Vodafone Group Plc

Analyst and Investor Conference Call

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Business Review

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Good morning, everybody. Thank you for coming to our results day. Today, will follow a slightly different order from what is usual. I will go through the highlights and then I will go straight into the business review. I will be followed by Johan, who will briefly talk about what's after Spring and our technology plans for the future, and then Nick will do the usual detailed financial review.

I have to say we have closed a pretty good year of execution and a pretty good quarter. As you all know by now, we have returned to both full service and EBITDA growth in the year: 1.5% revenue and 2.7% EBITDA. This is the first time since 2008. We have a Q4 service revenue growth of 2.5%, which is really more 1.8%, as Nick will explain later. I'm pleased to see stabilisation in Europe. It's the first time since December 2010 that we have 0.5% revenue growth, and continuing strong execution in AMAP at 8%. Good cost control, Nick will talk about it. We are today also raising the synergy targets for KDG and Ono, because they are doing well. As a result, as you would expect with a good year and a good quarter, we have met our full-year guidance of £11.9 billion of EBITDA and £1 billion of free cash flow on a guidance basis.

We will talk today about Project Spring. Project Spring has completed, successfully delivered and also successfully impacting customer perception. We continue to grow in our key areas of growth – 4G data and 3G data. We will come on to this later. I have to say that I'm very pleased that Enterprise continues to grow, unlike some of our competitors – 2.1% growth in the year. Most importantly, in unified communication, we had a very good record quarter in terms of net adds. We are now covering 30 million households directly with our own NGN network and we are the fastest-growing fixed broadband provider in Europe. Today, Vodafone is 21% fixed.

Let's move straight into the status of the strategy. This is just a reminder. We said after the Verizon deal we will concentrate on our core footprint. We want to be number one or number two in mobile, with a clear path to unified communication, and we will invest our capex and our commercial cost into the areas of data, emerging markets, enterprise and convergence. Let's have a look at how things went, starting from the investment level.

We have invested since the Verizon days £47 billion in the last three years. This clearly has been enabled by the returns from the Verizon deal after the buybacks. This is, I think, a pretty good answer to those who questioned the investment levels in Europe and of Vodafone in general. £47 billion went mostly into organic capex, £24.1 billion. £19 billion of this was Project Spring. We have modernised 203,000 base stations in Europe, 2G, 3G, 4G. We have added 102,000 high-capacity backhaul links to improve the data experience. As you know, we invested £7.7 billion in spectrum, mostly 700/800MHz spectrum for 4G, but also a lot of coverage for 3G data in India. Of course, we made some acquisitions, some strategic moves into the convergence space, into the enterprise space and into the Internet of Things space.

I will cover Project Spring, the customer experience work and what we call the Care project internally, and then Nick will cover the third element of our strategy, which was efficiency, Fit for Growth and the result of the ZBB project that we did in December.

Project Spring, as I said, was successfully completed. We exceeded our targets. You can see in the top-left chart 212,000 fully single RAN sites in Vodafone, with very broad reach. Here we are comparing 4G coverage going from 32% to 87%, thanks to Project Spring, and 3G coverage in our areas to 95%. Of course, this is a volume metric. If you look at quality on the right-hand side, 91% of our data sessions today are above 3 megabits per second in Europe, which means uninterrupted video quality. Dropped call rates in emerging markets, which we took as a measure of quality there, are below 1%. Now in Europe the number is more or less half of that.

Spring was not just about investment in quantity and quality. It was also investment in capability. We have improved significantly our fixed capability. 30 million homes are now reached with our own NGN, and 13.4 million fixed broadband households are now in the Vodafone customer portfolio, which again as I said makes us a very relevant player in this space.

In the enterprise space we talked a lot about this. We operate now, essentially, in around 30 countries with full capability. This number here is the Internet of Things capability, which now covers 30 countries, and we have an international network that reaches 70 countries with 268 PoPs around the world.

On the customer service, customer experience side, we have this programme called Care. It's around four elements, first, clearly delivering network experience. Almost everywhere now we give satisfaction-guaranteed offers. Also in the UK we now launched that. The second element is the control element of the spend. Here, I just used roaming to indicate an offer that we are basically making everywhere, including the UK. Now we just launched very well in Germany, including EU roaming and US roaming in the offers. Reward loyalty – more and more we're rewarding loyalty to address churn, but also to reward data usage and increase ARPU spending, not price, but ARPU spending. There are discounts essentially on incremental usage. The example here is the Czech Republic, because we always talk about the big markets, but also in the small ones we have the same strategy. And then easy access in the three channels of retail, customer service and digital, which again we have invested quite a bit in. So, these are our activities. You would say, 'What are the results of this?'

