-term guidance on dividend increases.

So, with that, let me turn then to the service revenues. Service revenue £21.9 billion. That is an increase of 1.4% for the half year, and actually the two quarters in the half year were fairly similar to each other, so the most recent quarter, the second quarter, was 1.3% increase. MTRs, as Vittorio said, had a negative impact of about 2.4 percentage points during the period. If you look at that gross split between the two regions, Europe was down slightly – 1.3%, and AMAP was up strongly at 8.4%.

EBITDA for the half year was just over £7.5 billion, which is an increase of 2.3%. Encouragingly, the rate of margin reduction is declining, as we had expected, so we saw a 0.6 percentage point reduction in the margin for the half year. The associate income line, £2.5 billion: that is now almost exclusively Verizon Wireless, and the Verizon Wireless contribution increased 11% year on year. The free cash flow, £2.6 billion: somewhat lower than at this stage last year, for reasons I'll come on to later, but nonetheless still very much in line with our expectations for the full year.

So, on this chart, just going back six quarters in time, in grey, looking at the published organic service revenue growth for the Group, so the 1.3% for the most recent quarter, as I referred to. In

red, you can see all of those same numbers before MTR reductions, so the last couple of quarters just a fraction below 4%, but nonetheless, in the present environment, I think still pretty healthy.

So, let's look then at the service revenue change first half of the previous year to the first half of this year. So, a year ago, £21.2 billion; this year, £21.9 billion. The first column is the usual impact of the price reductions through the mobile termination rates, which took about £0.5 billion off the numbers, but the good news is that the data and the messaging growth is easily compensating for the reduction in the voice revenues. So, data for the Group as a whole was up 23.8%, and that is now an annualised run rate of about £6.3 billion. Messaging was also strong, so growth there about 5% for the first half of the year – similar to what we saw last year – and actually the demand is still very strong. So, in the first half of the year, the total number of text messages that were sent across the Group was up 19%. The total number of messages in Europe was up by 13%. Fixed revenues also increased, 6.1% increase in fixed revenues, particularly strong in Italy. Wholesale revenues up a bit, a little bit of FX, and £21.9 billion for the full half year.

So, let me now look into the Europe region and just explain the build-up there. So, on the right-hand side, in grey, you can see the 1.3% reduction in the revenues that I just referred to. Across the chart, you can see the countries that are contributing to that. So, Turkey, UK, the Netherlands, Germany all contributing, and Italy, Greece and Spain have weighed the numbers back a little bit, as you would expect. So, I'll just provide a little bit of commentary on the major markets here.

So, first of all, Turkey. Growth there in service revenues 24%, so a really, really strong quarter, really strong half year from Turkey. Slightly lower growth than previously, but obviously the lagging effect starts to come into play. Very much driven by data, where we saw revenues there growing by 85%. Smartphones are now 10% of the base in Turkey. The net promoter score, the recommendation of our customers, still is market-leading, which is extremely encouraging going forward, and starting to see the scale economies pull through with the margin improving by three percentage points.

Moving on to the UK, also a very, very strong performance in the UK. Headline service-revenue growth of 2.5%. If you strip out the MTR effect, that is an increase of 6.3%. Particularly strong in the enterprise space, and I think noteworthy that the overall ARPU for the business as a whole was actually up by 1.4% compared with the first half of last year. Data very much the engine for the growth, so a 19% increase in the data revenues. And we've now got 66% of our consumer contract revenues coming from customers on integrated tariffs; i.e. all-in voice, text and data bundles.

So, on to Germany. Germany, there the headline is essentially flat on revenues, MTRs again playing a part here. So, without the MTRs, growing at just a fraction under 4%, so I think a strong performance in Germany, in clearly, a strong market. The effects of the MTR cuts, obviously as we get towards the back end of this year, it starts to move away, so that will improve the situation in the second half of the year. Data very much underpinning this, so an increase in data revenues of 24%. Data revenues now account for 20% of the total revenues of the business. Mobile internet, which was being pushed very hard, grew 36%. Mobile broadband grew by 23%, so a really heavy push on the data side. Also on the enterprise front, we saw very encouraging market-share gains in the enterprise space, and customer gains there. 4.8% increase in the enterprise revenues. And the rollout of the LTE network, which Vittorio will touch upon later, is now well in progress, with 52,000 customers now on that network.

Now, moving on to Italy, where clearly the macro environment has been somewhat more challenging, albeit I think our performance within the market has remained good. Our service revenues there are 3% down, which is slightly worse than in the first quarter, but only a bit. We have been, I think, strong in enterprise, slightly under pressure on the consumer front. Data has

again grown strongly: 19% increase in the data revenues. Mobile internet within that has grown by 71%, particularly off the back of re-pricing of daily tariffs and more flexible price plans. Fixed has also been a success story in Italy, we've seen the fixed revenues up by 13% and, as you'll know, we have just bought some more spectrum for 4G going forwards.

Now, Spain, which continues to be challenging, I think that's been the caption there for a few quarters now. A number of things we've been doing on the commercial front in terms of re-pricing, commissions, contract extensions, I won't go into those now because Vittorio will talk about those in a few minutes, but just a couple of factoids here: data revenues are up by 15%, very much with mobile internet pushing that. Smartphones, we have now got 32% of the base with smartphones, which is up from about 22% this time last year. The margin first-half-on-first-half is down by six percentage points, but remember the margin came down in the second half of last year, so, actually, the margin is fairly similar to the immediately previous half year. Encouragingly, on number portability, we've gone back into positive territory there, which is the first time that that has been the case for a number of quarters.

So, this chart just pulls together one or two factoids on Europe as a whole. So, on the left-hand chart, in the grey, we've got the proportion of the service revenue that comes from data, so now 15%. The green is the proportion of customers who have got smartphones, so 22% of the customer base in Europe have got smartphones. That is up from 15% a year ago. In the blue, proportion of the data revenues that come from mobile internet, that is now 35%, up from 29% a year ago, and 59%, which is the red bar, of our smartphone customers have got data plans, which, again, is up quite significantly. So, I think the real drive on data is really progressively pulling through.

On the top right, just referring to the fact that there have been selective opportunities to slightly improve prices or to rebalance bundles, which is encouraging. On the bottom right, just reference to the push on enterprise, which has been a major area of focus. We have seen overall enterprise revenues, which are about 30% of total revenues for Europe, go up by about 2.5%. Interestingly, the big international accounts, which our Global Enterprise team manage, we have seen that the revenues there go up by 9% in the second quarter, so very, very significant growth on that front. And mobile penetration and the like are now all moving forwards very nicely.

So, I will now move on from Europe to the AMAP region. On the right-hand side, in grey, again you can see the 8.4% that I referred to you earlier, and the countries that contribute to that along the chart to the left. So, very, very strong contributions from India and Vodacom; Qatar and Ghana are also contributing; Egypt, New Zealand fairly neutral in an overall Group sense; and Australia, which has weighed down a little bit on the numbers here for the region. Again, Vittorio will talk about Australia in a few minutes, so I won't focus on Australia at this point.

But let me move then on to India, where the story is a very, very positive one. Service revenue growth there of 20%. There was a small benefit from SMS termination rates being introduced, but that was only two percentage points of the 20%, so still very, very strong growth there. Encouragingly, we are starting to see some of the price increases now holding in the market, so some benefits from pricing. Number of minutes year on year, we're actually up 22% on sequential quarters. Actually, the number of minutes has remained fairly stable, notwithstanding the price changes. Data has been another area, again, of focus here, so a 62% increase in the data revenues, 28 million users, which is about 19% of the total customer base now using data products.

On to Vodacom Group: announced its results yesterday. So, for the Group as a whole, we saw revenues up 6.7%, driven again very much by data – 31% increase in data revenues. Within the Vodacom Group, clearly South Africa is the dominant business. The revenues there were up by

4.9%, with good strong margins staying stable at about 35.9%. Encouragingly, the international businesses in the Group actually grew their revenues by 16.4% during the period.

So, just stepping back for the region as a whole, the chart on the left: total revenues up from £6.4 billion to £6.9 billion. On the top right, the focus upon data revenues, so 31.8% increase in data revenues for the region – real traction now. Data revenues 12% of service revenues. And on the bottom right you can see the customer growth at 23.8% of the overall customer base. Within that, the number of customers using data grew by 80%, but these still only represent about 19% of the customer base, so one in five, so four in five of our AMAP customers have yet to experience data, which I think is a strong opportunity lying in front of us.