This indicates the results. The chart on the left indicates the gap we used to have and we now have, versus the main, the best competitor in each market. As you can see, we have progressively closed the gap and just closed the year with an advantage versus our competitors. This means that we have improved our NPS, which is the measure of recommendation versus detraction, in 15 out of 21 markets where we can measure. We are leading in 13. As a result, churn has come down both in Enterprise and in Consumer, as you see.

Data growth continues nicely, as first in our engine of growth. 47 million 4G customers, in the top-left chart. In Europe today, half of our data traffic is 4G, which is very good, because this means that then we will be able to rationalise the spectrum usage earlier, which will allow us to be more efficient, with a better customer experience, earlier. Average usage continues to grow. It's now 1.1GB average across the base in Europe. This allows also monetisation strategies, which we indicate here on the right. This is a German example to increase ARPU from €39 or €40 to €45. Of course, this comes with more into the package, so it's a more for more type of strategy. We give EU roaming; we give data; but increase the ARPU. This has been launched in most places, and the UK again is active now.

In emerging markets, data continues to grow nicely. You can always see the opportunity in terms of upside. We now have 63% of customers using 3G or 4G data. It's incredible if you look at the numbers. We almost increased by 40 million in one year, so we're now at 82 million customers. Data volumes are up 80%. Usage is below the European one at 750MB, so you can say that excellent work has been done, but also there is a lot of upside, because we are still at essentially two thirds of penetration and usage is lower. When these things kick in – this is a South African example – actually the opportunity to increase ARPU through migration from 2G to 3G, or 3G to 4G, is significant. You can call it a 20% impact, more or less. Data is positive in both mature and emerging markets.

Enterprise, again I will not comment on how much we have increased the capability. The important part of the slide is the right one, 2.1% growth. This comes at a moment where, if I look at the competitors' report, most of our competitors are struggling in enterprise, not growing or even declining. We grow 2.1%. A lot of it is fixed line, but not just fixed line, so 4% growth in fixed line, 1% in mobile, excellent growth in Internet of Things – as I said 29%, 38 million connections. I think we have the leading platform in the world. There are essentially three, but we have the leading platform in the world. Global enterprise continues to grow nicely. 6% is remarkable. IP-VPN is smaller, but also growing 8%. The only point of pressure here is ARPU. ARPU in mobile is down around 8%. There are clearly pressures, and this is linked to the fact that our competitors are struggling a bit and, therefore, they respond on price, but it is a very positive enterprise scenario.

And then the nice part of this results announcement is fixed line. As I said, we cover now in Europe 72 million homes. 30 million we reach directly ourselves. It is not just about reaching the homes; we also have really strengthened our international fibre network. We added 250,000 kilometres to what we had before. We now have 1 million kilometres. Somebody this morning told me that it is 2.6 times to the moon and back. I do not understand why this is relevant, but it is a big number. It's also 23 times around the earth, which is more relevant when you talk about cables. This really gives you the sense that this investment we are making is not just for consumer, but it's also for enterprise. It's also for the broader international strategy that we are having.

The central part of the slide is the important one: 416,000 net ads in the quarter, and 426,000 NGN, because we also had some migrations. 13.4 million broadband users, 6.4 million NGN, 9.5 million TV. So we are the fastest-growing broadband by quite a distance, a broadband fixed provider in Europe. We are a true competitive alternative and we have 21% of revenues coming from fixed, so the upside here is big. And as many others have already described, clearly this also helps the mobile business, because it lowers churn.

Now here, of course, we work a lot of organically, but we also do inorganic or commercial agreements. As you know, Ziggo, Vodafone Netherlands, is going through the process of authorisation. It's a good opportunity: €3.5 billion of synergies by year five. We are not yet working together. We are just planning the integration, and the planning of the integration is pretty good. In Italy, we have reached a very good agreement with Enel, the electricity provider. This agreement will allow us to cover 7.5 million homes with FTTH, which as you know is much better, higher quality and higher ARPU than other solutions. That will bring potentially the number of cities that we reach to 240. Now, this is excluding the so-called C and D areas, which is where the government will put the money, because they are economically disadvantaged, which in theory can bring the total coverage of Vodafone in Italy to 20 million homes. Of course, we'll continue to access Metroweb, no matter who buys it. This really says that, again in Italy, maybe inorganic strategies that have been rumoured a lot will not be necessary at some point.