So, with that, move away from the regions and just talk briefly about margin. As I said earlier, 0.6 percentage-point reduction in the margin, which was very much on the track that we set ourselves for the current year. In many senses, actually, if one takes Spain and Australia alone, both of which lost about six percentage points of margin, actually those two together are the reason for the reduction in the margin for the Group. So, if you take all of the rest of the businesses put together, actually net they were slightly positive, at 0.3%; i.e. the extra revenue plus what we've been doing on the costs have funded the investment in customers and left a little bit over. So, I think that has been encouraging.

In the second half of the year, I think we will see a similar level of reduction. Obviously, this is now becoming quite precise. We will have some areas where there are cost pressures, particularly on fuel prices in some markets, but, on the other hand, we are doing a lot still on the cost front on other areas to try to create the funding for the investment in the customer growth.

Just let me talk maybe about one or two of those just very briefly on this chart here. So, the top left chart is showing the prepaid commissions as a proportion of our prepaid revenues for Europe on the left and AMAP on the right. You can see they're not big numbers, but every bit helps off such big volumes: a 0.3% reduction in Europe, a 0.8% reduction in AMAP. The top right chart is showing the total number of customers and the total customer care costs. You can see customer numbers have gone up about 14% and we have kept the costs flat.

On the bottom left chart is the cost per terminal, so we are delivering tens of millions of terminals to our customer base over the year, and this is over a four-year period: we have seen a 32% reduction through a number of initiatives we've undertaken on that front. And then, on the bottom right, we've got the number of network locations that are shared with others, which clearly reduces significantly the costs, and roughly order of magnitude as of today, in terms of new sites in Europe, two out of every three sites are shared, and in AMAP probably four out of every five sites are now shared, which clearly helps significantly. So, that was the EBITDA.

I'll now move on to Verizon Wireless. These numbers, published a few days ago by Verizon Comms, but nonetheless the story here, I think, is a very, very strong one. Growth in the top line has been of the order of 6% for several quarters. The last quarter was 6.4%. The ARPU for retail customers was actually up by 2.4%, and the business added 900,000 net contract customers in the most recent quarter.

On the bottom left, you can see the wireless margin for the business, which is still market-leading and at very, very strong levels. On the bottom right, there's a chart showing the progression of the debt situation in Verizon Wireless, with red being the published net debt, so we've come down from \$29 billion to \$3 billion in the last two years, so something of the order of \$12 billion per annum. In grey is the gross debt, so there is still some debt in the business, so, at the end of September, in essence there was \$12 billion of debt, \$9 billion of cash, and \$3 billion of net debt. Nonetheless,

the \$9 billion of cash is essentially what will fund the payment of the \$10 billion dividend that will come out in January.

Verizon Wireless, like Vodafone, pushing very, very heavily on the data front. Their growth is of the order of 20%, similar to our own. LTE, the rollout of the network there is very, very much on plan. It's not slightly ahead of plan now, so 186 million of the population are now covered with the LTE network. In the second quarter, there were 1.4 million LTE-capable devices that were sold into the customer base.

So, change of tack, on to costs of financing – the interest cost in our P&L. So, on the top line here we've got the underlying cost, which has gone up by about £130 million in the year, so our average cost of debt now is just a fraction under 5%, and the next couple of lines have got some mark-to-market adjustments, which basically relate to the fact that we have made a conscious decision to move much more of our debt to fixed; in the past, we've been more floating. We've now fixed about three quarters of our debt for the next three years, which we think, with current rates, is the right thing to do. So, that means, at the middle point on here, we've got an increase from about £650 million to £900 million on the financing-cost line, but buying, I think, a lot of certainty with that. And then, down below, last year we got some benefits which are clearly non-recurring from the SoftBank asset appreciation, and also the dividend from China Mobile.

In terms of free cash flow, £2.6 billion playing £3.5 billion for last year. Really, two major items in here: the capital expenditure, which is slightly higher than last year, £200 million, and that particularly about investing in 3G in India, it is about strengthening the transmission system in Vodacom, the LTE rollout in Germany, and the upgrade of the network in Australia, so very consistent with our full-year plans, but just slightly earlier. A second one, which is more significant, is the working capital, which was a £0.4 billion outflow last year and a £1.3 billion outflow this year. I'd make two comments on this: this is a business that has about £1.5 billion of cash flowing in and out every single week of the year, so this has got a big, big volume through it.

Last year was, if anything, abnormally low. As an outflow, we took some advantage of some early settlements in the previous year, which actually took some of the cash outflows out. And secondly, in the current year, we are essentially paying - if you think about network and capital expenditure, the run rate is such that the fourth quarter typically has a much higher level of spend. When we actually pay suppliers for that will typically be another 70-75 days later, so we have got the best of about £1 billion of last year's capex which gets paid out as cash in the current year, and essentially that normalises in the second half. So, put another way, £2.6 billion at the half year, £5.2 billion annualised, £1 billion of capex, and we are bang in the middle of the range that we've got for the guidance. So, we are very, very comfortable with the guidance and absolutely on-track for that.

So, on to net debt. We started the period with £30 billion of net debt and we have ended with £26.2 billion, which equates to about 1.7 times EBITDA. Big-ticket item in there, or the biggest single one, is the proceeds from the disposal of SFR at £6.8 billion. The buyback programmes: so, we have had part of the final stages of the China Mobile and the early stages of the SFR buyback programmes gone through, which, in aggregate, is about £1.8 billion, and I think it's another £0.4 billion has gone out, actually, since the end of September. Small amounts to do with spectrum and the Essar minority, and essentially £26 billion is the closing number.

The second half of the year will have one or two lumpy items, if you like, so Polkomtel, we should receive net of tax about £0.6 billion. The Verizon Wireless dividend in January will be £2.8 billion in and £2 billion out, so the net £0.8 billion in. The share buyback programme, at current run rates, will be about, give or take, £1.9 billion in the second half of the year. And we have just paid €1.3 billion for the spectrum in Italy.

I just wanted to step back one second just in terms of shareholder returns. This is a chart that covers a four-year period. In red, you can see the normal ongoing dividends, which amount over that period to about £17 billion. In blue, we have put the Verizon Wireless dividends that will be paid in early February, and in grey is the share buyback programmes, including the current run rates at the end of this financial year. In aggregate, the buybacks are about £7 billion. So, in total, that is about £26 billion of cash, that is about 30% of our current market cap actually being returned to shareholders in a four-year period – huge, huge numbers.

Now, ironically, I do remember the days when people were telling Vodafone that proportionate accounting was a complexity and we should abandon it and we should move on. What we actually did was abandoned it, sorted out a lot of our controlling positions, and now, essentially, we have one minority business that has grown incredibly stronger. And I know a number of people have said, actually, to understand what our numbers look like, if we had got our 45% share of Verizon Wireless factored in there.

So, these are basically Vodafone on a pro-forma basis plus 45% of Verizon Wireless. And this goes back the four quarters ended the end of September, so it's a one-year period leading to 30 September. So, the actual service revenue growth that we reported, 2% for that period. If you included 45% of Verizon Wireless, it would be 3.3% (average of last 5 quarters). EBITDA margin would be about two percentage points higher. With EBITDA, rather than being a £15 billion EBITDA company, we would be a £22 billion company, and free cash flow, rather than being £6.2 billion order of magnitude, about £9.6 billion. So, I think that just provides a slightly broader context.

So, on to guidance and then I'll draw this piece to a close. So, we have decided that, with the half year now under our belt and the general trends we see in the business, we are comfortable to now move the guidance into the upper half of the range that we indicated at the start of the year. So, £11.4-11.8 billion is where we now think we should end up the full year. The free cash flow we've left in the £6-6.5 billion range, still with a view that we should see some improvement in the rate of decline of margins. Capital expenditure, fairly similar to last year, and a 1-4% service-revenue range is still the target; obviously, slightly at the lower end in the nearer term, but within that range over the medium term.

So, to pull it together, I think it's a fairly consistent performance, with revenues up 1.4%, margin decline halved, free cash flow for the year confirmed, comfortable with the debt levels, dividends going up 7% plus the Verizon Wireless dividend on top, and actually, if you take our normal dividend plus the Verizon Wireless dividend collectively, we will be about 13% of the FTSE 100 dividend this year on our own.