Overall, I would say that Spring and Care are delivering. They are delivering in the four areas of our strategy, and I think most importantly, the customers are appreciating it.

If I look at the single countries, bit of an update on the countries. Germany is a great story of recovery in networks. Dropped calls, 0.45%; 85% of data sessions going video quality; 4G cover 87%. We are still number two here, but close to the number one, so we have really started a situation of two players and a higher perception. Commercial performance, the centre of the slide, is very good at fixed line with 134,000 net adds. KDG is very strong, but also DSL we are recovering. On mobile, we had a lower performance in the quarter, this is as the result of pressures in the indirect channels. We are focusing on direct and branded. And our main competitor is putting a lot of money into indirect, and so while on the one hand we increase ARPU, if we also increase commercial costs, I am not so sure the equation is right, so this is an area to watch, but overall good performance.

As you can see, we are back to growth in Germany at 1.6%. Really it's 1.1%, because there are one-offs that Nick will talk about, but I would say it's pretty good. Pressure on enterprise, as I said with competitors' reactions to our wins, is still very strong, but very good performance on KDG. I am happy to say – and I will have to repeat this comment six times now – there is growth of EBITDA in Germany, so this is a positive moment in Germany. We need to watch out for pressure on the indirect channels and pressure on enterprise.

Italy as well is a great story. Here, the network leadership is great. Italy has probably the best network statistics around the large opcos, 95% 4G coverage, 91% video data quality, clear number one in NPS, clear number one in P3, leading by a big gap versus the incumbent and a good commercial performance. In the central part of the chart, you see 63,000 net adds, which for Italy is a pretty high number. We went back positive into contracts and in pre-paid the number portability is trending in the right direction, so I would say good momentum in Italy.

Half of the fixed additions in Italy are fibre, so again future proofing also the growth is very important. We welcome the return to growth of Italy, at 1.3%. There's a bit of pressure in fixed line here. Some offers of Fastweb are a little bit on the cheap side and, therefore, ARPU is not growing, but good growth again also in Italy, back to growth in EBITDA, here it's at 3%, so good momentum. Watch out, pressure on pricing from 3 and pressure on pricing from Fastweb in the market.

UK is more of a mixed picture. On the one hand, we had a very good performance of the network in London, where actually we have nearly 99.9% coverage and very good performance on dropped calls and video speed. In the rest of the country, we still have to do a little bit of work. There is still improvement, but we have to do a little bit of work. Good NPS on enterprise is a traditional strength of Vodafone. We're not there yet in consumer.

The real issue has been billing migration problems in the UK, which have caused disruption to the customers and to our commercial operations. We still have reached 7 million 4G customers. We still have activated 20,000 new homes in fixed broadband, but clearly we have more churn than what we wanted and less commercial push until we fix the problems. The problems are being fixed. I would say that 75% of them are out of the way. We have reduced the extra calls to the call centres by more or less half a million, but we still have a little bit to go. We believe we will resolve everything by the summer and then we will resume full commercial strength, in the second half of the year.

Now, in this context, growth is in reality -0.8%. It's -0.1% here, but there's again the usual adjustment. We had good performance in fixed and enterprise, which is good news, because that's the important part of our business. Again, despite everything that has happened, and the extra resources that Jeroen [Hoencamp] had to put into customer care and service, we also have growth here in EBITDA. Now of course, the focus is to get back to full commercial strength in the second half of the year.

Spain is another good story. It's a story of leadership. It's the second best, after Italy, in terms of network, with 91% coverage and very good data quality in the high 80s. 8.5 million homes passed and good regulation to access the whole of Spain. In Spain, we will have a pretty competitive network with Telefónica. In the meantime, we also have leadership on the mobile front. Performance in Spain is very good, both on mobile and on fixed. In the middle, you see 64,000 net adds in fixed and 105,000 in mobile. We have 1.1 million TV users. We have all the content that is necessary in Spain, so we have secured the full set of football rights. And good news, as Nick will say; we have secured already 100% of the synergies and we are actually increasing the target. And this is important, because this is proof that we now have a Vodafone way of integrating fixed and mobile assets, which I think will also be very useful in the Netherlands.