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

Commercial and Strategic Progress

Vittorio Colao

Good. So, I'd like to use 20 minutes now of your time to go through the assessment of the commercial performance: what has gone well, what has gone less well. Andy has the privilege to talk about things that go well; I have to focus on the part of the glass which is not half full glass, which is empty, but there is a part that still is empty. I would like to talk about growth opportunities and then discuss the priorities.

So, first of all, at a high level, how is the Group evolving? And this is a bit the way I look at the business. As you can see, this part of the chart, we are getting more revenues from emerging markets, from data, and a bit less from traditional mature voice. As you can see, we have now 60% coming from the first set of areas, and 40% from the latter. It's a positive trend because this means that our revenue flows are more future-proof. In the last quarter, European mobile voice went down 9%, data in Europe up 21% and emerging markets up 13%. And this is a positive, I would say, trend.

Look at the other parts of the chart: we are also managing proactively the risks of the transition to data with integrated tiered plans. 18% of our revenues are today coming from consumer contracts out of bundle plus incoming, which you can see are the more at-risk part of our revenues, and 51% are coming from enterprise and consumer contracts in bundles. We moved up the share of consumer contracts that are coming from integrated tariffs; we moved up nine points to 36%. So, I would say the way I look at the business, the profile of our revenues keeps improving quarter after quarter as a consequence of our actions, and we are more and more of a future-proof-type of company.

How are we doing commercially? Here we have put the market share relative to the main competitors. We did better – this is Q1 data – in 14 out of 18 markets. If you let me put also South Africa, given the big market share that we have there, we have done better than the competitors in 15 out of 18, which I think is good and I'm pleased with it. We have three situations which we are not pleased with. One is easy to deal with: it's Greece. Clearly, in Greece, there's an economic situation which is difficult. We want to cooperate with Wind there, if we are allowed, and that's more of a macro type of situation. The other two are Spain and Australia, that deserve a few words.

First of all, Spain: Spain is a weak economy. There's strong competition in Spain, but there are also some structural problems; namely high per-minute prices and high commercial costs. So, to improve our competitiveness, we have strengthened our management team there. We have lowered prices – the six- and eight-eurocent price plans that we have introduced. We have introduced integrated data plans.

And to work on the structural problems, we have increased the contract length from 18 to 24 months, and worked on distribution costs, and especially on commissions. And the results, which are indicated in the right part of the chart, the initial results, I would say, are good. We have an improvement in ARPU: €8 from the new contract versus the base. We are back to positive portability, albeit for a small number. We've one third of the consumer contracts now coming from the longer 24-month terms, which, again, is positive. And we have some reduction in channel costs. This is good. I think revenue and EBITDA, however, will continue to remain under pressure for a number of quarters, so I don't see any short-term return to growth in revenue and EBITDA, but these are structural measures to improve the Spanish market for the long term.

Australia is the other situation which we are not pleased with. This has really started with some network issues due to a switchover that we had to make as a consequence of the merger. That has turned into customer dissatisfaction and then into clear revenue issues. So, what have we done? We have fixed the network problems. We have first upgraded our 3G network to the 850MHz, with now the programme being beyond half of it – 900 sites over 1,500. We are swapping out the RAN and introducing the new more modern software and hardware with Huawei. The programme is underway.

And I have to say we have worked a lot on commercial initiatives, rebranding the shops, closing the wrong ones, fitting the good ones with the new Vodafone system. The results are there, as you can see from the chart. Network statistics have improved. We now have network metrics which

are back where they should be. We have abandoned call rates which have gone down to the normal level, and good service levels. And I have to say, also from a cost perspective, the synergies that we were counting on when we did the merger with 3 are on track. However, I have to say I am not pleased. The customer metrics are not right, and that will take a few more quarters. So, these were the two, if you want, situations where I think that the glass is not yet full.

Let me now cover a bit the areas of growth potential, starting with Supermobile – the strategy that we illustrated last year, one year ago, which is not just about network. It's about network, it's about customer experience, it's about devices and it's about pricing and profitability. First of all, starting from network and going clockwise, we continue to work to reinforce our leadership in this area. It's really four sets of actions – it's not four actions but four sets of actions.

First thing, improving and increasing the speed of our networks. We have gone up another 10 percentage points on both the uplink and the downlink on HSDPA, with a target performance that now, I think, is what I would call the video-quality type of target. And of course we are launching LTE where we can. In Germany, we have now about 52,000 customers, we have 1,300 sites. The average speed here, for those of you who have not got the chance to try it, is between six and 12 Mbps. Important thing is the latency. Latency is really reduced to DSL type of levels, as opposed to the 120-130 milliseconds that you can have today on any of these phones. On an LTE handset, you go down to 35-50 milliseconds, which, again, is a fixed-line level. And we're now starting to launch in cities, so not just in urban areas but also in places like Düsseldorf.

The second action is moving to single RAN. Single RAN has clearly an advantage over cost. It means less maintenance and less energy, but it also means that the network will be upgradeable with very little effort to LTE. So, in a way, it's an action which is at the base of the previous one.

We are improving our backhaul capacity. Sometimes I get questions from investors and analysts on, 'Are you really going to be able to carry all the traffic out of the base stations?' Now, with IP microwave, I can tell you we can bring everything that the current technology enables in terms of speed, but we also have fibre or managed Ethernet in about a third of our sites today, up from 20% in the last semester. So, we are strengthening also the backbone of our networks.

And finally, we continue to acquire and optimise spectrum. We've got spectrum, of course, in Germany, in Italy, in Spain in the last six months. We are re-farming 900, again, to use the spectrum and the cost of it in the most efficient way.

The results are here. The results are, I think, positive. Data traffic growth is now aligning with revenue growth, around 20%. This is happening because we are proactively managing this. We have reduced peer-to-peer traffic 20-30% in our key markets. We are managing video traffic, again reductions which go in the 15-30% range. The interesting point here: traffic is moving to smartphones. As you can see from the bottom part of the chart, now 21% of our traffic comes from smartphones and 79% from mobile broadband. Given the 20% overall traffic, it means that all the increment is in the smartphone part, and actually mobile broadband is gently going down – a 1-2% total reduction. And as you can see from the right hand part of the chart, smartphone per-user traffic is going up from 100 to 130 MB per month, and data cards are going down from 1.6 to 1.4GB.

Now, this is the result, of course, of the fact that we all use smartphones, tablets and other stuff, but you must remember that I always use my metaphor of the motorway, saying we have trucks in the motorways, and these are the mobile broadband, and when you take out one truck you can fit in seven cars, and these are the smartphones. This is exactly what is happening. By managing our capacity, we can cope with traffic growth. The result is in the usual statistics that I always share with investors and analysts: what is the average utilisation rate of our network? Keeps being 35%,

36%, 37%. What is the percentage of sites which are fully used in the busy hour? Keeps being 7%. So, I think we are managing good and healthy growth in the smartphone area, without any major inconvenience at network levels.

Technology is not just about network. Often I am asked, again, 'What's the Vodafone advantage in managing technology?' Let me talk about IT. Basically, here we are working on two directions: one is standardisation, of course, and so making sure that we have the same thing anywhere; and simplification. We are now on standard information systems deployed in 11 markets – ERP systems in 11 markets. We can optimise resourcing of our services across three centres: one in Budapest, two in India and one in Egypt. We are consolidating our vendors. We went down from eight to two CRM providers.

And we have our cloud infrastructure, which is being fully virtualised, which means that, today in Europe, we have virtualised Dublin, Milan and Ratingen, and, by the end of this year, we will virtualise also South Africa and India, which means, right part of the chart, that we have seen in the last four years an increase of 20% in the service that we manage, but an decrease in the cost by 40%. So, we are basically developing a very efficient Vodafone way of managing data centres. This has been recognised by Gartner, who gave us top quartile in the efficiency rankings.

The second element of Supermobile was the customer experience. This is really about redesigning retail. We have the new format of the stores that we are rolling out across Europe – a very positive reaction from the customers here in the UK. Using more online: more than 50% of our bills in Europe are going online. Evolving our strategy in the contact-centre area from what used to be called call-centre strategy into a contact-centre strategy, using more social media. 55 million contacts per year through our social media contact centres. Now, Vodafone deals with customers more outside of call centres than inside call centres. The call centres are not the main thing, and of course there is a big efficiency into this, on top of the fact that customers like this way of interacting. And we are rolling out in all of our markets – 14 today – mobile self-care apps on smartphones and tablets, which, again, is a reinforcement of a good customer experience but also a cost reduction across our footprint.