Financial results growth of 0.6%, once you take out the handset financing thing. Again, also in Spain, growth of EBIDTA of 4%. Looking forward, we need to continue on that trend. We need to continue, as a market, with the recovery. We have lost a lot since 2008. Now, with bundled packages and convergence, is the opportunity to get back.

Vodacom, I will not say too much. They announced yesterday. It's the usual amazing story, so network leadership here by miles. We have 6,000 4G sites, 58% 4G and 99% 3G – a clear leader in the market. Clearly, what they're doing really very well is two things: on the one hand, the repricing of the base, which they did very systematically to eliminate the price disadvantage, but also very positively, stimulating elasticity; and then this bundle of data packs that continues to push up data usage and data customers, and therefore ARPU, in South Africa. The financial results they announced yesterday, +6.5% locally and +10% internationally. Internationally, M-Pesa is helping a lot and of course they are going 12% EBDITA, which is pretty remarkable.

In India, there were concerns earlier in the year. We are re-accelerating again, so the growth is 5.3%, which ex-MTRs is more 10%, then you take away leap year, this makes it, let's say, 9% to 10%. Our 3G coverage is 95%. We added a lot of 3G sites and despite the fact that we are number two in the market, we are number one in terms of sites and number one in terms of NPS. And this is important, because it clearly means that we have a quality operation regardless of the fact that we are number two.

3G customers up 27 million. We now have 198 million customers in India. We added 14 million in the year. The good thing is that the quality of our data performance is very healthy. Voice is more or less -7% at price level and +7% in terms of volumes, so let's call it negative or zero. Data price goes down 9% or 10%, but the volumes are up 50%, so all the growth is coming from data. And as I said many, many times in these meeting, the opportunity for data in India is great, because there's no other infrastructure. So, it's a data story. We are about to add another four circles in 4G, thanks to the possibility to refarm, and we will continue to invest to make sure that we have that. It will give us 60% coverage of our data revenues. Our plan is to go up and secure good 4G for everything. So looking ahead, I think we need to watch out for Jio, which will come at some point in the market, and we need to continue toward the preparation of the IPO.

Now, before handing over, I have just one final quick comment on the other markets. In the Netherlands, we are number two in NPS. We are growing our 4G customers. The revenue growth is really more -2% than the -1.3% reported, again, for the usual adjustments. The market is converging very fast. It's the right moment to really do the deal. The deal came at the perfect moment, both for us and for Ziggo.

Performance in the other three markets, I can only say it's really good. Turkey, Egypt and Portugal are number one in NPS rank everywhere. Turkey has an amazing performance. Not only do they do super-well in mobile, with data revenues going up 90% and a pretty impressive 4G launch that has taken a lot of customers immediately, but also in fixed line we have 82,000 net adds in Turkey, which is a case of organic growth, which will create a very good base for the future.

Egypt had six quarters of growth, back to 11% growth, clear market leader, again, everything driven by data. And then Portugal, which is kind of the bigger of the smaller ones. It's a truly converged market, where we keep our mobile leadership. We are also adding 25,000 broadband customers and we have a 2.5 million fibre reach. And guess what? Back to growth at 3.5%. I really like to talk about the large opcos, where we have now restored performance and growing EBITDA, but also the medium and smaller ones are benefiting from our strategy.

So, to conclude, Spring, I think has delivered customer care and customer excellence with a vision of 2020, which will bring the company to the right space. We really want to continue to lead in mobile, be stronger in convergence, clearly virtualise over time, have more cloud and have a strong best-in-class service and digital marketing and care. This is our vision. Before handing over to Nick, I think it is important for Johan to tell us what happens in the blue space after Project Spring, and then Nick will give us all the financial implications of our strategy.

Technology Roadmap

Johan Wibergh

Group Chief Technology Officer, Vodafone plc

Thank you, Vittorio, for the opportunity to talk here today. Good morning, ladies and gentlemen. There are two key messages that I want you to take with you from this presentation. First of all, as you heard from Vittorio, thanks to Project Spring, we have been able to achieve a leading mobile network performance and we will maintain that strong competitive position in the coming years, while we improve in other areas where we still think that needs to be improved.

Secondly, it's about the vision we have for the future. It's about the gigabit society, where our customers are going to get gigabit speeds, both on fixed and on mobile access, with short latency, enabling any service to be delivered from the cloud.