Devices are a very important element of our Supermobile strategy – 22% penetration of smartphones, up 7 percentage points year on year. The UK and Netherlands are already above 35%. As you can see in the chart – clearly contracts, 37.3% penetration, versus pre-pay only 12.4% – so it's progressing in both segments but it's clearly quicker in contracts. Essential to get to higher levels is the cost of the smartphone. We said that we had a target to go below the 100 mark. We are now below 80. My new target, the target that Morten and I gave to our vendors, is now, 'Please bring us the €50 smartphone.' This is very important not just for what is called 'the democratisation of data', i.e. bringing data to emerging markets, but it's also important, as I indicated earlier, for the pre-paid segment and for the lower bands of the customer segments. As you can see in the picture, we have some very good Vodafone-branded handsets. The 858 will do more than 1 million pieces by the end of the year. The Facebook phone is again another interesting way to introduce Facebook in a low-cost way and we are now getting into tablets with the Vodafone Smart, which will cost about two thirds of another well-known tablet.

A question about profitability that you always ask – these are the latest numbers. Migration to smartphones creates more revenue, positive, 27% contracted over the lifetime revenue increase, which is compensated by an increase in subsidy and acquisition and retentions, +123%, leaving a small increase in profits. The good news here is that the average ARPU uplift has marginally gone up a bit in the last quarter, and we are still are – last year I said in the €2-10 range – we are still exactly in the middle of that and gently moving up. Of course, I don't think this is enough. It should be better.

Therefore, this is what we are doing to improve it. First of all, working at ARPU level, tier pricing with lower entry level will help people get into smartphones. Push integrated tariffs – 24% of the European consumer contract base, up 8 percentage points, is now on integrated tariffs and we are driving up attach rates. We need to improve the ARPU component of data in Europe, I would say, to bring it into the American space. The second element of the strategy is A&R. I talked about devices; clearly we need to have a deeper portfolio of devices, so we can make sure that we can work on the economic equation also on this element. Finally, we are increasing, lengthening, the typical contract length by extending the terms of the contract, and therefore improving the lifetime value for the customers. Here we have examples in Spain and Ireland. Even in machine-to-machine, where you can go beyond 24 months. I think that would be a very good thing. Pricing and profitability are very important and very much driven by devices and by ARPU. Supermobile is delivering.

I want to say a few words about new services. We talked a lot about new services. First of all, we have the philosophical approach of Vodafone. Again, most of you know about this. We have moved from what was the old approach, a walled garden type of approach, a fully vertically integrated approach and a single operator approach to something that now calls for more open standards: a strong integration of Vodafone and third-party services, so not just relying on our own integration capability being the key selling point; and, when needed or when possible, having a joint operators' approach, like for example for payments, where you need to work with the industry to establish standards.

If you look at what new services are today for Vodafone, as you can see in the chart, it's about £250 million per year of revenue. I can call this a small OpCo for Vodafone, so new services altogether are like a small OpCo, and this includes everything from machine-to-machine, near field communications, mobile advertising and financial services. However, the addressable market, I mean what the market is expected to be by 2020, is more in the £10 billion range, which would be a decent large European market. A small OpCo today with a big market in front tomorrow.

Here I would like to talk about three things, first of all machine-to-machine. Machine-to-machine is a large opportunity. There is a €3 billion market that is expected to go to €6 billion in a few years. It's a market that, in terms of connections, could probably go up four times and where Vodafone has, I believe, a stronger set of advantages – first, scale; second, the platform. We have a non-geographically defined platform to manage machine-to-machine that enables us to deal with whoever wants to ship anything from cars to cameras to toys for playing or whatever to every market, regardless of the geography. Third, we have a network of partners that covers 70 markets, so we can really deliver end to end across the world. Here our performance is good: we have a 33% revenue growth and 6.2 million connections. This is an area where we are investing more and where, I would say, everybody who wants to play into the machine-to-machine segment – and namely we are talking about automotive, we are talking about security, we are talking about metering, we are talking about games – sees Vodafone as the preferred partner. Machine-to-machine is the first one.

Second is financial services and typically M-Pesa. You might remember that M-Pesa was a Kenyan type of thing. Now it's not a Kenyan-only type of thing. You see there's a blue bar there that is Tanzania, and there are other markets, still small but going up. We transfer \$670 million per month through M-Pesa and this is up from \$300 million last year. Safaricom gets 12% of revenues [from M-Pesa] and we are very committed and very convinced that there is a big opportunity in other emerging markets. If you just think of India, in India out of, I think, 700 million people who are unbanked, 230 million of these have a phone, so the opportunity there is really very big. We launched in Rajasthan in July. We plan to launch in other circles in the course of the year and other next year, and we are looking at Egypt, where we are trying to get regulatory approval to go into another market where there's another 80 million people who might really enjoy this service.

There's a small additional business that we will go into, which is international remittances. It's not a huge business but, again, it's part of a very positive customer experience that we can deliver.

Finally, I would like to talk about operator billing. We all talk about apps. We know that, in the world, 25 billion apps are downloaded every year. It's true that 85% of those are free, but there are still 2 to 3 billion apps for money that are downloaded every year. We have opened our operator billing to these developers and to the app stores that are interested in it. We are now in eight markets with RIM, Nokia and Google. 70% of BlackBerry downloads are paid through operator billing and, wherever we open operator billing, we see very positive take-up of download of paid applications. An interesting aspect of this is also other players, not just the app stores. We put here two examples: in Italy and in Germany, we gave operator apps also to media companies. I have to say that, in Italy, the number of downloads through our billing is higher than the number of downloads happening through an iStore that is very popular these days. There is a great potential, I believe, for operator billing. There's no point in me talking too much about it. Can we show how it works?

[Video presentation]

Why am I convinced this is good? This works very well with pre-pay; this works very well in emerging markets; and this works very well for credit challenge segments. It is a very intuitive and easy way of enabling digital commerce. I'm convinced that this is going to be important and we will open to everybody who is interested in all of our markets.

The final thing is total communications. Here I would like to focus a bit on Enterprise. Enterprise is the segment where total communication is opening, for Vodafone, new opportunities. Let me talk about three trends, first of all mobilisation of workers. We all know that, in all companies, people are bringing their own devices. People want to use tablets; people want to extend what they usually normally do on a PC to their personal devices. This is a trend that goes in our direction because device management becomes very important, because security management becomes very important.

The second trend is large companies moving to IP networks, which means that, once they have them, they start looking at unified communications. We've been active in unified communications across mobile and fixed for a number of years in Europe, so again we are kind of a specialist in this. The third trend is Cloud services. Companies going to cloud, especially small companies, are buying software more and more as a service from the Cloud. What we have is the distribution, the sales force, the relationship on a daily basis with companies that don't have the sophistication of large companies. Again, three trends in the Enterprise space go into our direction.

What are our activities here? I would say we want to play selectively here. Clearly at the fixed data services level, we are basically re-selling where we have our own services or the Verizon services, IP VPN, on a broader scale. We have an agreement to do so. The communication service layers, clearly solutions like the [Vodafone] One Net you have in your appendix, the economics look very good. We have 1.7 million users in Europe of One Net. We are going to push the One Net solution across all of the European countries and also to the large OpCos outside of Europe. We don't intend to play at the hosting level; we don't think we can reasonably be very competitive today at the hosting level, so we don't have plans there. Instead, we want especially to be in the SME segment, and we are already selling in the SME segment, reselling software as a service from the Microsofts, the Googles or whoever sees an opportunity to work with us.

Finally at the higher level, ICT services, we don't have an intention to be a direct major competitor to IBM and Accenture but, for the VGE parts, so the multinational accounts where we are very strong and we have a very strong and dominant position, we are actually acquiring consulting skills

to play for those accounts in that space, an integration of the basic services. Convergence in Enterprise is giving us more opportunities than in the past and this is how we want to exploit them.

To conclude, Supermobile is working. We have a small OpCo in new services but potentially a big market in front of us. Enterprise can help. What are the priorities going forward? I would say, first of all, geographically in Europe we want to maintain our competitive edge and of course we need to work on cost, because we didn't talk much about the macroeconomic situation, but we need to be ready for, especially in southern Europe, some continuation of the challenging times. In emerging markets, we need to continue to focus on growth and profitability but particularly stimulate the data take-up. I am a great believer in data in emerging markets, and therefore we want to play in emerging markets the same role that we have played in Europe. In the US, we need to continue the collaboration on technology and purchasing, and especially on large accounts.

In terms of business priorities, on data we are continuing our network leadership investment, but also working on improvement of the data economics. We will develop new services integrating our own capabilities with third-party platforms, and then Enterprise which, as I described, means not just the large international accounts but also SMEs and SOHOs. All of this is to continue to deliver, as Andy has illustrated, our cash flow and profits to support our commitments to shareholders' returns. This is the end of my presentation. I will ask my colleagues to join me for your questions.

Questions and Answers

Participant – Justin Funnell, Credit Suisse

Can you discuss a little bit what sort of benefit you may have had from entering the iPhone market late in Europe in terms of market share gain and at what point that might wear off, and secondly, whether we should be bracing ourselves for an effect on margin in the second half from the iPhone 4S? Otherwise, could we see India, given the high rates of growth, start to grow more in scale more, where we start to see margin gains in that business over the next couple of years?

Vittorio Colao

I will start the iPhone answer, then maybe Michel can integrate on the 4S and Nick on the India thing. I don't think we've got a particular benefit from being late on the iPhone. If I have to be honest, actually we suffered quite a bit. Now the situation is normalised; we are back to where the normal situation should be. I always said throughout the two years where we had not had the iPhone that there was a clear drag on us coming from not having it. Now customers can basically choose what they want, and that's where our Supermobile strategy should give us a little bit of a differential advantage. I don't think you can say we have got a real advantage. There was a bit of catch-up, but not a huge amount. On the 4S, Michel.

Michel Combes, Chief Executive Officer, Europe Region

On the first point, yes, the catch-up is now done and I guess we are quite successful with the iPhone. On the 4S, we don't see a major impact on margin in the second half. We have had a little bit of impact this month in the UK for example, because that was the first month of launch. Probably it will substitute to some high end type of our phones, so we don't foresee a major impact from the 4S.

Nick Read, Chief Executive Officer, Africa, Middle East and Asia Pacific Region

In Europe, yes, I do think we're at the point of seeing the scale effects moving forward. You've got the benefits obviously of pricing feeding through, with price increases going in the market, but also greater site sharing and asset sharing just generally and, I would say, optimisation of A&R.

Nick Delfas, Morgan Stanley

Really in contrast first with Germany, where I think your margins excluding fixed line are rising and probably above 50%, versus Spain, which I know is a very different macro but you actually have a decline in EBITDA that is faster than the decline in revenue, which is quite unusual and not what we're seeing from Telefónica, what is the reason? Is it the starting point that was more difficult in Spain? The price perception? Why is Spain so much worse than, say, Germany?

The second question is you didn't mention fixed line in your presentation at all. Is there any point having fixed line bases anymore within Vodafone or is it something you could divest?

Vittorio Colao

Let me talk the broad answer for myself and then eventually, if you have more detailed questions, we can integrate. First of all, the Spain versus Germany thing, I don't think our mobile margin is above 50% in Germany – in Italy, maybe – but you're right: directionally it's higher than the 37.8% average indicates. It's a very different situation from Spain. Spain had, as I said, a departure point of very high premium prices and very high commercial costs, so we made a deliberate decision to say we need to put the market in long-term sustainable conditions, which means lower prices and much lower structural costs, also because a country of 40 million people cannot have that type of very expensive distribution. We needed to make an effort that will eat into the customer base's revenues for a while, in terms of rebalancing the market. In the mean time, we're also doing all the other things, so rationalising distributions, reducing commissions and all these things. Germany is a very different case. Germany is a case where the average price is more or less, if not even a touch below, the average of Europe. It doesn't require that type of treatment. It's a very different situation. One is the deliberate choice of restructuring. The other one is a great market just continuing to grow.

Nick Delfas

I guess the issue is that the costs are actually going up in Spain faster than the revenues are coming down, if you see what I mean. The decline in EBITDA is actually bigger than the decline in revenue in Spain, which indicates that actually you're investing more in the cost base.

Michel Combes

On the two countries, first I guess that we spoke about Germany in the past few quarters. We have renewed good growth so now we are tackling the cost structure, and that's where you see that we have an improvement in our EBITDA margin for the first time in Germany. I guess that it's what we were committed to do and there is more to be done in the cost structure in Germany, in order to ensure that we can still improve the profitability there.

As far as Spain is concerned, there are two things that we might highlight in the cost structure. One is around commercial spend, as Vittorio has just mentioned. In order to regain competitive traction, we have had to make improvements in our offers but also to increase our A&R to push

smartphones. When you look at the smartphone penetration in Spain, it has increased quite significantly. Our data growth was around 60% on internet on your mobile in the quarter, so that was a real choice that we have done there. Meanwhile by the way, we have tried to focus on, let's say, efficiencies of A&R, pushing for 24-month contracts and also aligning our A&R to the high-value type of package, which means that our A&R intensity – the level of A&R that we spend through commitments from our customers – is decreasing, but it's true that, in absolute terms, it increased slightly.

Secondly in opex, you're right. The cost structure in Spain has always been quite lean but for different reasons, meaning customer care, where we have faced some issues migrating to data. There we have had to make some one-shot investments in our customer care in order to improve it and to improve our customer experience, but there as well we intend to continue to work on our cost structure in the next coming quarters.

Vittorio Colao

On fixed line, your second question, we didn't talk about fixed line in broader terms, because I always said that fixed line is a local strategy. Andy mentioned Italy is going very well – 13% growth. Germany is going well, especially in Enterprise, 6-7% growth in Enterprise in Germany. It really depends a lot. In other markets, I can mention Turkey and India, which are small but going up a lot. It's a very local type of strategy. It depends on what the competitors do; it depends on the regulatory framework; it depends on our infrastructure. It's difficult for us to generalise. Do we need to dispose of those bases? No, we need just to make the integration of fixed and mobile in whichever way makes sense at the local level. Therefore, it's not a generalised strategy.

Robin Bienenstock, Sanford C. Bernstein

This time last year we were all talking about soft SIMs, and now we are seeing iMessage, iVoice and two increasingly dominant operating systems. I guess a simple question or high-level question: are you more or less worried about value chain threats than you were a year ago? How do you think you can improve your relative negotiating power versus the operating systems and, I guess in particular, Apple?

Vittorio Colao

Last year you were talking about these things; you were writing about them the night before, if I remember correctly. I would say we are neither more worried nor less worried; we are aware, which is the important thing. The reason why I started my presentation with how much is [integrated tariffs], is exactly because we are aware that there are technological changes. We need to ride these changes. We cannot fight against them. We need to make sure that the revenue composition and how we charge our customers is consistent with the future. Is iMessage something that can eat into our SMS revenues? Answer: yes, if you don't have integrated pricing; less, if you have integrated pricing; or even nothing, if you have integrated pricing. This is why we are stressing how much and what's the progress that we have made in the last six months introducing integrated pricing. We keep watching. We are very alert. We are very aware.

How can we change our power? Here we have to be careful in not mixing two things: one, what customers want. If something is wanted by our customers, there's no point in fighting against it. It's just a matter of pricing in an intelligent way. I cannot go against the will of the customer. If something is good, it's good. That's the end of the story. The different thing is how I can change the balance of power in the economic relationship with these guys, and the only answer is by

having more choice, which is why we support Android. Android is by far our biggest contributor, which is why we would support a third system coming from Windows, Nokia or whoever, which is why we like BlackBerry. At the end of the day, the more choice you have, the better it is, which is why I also made the point about the tablets. Tablets cannot be done on just one single thing. There is nothing else other than having more competition and having choice.

Robin Bienenstock

You can see your pricing go in the right direction in contract more, in bundles, etc. Are you also happy that your pre-pay pricing is going in the right direction?

Vittorio Colao

I think Italy went up to €2.5, right, Michel? Even in pre-paid you can do the right thing. At the end of the day, whether I pay €2.5 a day, €7 a week or €20 a month, it's still a concept of bundle. That's exactly the reason why Michel is moving all the European companies in that direction.