On top of that, as Vittorio said, Vodafone is today the leader in the Internet of Things. There are new technologies coming out enabling billions of devices to communicate at a much lower cost point than what is currently available in the market.

So, the strategy then to maintain mobile leadership going forward is to make sure that today, where voice is available, video will be available. We are talking about having some sort of continuous experience around 10 megabits per second, with peak speeds of one gigabit. There's a lot of mileage still to get out of 4G in the coming years.

We're also going to get lower latencies. Typically today we have between 40 and 50 milliseconds latency in today's 4G networks. That's going to come down to sub 10 milliseconds and we will switch on support for Internet of Things in our mobile networks. On the fixed side, it's very much about providing gigabit speeds to homes and to offices, and we will also introduce a new technology that will enable us to do rapid deployment to enterprises for new services at very cost-attractive cost points.

On the IT side, we need to make sure that our IT systems are flexible and agile. We need to get them at lower cost and we need to continue the transformation we are on to make Vodafone a digital company. Increasingly, the services we offer are going to be available on both fixed and mobile, i.e. converged services, and all of this is underpinned by the introduction of what's called cloud technology. Vodafone will have the advantage or the scale we have, where we can launch new services and rationalise the current technology we have at lower cost.

So, we put up some goals for 2020. Starting with mobile, in 2020 then we will have launched 5G in the first series and we are planning to shut down 3G, because it doesn't make sense to have 2G, 3G, 4G and 5G running at the same time. And when we migrate customers from 3G to 4G, we see that NPS is 12 points higher. It's very good for us to do this migration from 3G to 4G. Due to the strength of Spring, if you exclude India, 93% of our installed mobile base stations [have Single RAN deployed] makes it very cost-effective to move spectrum and reuse that hardware for 4G. It's very easy for us to make this transition, thanks to the investment already done in Spring.

We will also put in place fibre backhaul. If you take European cities with more than 100,000 inhabitants, our goal there is to have more than 95% penetration of fibre to those sites. If we look today and take the four biggest countries that we have in Europe that figure is 69%. Now, I would not rule out microwave, because in that sub 10-millisecond latency that we want to have in the coming 5G networks, microwave hop has less than 0.3 milliseconds, so I wouldn't rule out at all using microwave in tomorrow's 5G networks.

We will also start already next year by introducing a new technology called narrow-band IoT. That basically means that, if you take our existing 4G network, we do a software upgrade in about 85% of our installed base that enables this new technology. It has six times stronger signal, which means that with the existing site grid that we have, we are going to have extremely good indoor penetration and rural coverage. And it's a very cost-effective way for us to add on this technology.

On the fixed side, we're going to upgrade our cable networks to DOCSIS 3.1 and, on the fibre to the home side with next-generation PON technologies. This will give us multi-gigabit speed. On top of that, we will introduce a new technology called virtual CPE. That basically means that we ship to our enterprise customers a cheaper standard box and, when we send new services, we switch them on in the network instead of shipping another box to the customer.

In the IT estate, we will transform to a converged modern billing and CRM system. That is already underway in many of our properties. Through introduction of agile ways of working, we will be reducing the lead time for the introduction of new services by about 50%. We will also take down the number of IT vendors we have by two thirds. And I'm convinced that that will give us better quality, at a lower cost.

Thanks to cloud technologies, we can easily introduce converged services. One example I have here is cloud-based TV, which we want to launch in the UK and Italy this year. We install it once in our internal cloud and then, in the market, you just have a fairly low-cost CPE box that goes into it. So, it's a very effective deployment. Do it in once place and get it; sell it in many markets. We will also enable all-important customer journeys on the digital platform, and My Vodafone, that app is a key interaction, which I think will give a more qualitative interaction for our customers. All of this is supported by something called Cloud technologies. This is a buzz in the in the industry, everyone is talking about network function virtualisation and what it can give. We haven't said anything from Vodafone about this, but we've actually been running it in production for the last 18 months, for the first applications. It works really well. We're now scaling it up, so by 2020, we will have modernised more than 50% of our core networks. And this is supported by something called software-defined networking, which creates more agility in our internal network.

On our IT estate, we're going to be moving more than 65% of our IT systems over to what's called a hybrid cloud environment. Basically, we can control it if we put it in our internal private cloud or using external public cloud providers, giving us flexibility and benchmarking of what is available.

So the message that I want you to take with you is that we have a leading mobile network performance thanks to Spring, and we will maintain that strong competitive position. And we have an ambitious roadmap for the future, but I believe it is a very realistic roadmap. And I am comfortable with the capex envelope that what we have put in place to support it. And with that, Nick, over to you.

Financial Review

Nick Read

Group Chief Financial Officer, Vodafone plc

Good morning. I would like to first of all thank Goldman for our new low-cost location. It must be the first time ever Goldman's has helped a business lower its costs. The second thing I would like to thank them for is this step. Obviously I'm surrounded by giants now in Vittorio and Johan.

Anyway, I thought a new venue deserved a new format to my presentation. What I've done is I've removed a lot of the statutory reporting tables to focus more on the underlying trends of the business, so that we have a bit more time in that area. Obviously, I'm more than willing over coffee to debate deferred tax accounting and the pros and cons later.

So, for the first time since 2008, we can see a positive sign in front of both service revenue and EBIDTA, at 1.5% and 2.7% respectively. I think what is even more encouraging is the second-half acceleration. I wouldn't call it quite Ferrari acceleration yet but, for a European quoted telco, this is getting exciting times.

The main number I wanted to draw to your attention is this one, EBIT, at £3 billion on the right. In FY15, it fell 24%. The year before that, 19%. We, along with the rest of the industry, have been hit by numerous well-known factors, whilst continuing to invest in capex and spectrum, which in turn has significantly depressed EBIT and returns. You see from the chart that our EBIT decline moderated in FY16, down just over 6% year over year. And I see FY17 being the turning point, as EBIDTA grows and capital expenditure normalises.

Now clearly, a key driver of that improvement is top-line growth. And there's two points I'd like to note on this year over year service revenue chart. Firstly, it shows the broad-based nature of our recovery. At the bottom, you see the full-year performance versus the bars Q4. It's great to see some of our main markets join the rest of the growth markets, with Germany, Italy, Spain and even Greece moving positive. As Vittorio has already covered, two markets are experiencing some challenges, namely the UK and Netherlands.

Secondly in the red box, the group produced a reported growth of 2.5%, versus the underlying of 1.8%, if we exclude the impact and benefit of leap and some year-to-date accounting changes. I believe our revenues have gone through a transformation, both in terms of quality and in terms of resilience, which I'd like to highlight on the next two slides.

Taking the quality dimension first, you can see from this chart that we place a greater focus on our branded revenues, growing by £0.8 billion year over year, versus a decline of £0.4 billion in the previous year. In addition, we've been very disciplined on wholesale, not compromising our long-term strategic position to prop up short-term results. From this chart, I think it's clear that Vodafone customers in a post-Spring world are valuing Vodafone's network and service.

Turning to resilience, I want to focus on European revenues for a minute, starting at the top-right of the pie chart. Consumer fixed, now 14% of our revenues, is growing at 3.4% year over year and has a low churn profile, given our focus on high-speed broadband products. Enterprise at 35%, including SOHO, SME, corporates, is essentially flat year over year, outperforming competitors, who are in decline, as we expand total communications on our distinct European and global footprint.

Consumer mobile contract in bundle, at 26%, initially suffered dilution from our proactive drive on Red, initially designed to protect against OTTs. Now it's benefiting from 4G and data monetisation. This leaves consumer out of bundle now at just 5% of revenues. There will always be a residual amount of out of bundle, but the customer-friendly usage notifications, coupled with CRM tools, is a real upsell opportunity for us in this space. Prepay is starting to stabilise, declining 4.4% this fiscal year, compared to a decline on average over the last two years of 18% per annum, as we launch online second brands and youth propositions. Finally, regulated MTRs have reached the floor and MVNOs are no longer a material part of our business model.

So, to conclude on revenues, we've taken a lot of pain to get to this point, but we hope to benefit from more tailwinds than headwinds, moving forward.

Having looked at revenue, we need to look at costs and see what we can achieve in terms of operational leverage and expansion of the margins as we go. I've given you a breakdown of our cost base before but, given the questions that you had last time, I've refined the categories to be more helpful. Against the categories, we have labelled our six global Fit for Growth initiatives that sit on top of a comprehensive list of local initiatives that are monitored centrally, so we can accelerate best practice between the operating companies. I have a slide on each of the initiatives to highlight the progress we're making, with the exception of direct cost optimisation, given its sensitivity. The goal of that workstream is to ensure we challenge and tightly manage SLAs and regulatory conditions with the incumbent. You've all seen how active we've been in this space and we've had a significant number of wins. And we will maintain that level of intensity and focus, going forward.