James Britton, Nomura

Firstly around the cost focus of the company, you've transitioned towards perhaps more of a growth angle, but can we expect a new group-wide cost savings plan when the current one comes to an end and are you able to sustain the current cost savings run rate, £500 million a year? Secondly, you talked about being quite confident about recovery in top-line growth in the second half. In the appendix to the pack, you identified the MTR relaxation in the second half, which doesn't seem that significant. How confident are you still today about recovery in the second half?

Andy Halford

On the cost one, we identified a number of the initiatives that we have been undertaking. Vittorio talked about some in IT; I talked about some in the network logistics side. We are constantly working away on cost initiatives. The programme we have underway at the moment – I think we talked about a two-year programme – is absolutely on track. We are getting the savings out. We just aren't talking about them maybe as much, but we've given some visibility there. We've just had another discussion about where the next series of cost reductions will come from. This is like filling a hopper, because from the idea to actually researching it to starting to put it into motion, so we are constantly needing to work a year ahead. Yes, we're absolutely working on the cost side and there are all sorts of areas where we will now be starting to engage to look at what we can next do.

James Britton

The top-line recovery?

Andy Halford

The top-line recovery, the MTR part you touched briefly upon. We get the benefit, particularly in Germany, that starts to roll through in the latter part of the year. The MTR effect will be slightly lower in the second half than in the first half. What we've said about the generality of the rest of the business – we've got good momentum in many of the markets. Overall, I think we're comfortable with the direction of travel at the moment.

James Britton

Do you expect growth to increase in the second half?

Andy Halford

I didn't say I'd expect it to increase. I expect that we'll keep the momentum going.

Emmet Kelly, Merrill Lynch

Two questions, please. Firstly, you've increased prices in some of your key markets. I think outgoing call prices have gone up in India; contract prices have gone up in the Netherlands; I think there were some pre-paid price increases in the UK. Can you just say what impact and traction you have had with those price increases in your second quarter and what you're expecting going forward?

The second question is more a big-picture question. If I go back two years ago, Verizon Wireless decided to push ahead very aggressively with LTE. Their balance sheet had started to deleverage and I think they saw an opportunity maybe to grab some market share from some of their competitors, especially from AT&T, which was having problems with their network at the time. Going into 2012-13, your balance sheet now looks like it's in a pretty reasonable shape as well. It's also fair to say that some of your main competitors are capital-constrained, the likes of Telefónica in Spain or in the UK. Do you think there is any merit in perhaps replicating the Verizon Wireless strategy and maybe pushing ahead a little bit more aggressively with LTE to maybe win a bit of market share?

Vittorio Colao

Let me take the big-picture question and maybe, Michel, you want to answer on pricing.

Michel Combes

In the different markets in which we do operate, yes, that's true; we have tried to improve a little bit our pricing when it is feasible. I will give you two examples. In Netherlands, on one side, what we have done is reduced data allowance. More and more you will see us trying to do that, because we have always said that our strategy was to monetise data in the future, so not to give too much data to start with and then allow our customers to be able to upgrade. In the Netherlands, we have also introduced different types of price plans with additional features in them, which allow us to increase a little bit the price. In the UK that was slightly different. We have rounded some prices and we have also increased some out-of-bundle prices, because customers want to be clear what is in the bundle and are a little bit less relaxed when it is for spend outside of those bundles. That's things that we have done in the past in Portugal, in Spain and in Italy, so you can expect from us, to try to improve the pricing when the conditions are there and where we can get traction. You were asking me whether it has had any impact. You see in our figures that, in the UK and in the Netherlands, it has translated to [above] ordinary growth.

Nick Read

If you take India as the example you used, we put through a 20% effective price increase. Those prices are ceding into the base as we speak, so we are about 20% penetrated at the moment. We

expect that to be 60% penetrated by the end of the fiscal year, so you've already seen, quarter over quarter, that our price point has now stabilised. I hope that it will improve going forward. If I was using Africa, I'd say inflation across Africa has clearly made operators acutely aware of the need to consider pricing. Instead of big headline drops, you've seen a stabilisation and more promotional pricing. In Kenya, Safaricom just up their prices.

Vittorio Colao

On the big-picture question, let me tell you, first of all, we are not and I am not shy of investing, if we can create a competitive advantage, which is why, as Andy has said, our capex is slightly up, which is why we have never reduced our investments, even in the horrible 2008-09 period. I do believe that technology can be an advantage for a company like Vodafone or for a company like Verizon, and we would definitely invest if we saw the benefit. I'm not sure you can translate the Verizon Wireless LTE story straight into Europe, in the sense that we have, as I have indicated, a little bit of a broader approach with HSDPA, which has room to grow. We have LTE, so where we get the frequencies, like in Germany, the answer is yes; we are getting now into the cities. In other places, we will improve first HSDPA, using the RAN to make sure that, at any point in time, you can switch and integrate, but there's no point in anticipating big investments if the handsets are not there or if you don't see your opportunity. The answer to your question is a philosophical yes, but not exactly the same strategy as Verizon Wireless.

Emmet Kelly

If Apple were to come out with an LTE version of the iPhone next year, does that change it?

Vittorio Colao

We would sell it in Germany where we have an LTE network.

Andrew Beale, Arete Research

Can I come back to the pricing question? Can you just talk a little bit about the consumer acceptance of pricing increases and whether they are starting to see more benefit from slightly higher data pricing and whether it is simply a matter of in-market competition and what your rivals are doing now?

Secondly, just looking at the costs of network and technology more generally, obviously you've talked a bit about the benefits of single RAN. I'm just wondering about some of the other things that seem to be coming out of the vendors now, such as centralising the OSS/BSS, potentially in the longer term moving the base band into the Cloud – whether those are things that might change the capital intensity or opex of the business.

Vittorio Colao

The second is a perfect big-picture question for Steve, who is the CTO. On the first one on pricing, it's very difficult to say if you can really increase prices regardless of competitors. The answer is no. Are we seeing a certain willingness on the customer side to take decent price increases, when there is value in them? The answer is yes. What is decent depends a bit on how the competitors react. In some markets it's £1 or £2. In others, it's £0.5 or €0.5 in the Italian pre-paid case. In some markets, it's a fraction of a rupee. You have to basically follow what the competitors are

doing. What we are seeing is, given the low levels of the European prices and the super-low levels of the Indian prices, at the end of the day, there is not a negative reaction if you do things in an intelligent and proper way. That's what I would characterise, but it's very difficult to say if you can do it regardless of competitors. No, of course not. Steve, big picture and technical evolution?

Steve Pusey, Chief Technology Officer, Vodafone Group

Good morning. Yes, two answers to the question: firstly, similar to that of the IT world in networked OSS and BSS, we can centralise. For example, we used to have 13 core NOCs – network operating centres – in Europe; we now have one in Germany, so we can get the operational efficiencies de facto from our scale. Secondly, the vendors are indeed enabling new sciences to be more efficient. OSS and BSS centralisation is something we're following rapidly and we're employing. It's been a key enabler for that centralisation of the NOC. Cloud or radio base band in the Cloud, we've been trialling that. It has some trade-offs on increased cost in transport, so we're looking for the economic sweet spot of exactly what you'll do and where there, but we're at the forefront of that, as the vendors will tell you. There's certainly a lead proponent in helping to shape and design that.

There are others that you don't mention, but would fall in the same bucket. IP microwave continues to improve. That can take us over 1GB now, which takes us right through LTEs and offers us economics in scale. E-band microwave, which is brand new – this is unlicensed spectrum – is yet another example of where science keeps pushing the boundaries of efficiencies for us to not so much reduce your capex but allow you to get more for your money and spend on areas that touch customers and, for example, increase our reach, whether it's in the base band level and other things that we share with you on our strategy. Yes, is the answer and I would hope the vendors, when you talk to them, would say Vodafone is helping shape their future with that.

Will Draper, Espirito Santo

One on the balance sheet, one on the P&L, if that's okay. Your debt's fallen to pretty low levels and will keep falling, despite the generous shareholder returns, which brings us to what else you might do with the cash. You've talked a little bit about in-market consolidation and you're trying to do Greece. Maybe you could update us a little on Greece and if there's anything else that you're thinking of by way of in-market consolidation.

Secondly on the P&L, there was a good beat at operating profit but earnings were just about in line. Some of that was to do with higher financing costs, but some of it looked like higher tax also and I wondered if you could just talk about why the effective tax rate had moved up and where you see that for the full year.