On to initiative number two, commercial efficiencies. We've been driving our A&R intensity, as seen on the left-hand chart, through a combination of activities you see on the right – namely, direct channel mix, value-based commission models in indirect and lower subsidies. In addition, at the bottom right, we're driving the My Vodafone app, not only as the default mechanism to get customer service, but also an enriched CRM experience, where we propose to our customers the best products and services for them in a personalised way, the core of great digital marketing. We ended the year with a 36% penetration of smartphones, which given the base growth is a doubling of My Vodafone app users. We intend to drive this to 60% by the end of FY17.

Moving on to initiative number three, network and IT transformation, clearly Johan has already talked through the 2020 technology vision, but I just wanted to really add two points. Firstly, Project Spring was an enlarged footprint and increased density of our network. As seen on the left-hand chart, this added fixed cost into our opex, an additional £0.3 billion versus pre-Spring. We have a further £0.2 billion increasing costs in FY17, as we annualise the effect of Project Spring.

Secondly, as seen on the right-hand chart, IT opex and capex as a per cent of revenue stands at 5.5%. We have a large legacy estate. It's complex; it's costly. Through the transformation programme, already covered by Johan, we are targeting a five-year end state at 3.5-4%. We anticipate making progress each year, balancing the IT transformation capex with rigour around BAU and the returns that we get from that capex.

Initiative number four, centralised procurement and shared services. I'm really pleased with the progress we've made on the procurement side, top left. In FY16, group spend managed through our central Vodafone procurement company, rose to 74%, consistently beating industry benchmark pricing and halving the number of suppliers we deal with, as seen, top right, to 11,000. As a result of our success in this area, a number of our partner markets are now starting to buy services from us and allow us to manage their categories.

However, I'm particularly excited about something we consider to be a big potential opportunity. It's the cost component build-up model, where we strip down a product to its bare components, individually cost them and then do a cost-plus model going forward. Given our scale and expertise in the area of procurement, I believe we're uniquely placed to drive a competitive advantage in this space.

Similarly, bottom chart, we've reached scale and maturity with our shared service centres, using our own captives within our emerging market footprint. We exited the year with 19,000 FTEs, a saving of £400 million per annum. In the early stages, this came from labour arbitrage, but increasingly we are driving process re-engineering. And in the future, we see an opportunity around automation.

Initiative number five was Zero-Based Budgeting [ZBB], of which this facility was one of them. This is a new methodology we introduced for the first time this fiscal year. It essentially has three components. Firstly, we started with a specific perimeter of spend at group to test the approach, so this was the group governance and group products and services areas. Our review delivered an absolute net reduction of £100 million, fully executed by March, so that we have the full impact and saving in FY17.

Secondly, group operating units, such as data centres, we established a multi-year productivity target for each area. Finally and probably most importantly, given the combination of local Fit for Growth initiatives with the global ones and ZBB methodology, we established multi-year margin improvement targets for each opco. And as you see on the chart, in FY12 to 15, we had ten countries grow EBIDTA faster than service revenue. FY16 we had 15 and moving forward, our board has just approved the three-year plan targeting 24 out of 26.

A final area of focus for Fit for Growth is the delivery of synergy benefits. We're pleased to announce a 25% increase in the NPV of cost and capex synergies, moving from the £5 billion to the £6.3 billion. On the left of the chart, the integration of Ono is ahead on all fronts, with the Spanish team having already secured 100% of the original year four synergy targets. This has allowed us to increase the synergy run rate and NPV to £300 million and £2.8 billion, respectively.

On the right of the chart, our German team had a more cautious start to the integration, given it did not want to disrupt the KDG growth momentum that we already had. That caution has paid dividends, as we have managed to accelerate the top line, now growing at 7.5% year over year, with strong commercial momentum that Vittorio covered. On our cost and capex synergies, our assumption on the speed of exit from central offices proved too optimistic, though largely recovers post year 4. However, we have more than recovered in the near term, through greater procurement and central function savings.

Therefore, in aggregate, we're tracking to our year four target with further upside past that enabling us to increase the NPV by 15% to £3.5 billion.