Vittorio Colao

Let me give you a very detailed answer on market consolidation. I'm sure everybody is ready to take notes. First of all, it's not linked to the debt levels. To be clear, if market consolidation makes sense, you look at it, and we are looking at every single possible case, as we have been doing for the last three years. I'm not giving you any detailed update; it takes three to dance – you, the other one and the regulator. Greece, there was some kind of leakage, so we said yes, we are in talks. We keep being in talks. There is no real update. We are trying to find a solution that can satisfy the consumers, i.e. the regulator, the investment profile that makes sense for the country, i.e. the macro-economic situation, and of course the shareholders of both companies. That's the effort that we are making there, which is more specific to Greece given the situation. We are looking at

all other situations. I have said always I am in favour of supporting third-party consolidation or being active. This is where we are and, when we have something to announce, we will announce.

Andy Halford

Tax rate – it all depends whose expectation you are compared with. We had said mid-20s. 25.2% is about as close as we could get to that, so that was very close to what we were expecting. The previous first half was, I think, 23%, so it was just fractionally lower, but basically the tax was bang in line with where we had expected it to be.

Simon Weeden, Citigroup

I wondered if I could ask, on Italy, for you to elaborate a little bit on the balance there between competitive pressure versus economic pressure. You've mentioned both but, looking at the numbers, the ARPU is fine and the customer base is where the extra weakness came from, particularly mobile. That looks perhaps a bit more competitive. If I could ask you to, elaborate a little bit more on the swap hit and the P&L, and what that might look like going forward and what it's about.

Michel Combes

In Italy, probably nothing very new compared to what we have seen in the previous quarters. I guess that the competitive position of Vodafone remains quite strong. You know that we have a very differentiated brand there and that we are doing quite well in the market, whether it's in mobile or in fixed. We still are facing some aggressive behaviours from some of our competitors, mainly Telecom Italia, which had slowed down a little bit a few months ago, but which is back quite aggressively on mobile number portability and also in data allowance. I have said earlier on that what we were trying to do was to reduce data allowance in order to allow data monetisation in the future. It's better when all the players are moving in the same direction, which is not yet completely the case there. There is a little bit more aggression in the market in recent weeks. Despite that, as you have seen we have posted quite good results, driven by data, driven by messaging, with some pressure on voice for what I've said and also, as Vittorio was mentioning, driven also by fixed. I would say very strong competitive performance. The macro remains unknown for the next coming quarters, obviously.

Andy Halford

The mark-to-market, put simply, is we took the decision to fix more going forwards. We have done that at rates that, compared to historic averages, are very good. The actual market rates have dropped slightly below that at the moment, and we have to basically account for that difference. Going forwards, I'd hope it wouldn't deteriorate, but it is just totally dependent on market rates.

Christopher Nicholson, ORACA

I guess that you must have done the necessary scenario planning in case Italy was to go bust.

Vittorio Colao

Do you mean personally?

Christopher Nicholson

Do you want to discuss that? What is Vodafone's view on its European assets in this case? Do you expect essentially for it to be a disaster for you or actually something a bit less bad?

Vittorio Colao

No, we do not expect a disaster but we expect hard work. Specifically on Italy, I don't think Italy will go bust, but of course there's a lot of hard work that will have an implication, probably with consumer confidence being not at the highest and some pressure on Enterprise and business as well. Having said that, as Michel has said, if you ask me Italy is a market where we already have low prices per minute and a very efficient commercial and distribution cost structure, plus a very strong network, a powerful network of fixed and mobile but very strong mobile. I would say, structurally, Vodafone Italy is pretty strong. Even if the country goes a little through hard times, if you look at our distribution, it's a franchise distribution mostly so variable costs, which can handle it in a flexible way. If you look at our Enterprise distribution, again it's partners and a lot of third parties. We have some flexibilities in it. We have outsourced some parts of the network maintenance. There is flexibility built into the system in a pretty robust body.

We are trying to go in the same direction in Spain, which is what I mentioned before, because Spain had a different type of structure; and we are trying to take care of Greece in the way that I described before. This is a bit of the plan for it, but I wouldn't put Italy, Spain and Greece in exactly the same bucket. These are three different types of pressures.

James Ratzer, New Street Research

The first question I had was regarding Germany, please. You've got just over 50,000 LTE customers at the moment. What are they buying the service for at the moment? Is that as a fixed-line substitute or are they buying it to enhance their existing mobile activities? As you roll into urban areas next year in Germany, can we see a revenue growth acceleration in Germany, like we have seen for Verizon Wireless and to what extent is that current offset by what looks like a worsening voice tariff outlook in Germany?

The second question, two sub-questions on corporate activity – I'm not sure whether you'd be keen to answer either of them – but it looks like the consolidation rules in India are easing. Are you theoretically more interested in consolidating with one of the larger players or one of the new entrants in India? Secondly, is Australia still a core asset?

Vittorio Colao

A lot of questions. The question on Germany is easy. For the time being, it's mostly wireless access in the home. The usage is 9GB per month or something like that, so it's a classic. Instead of getting a bad DSL; I get a good LTE, which is the beauty and why I was stressing low latency and very good speed, which in many countries like this one would be very competitive also with fixed line.

On the corporate activity in India, first of all these are recommendations that have to become rules. We welcome most of it, not the whole of it, because there's still some distinction between GSM and CDMA that we think is not right. We welcome if the 35-to-65 market share consolidation could be looked at. Of course, it increases the degree of freedom in the system. Would we look at opportunities if they arise? The answer is yes. I wouldn't be prescriptive on saying small or big. It

depends. In India, we have 13 players and the number of possible permutations is very high. Again, we will look at it; we would support if we think that India... We have already done a little bit through the Indus Towers thing, because we clearly are already consolidating infrastructure. We are in a very good position because, through the infrastructure company, we also have additional competitive reasons for being in India.

Australia, is it core? Now we need to fix it and we need agreement with our partner there to make sure that the customer side of the story is as good as the saving part of the story. As I said, the savings are there but we need to bring it back in terms of customer confidence and brand perception. In the short term, it's hard work fixing it.

James Ratzer

Can I just ask would German service revenue growth next year accelerate as LTE is rolled into the urban areas?

Vittorio Colao

I don't think we give guidance by country and for sure I'm not today.

Ottavio Adorisio, Société Générale

I have a couple of questions. The first is for Andy. In the slides, there is a lot of comprehensive analysis of the impact on revenues from MTRs but, as you receive MTRs also you pay MTRs, not whether there is the impact on cost. Is it possible to share with us, with MTRs coming down and therefore with the cost from MTRs coming down, what's happening to the other side of the cost? How much are they going up? What's the biggest driver, especially when we're referring to retention and acquisition costs?

The second one is to Nick and actually follows from the 20% increase on India. I reckon it's tough towards a price increase, but when inflation's 9% it's probably easier. As you basically depend more and more on organic growth coming from emerging markets, I was just wondering how you can really offset growth in a hard currency like in Europe with growth coming from emerging markets, where differential inflation's going to be reflected in forex. Of course, we know to repo trade at some stage. That will be a problem. I was wondering if you can give us a bit more granularity about the great growth in emerging markets, net to the inflation.

The last one is a very quick one. On data, how much is the basic take on network usage vis-à-vis voice. That's an update you used to give in the past – data as a percentage of network capacity vis-à-vis voice. You used to give it in the past. If you'd give an update, I'd be grateful.

Andy Halford

Shall I take the first one? As a rule of thumb, and this is approximate, 8% of revenue is mobile termination receipts. Roughly 7% of revenue is mobile termination rate payments, so a 1% delta is probably, by order of magnitude, the net impact that you should think of.

Nick Read

That's a very sophisticated question; let me make it a simpler one. In terms of emerging markets, if we look ahead, we basically have three main drivers. We are still under-penetrated in many of

the countries, so we just get the natural penetration as we roll out network. What I would say is, compared to our competitors, we are pretty aggressive at rolling out network and capturing a disproportionate share as we go into rural areas, etc.

Secondly, the sophistication that we have in our mature markets in Europe in terms of CRM, proposition development and stimulation is still something we have yet to really deploy actively in developing markets. That's an advantage for us, given our knowledge of what works. Third is data opportunity – which I think Vittorio said is huge in emerging markets – was sitting around between 5% and 8% of service revenue, as opposed to Australia at 18%. We're getting good traction on 2G and 3G to come, so my view is yes, I think we've got strong growth opportunities. Relative to inflation, I'm not too sure.

Vittorio Colao

The answer to the data question is 82% in Europe and 66% growth.

Participant – Robert Grindle, Deutsche Bank

In Europe, data traffic growth stabilised after a rapid slowdown. Are we reaching the end of the bulk of the data traffic management techniques you've previously flagged, or is there more behind this from a technical perspective, be it compression or whatever?

The second question is: it seems very logical you get more dividends coming from Verizon Wireless beyond this next one, but the timing and the magnitude of any payments might vary. Would you like at smoothing the new level of Vodafone total returns using your own strong balance sheet to avoid over-uncertainty of the timing of future dividends?

Vittorio Colao

Steve Pusey, are you running out of tricks?

Steve Pusey

We still have more tricks. The next wave that you will see, I would venture across the industry but I would think we would be leading it, is again really storage and where we put data in the network. Part of the Cloud and the RAN, Liquid Radio to some vendors – it's branded differently – is exactly where we store the traffic to get best economics out of the network and how we best push to the edge. The economics run out on a triangle, to be very quick, of transport, computing and storage. Right now, storage is relatively cheap; transport is the expensive element of the hub. If we can push storage deeper in the network and push relatively frequently used content, data and services out to the edge of the base station or even the handset, there's another wave of data economics to be had and we're aggressively looking at that right now.

Vittorio Colao

On the Verizon Wireless question, I don't like to speculate too much. We said it was a year-by-year decision. I wouldn't like to go any further. Andy, do you feel like...?

Andy Halford

I think it's a step at a time. Let's get the money in the bank account first and then we'll think about what happens after.

Stephen Howard, HSBC

On slide 40, there's quite a powerful chart demonstrating that you've managed to align revenue growth and traffic growth in Europe again. What I'm wondering is, are there any markets where you are seeing that at risk. In other words, are there any destabilising forces in any particular countries that you're worried about? Although I appreciate it's well outside of Europe, it's interesting to see you commenting on pricing pressure in the data segment in South Africa in the Vodacom results yesterday. What's going on there? What are the drivers that are a transient threat? Was it something we should be more concerned about?

Vittorio Colao

Why don't we start with South Africa, Nick?

Nick Read

We reduced our South African prices by about 20% post-pay or pre-pay in September, and that will have a slowing effect on our service revenue growth in the second half. It was a response to competition, so previously it was promotional pricing and then that moved to structural pricing. I'd like to say they haven't quite learned their lessons in Europe, so whether that gets adjusted going forwards, we've tried to pitch out what we think is still a very reasonable level, and we'll see what our level of performance is in the market versus the competition on that basis.

John Davies, Santander

Very quickly on Verizon, it strikes me that there must be opportunities for synergies between Verizon Wireless and Verizon Group, which perhaps haven't been fully addressed when there were perhaps more tensions in the relationship. Is that something you'd be looking at, beyond the savings synergies that you've talked about already but more operational ones?

Vittorio Colao

This is a good question for Verizon, right? How can I answer about a question on synergies between a company where I am a shareholder and a company where I am not a shareholder? What I can tell you is, if you want to ask the detailed question, you should really ask them. What I can tell you is that we are trying to take a holistic view of how we can leverage everything we can do, including what Verizon fixed line can do in the relationship with suppliers. For example, we are going to the Oracles, to the Dells, to the IBMs of this world, and saying, 'Together this is our spending. What can we do together?' Of course, that's how the other side comes in. This is Vodafone and Verizon Group, if you want. Between wireless and wire-line, it's a question for them.

Maurice Patrick, Barclays

You've spent a lot of time talking about driving profitable data growth. You've given examples of where you've seen it. Italy's one you cited where perhaps you saw aggressive price competition

from our competitor TI. Are there any other markets where you feel as though you're not really controlling or driving those price increases or where a competitor is driving lower or irrational data price?

Vittorio Colao

Listen: I cannot get into specific markets. I can make only generic comments; otherwise it could be seen negatively by authorities. Let me say in general, data profitability in Europe is lower than in the US, where we compare notes on a regular basis with our friends from Verizon Wireless, and of Asia, where we usually have a lot of partner markets and friends. There is an opportunity and a need, in order to finance the investments, to bring it up. The speed at which this is happening is different by markets. In some markets there's more sensitivity to it and in other markets there's less sensitivity to it. I wouldn't go market by market. The positive news is that, in the last six months – as was noted by some analysts in the last year, I would say – it has started trending in the right direction slowly, because of course you cannot rock the customer relationship.

Maurice Patrick

Secondly, when do you think things like charge to bill in emerging markets will become a material part of the whole potential scene?

Nick Read

I'd say we want to deploy it as quickly as possible. You look at emerging markets and we have a bigger opportunity because obviously smartphone penetration is low single digits, so we need to get ahead of the curve to offer a breadth of services. I think we have an opportunity to get ahead of a potential threat.

Vittorio Colao

Let me tell you, every day you need two things. You need 3G networks and you need smartphones with something like the Opera Mini browser or something that is affordable there. Once you have those two elements, then immediately, because there are no credit cards and there are no payment methods. As soon as possible, when the two things are aligned.

Nick Read

Egypt would be a good example.

Lawrence Sugarman, RBS

Just a couple of questions, if I could, on India – potential changes being suggested by the regulator around MTR rates. First of all, could you give an indication as to how likely you think those will actually come in? Secondly, what sort of financial impact might that have?

Secondly, the tax case in India seems to have concluded at least from the judicial side of it. Do you have anything new in terms of timing and actually getting a result from it?

Nick Read

On MTRs, we find the recent announcement from the regulator a bit strange, because actually the April 2009 current MTR rates are under dispute and are in the supreme court. Basically we disputed those rates to TDSAT. We won, on the basis that they were not including capital costs. Then the regulator went to the Supreme Court and we are currently in the Supreme Court. The next hearing is 17 November. Given we were arguing they did not include capital costs, it's a bit strange they're lower than the current MTRs. What I would say is we're firmly opposing.

Andy Halford

Just on the tax case, we finished in court three weeks ago, I think it was, after a nine week hearing. Written submissions have now gone in. We do not know what the time period now is for adjudication, so some time in the next few weeks or months. It's a bit vague.

Tim Boddy, Goldman Sachs

Just two slightly bigger-picture questions: we're obviously heading into a period of much more challenging economic conditions in Europe generally, not just southern Europe. Can you talk about the structure of the mobile market now compared to how it was in 2008-09? As we see consumer confidence fall, how do you think mobile consumers will react this time? Secondly, we continue to see very strong growth – I think 7% growth in customer costs in Europe. The question is: can you stabilise European EBITDA margins before or without stabilising that growth in customer costs?

Vittorio Colao

Let me try to give you an answer. First question: I am deeply convinced that the shift to smartphones is one of those things that goes a little bit beyond the contingent economic situation. If you think about even Greece, if you think about Italy, actually Spain, despite everything, smartphone penetration is going up; data revenue is up 15%; smartphone penetration is 30%. There is an underlying need that is immediately satisfied by these beautiful things, by the tablets and by everything else. I was reading yesterday 10% of American adults have a tablet now. It will come here. There is no doubt it will come. It can come a little bit later, a little bit faster but, at the end of the day, I don't think that this will change the general demand.

Now your second question is absolutely right. It will come at a very high cost. I believe that we should actually continue to do what we are doing in Spain – try to reduce the cost of distribution, be much more efficient, be more focused on giving the right tariff to the right customer, and eventually moving a bit of the ARPU in the direction that Michel indicated. I am positive on the first part of the question. I think it's going to be hard work on the second one.

Closing Remarks**Vittorio Colao**

Let me conclude, if you can put up the last slide. We had a final slide, which is probably the right summary. I think we are delivering solid results. Again I want to stress the point that the revenue profile is going in the right direction. We are becoming a better and safer pool of revenues. We are

moving pricing in a way that is consistent with where technology is going and with where demand is going, doing well commercially and being very focused on the shareholder returns – 30%, as Andy has said, has been returned in cash. Our commitment is to continue to drive the company for the long term and for the shareholders' returns. I thank you very much for all of your questions and I'm sorry we couldn't take all of them.