So, bringing revenue and cost story together, we move to year on year EBDITA performance. And our gross margin expanded £0.5 billion for the full year. Customer costs continued to decline, down over £0.1 billion, whilst producing what you see at the top, a clear superior commercial performance. The enlarged Project Spring footprint was a drag on technology costs of £0.2 billion, and finally support costs increased by £0.1 billion, given inflationary pressures in emerging markets. I think it's really important to register that Europe support costs actually went down around £50 million year over year.

So to conclude on EBDITA, the revenue performance combined with the cost control is delivering operational leverage across our businesses, from an EBITDA decline of £800 million last year to a growth of £300 million this year, with the big six all in positive territory.

Turning to our capital expenditure moving forward, since launching Project Spring, we explained that our central case was to return to capital intensity of 13-14% from FY17 onwards. However, we consistently stated that we were willing to spend above that level if we saw clear opportunities, as long as we could see the delivery of the incremental £1 billion by year five, for Project Spring. Having concluded our budget and LRP [Long Range Plan], we identified incremental opportunities we wanted to capture, whether IT transformation, expanding mobile data services in emerging markets or targeted fibre footprint build and the momentum that Vittorio has discussed already in fixed. We are guiding post-Spring to a mid-teens outlook.

Moving to free cash flow, it is a relatively similar picture to last year: elevated capex of £8.6 billion with the completion of Project Spring, delivering £1 billion of free cash flow essentially in line with last year. However, I just wanted to briefly comment on two items, firstly cash interest at £1 billion in the year was similar to last year, even though average net debt was £6 billion higher, given lower financing costs because of the ratio of CP we were holding. Secondly, post the consolidation of our India structure, our cash tax will be around £900 million, with an effective tax rate of the mid-20s over the mid-term, versus the £1 billion and high 20s previously communicated.

Turning to our balance sheet, as the top chart demonstrates, it remains at a robust position with net debt rising to just over £29 billion, driven by four factors. It's a significant year of spectrum auctions, including £2 billion of deferred consideration for India spectrum, one in late FY15, but not awarded until FY 2016; the payment of our dividend; the issue of our mandatory convertible, which is aligned to our Verizon wireless loan notes; and finally the adverse FX movement, primarily euro strengthening. This takes our leverage to 2.5 times net debt to EBITDA, maintaining our BBB+ target rating. We also successfully raised €6 billion in euro bonds, at an average rate of 1.55% and an average life of 6.6 years, ensuring a strong liquidity position at a time of macroeconomic uncertainty.

Concluding on guidance for FY17, which given our change in reporting currency, requires me to seamlessly move into euros now for this chart. So let me walk you through our EBIDTA movement from our FY16 results to our guidance for FY17, so that you have context for the 3-6% growth range we have set. If we take the reported EBITDA on the left of the chart and restate for guidance FX and exclude the UK ladder settlement, you get to €15.3 billion. Then we have four significant drag items in FY17, which we have highlighted previously: roaming, Spanish content, Spain's handset financing FY16 EBITDA benefit that significantly reduces in FY17, and finally the steady decline in MVNO revenues and margins. Altogether, they're worth €0.6 billion.

On top of that we have the annualised technology opex for Project Spring that I'd previous mentioned, now in euros, of €0.3 billion. Therefore, to absorb these drags and still produce 3-6% growth requires our business to produce what you see here of €1.3-1.8 billion underlying improvement in EBITDA, which clearly requires a lot of execution.

At the bottom, free cash flow, we are guiding greater than €4 billion for FY17. And maybe the most important chart of my presentation, because we cover a lot the topic of dividend cover. On the left you see our free cash flow guidance before spectrum. When trying to understand our true underlying free cash flow, you need to factor in the negative Project Spring working capital drag of €0.8 billion in FY17, shown in the middle bar. One the right-hand chart, I highlight the fact that the management is aligned with shareholders on focusing on driving free cash flow growth. The chart shows our LTIP target range between the €13.8 and the €18.8 billion. Clearly the target and the maximum show significant headroom, but even at the minimum, we are covering the dividend.

Importantly, this is clear evidence that our cost plans remain on track and Spring remains on track to deliver the £1 billion incremental free cash flow by year five. Coupled with our robust balance sheet position, this gives us confidence regarding our progressive dividend policy. And on that note, I hand back to Vittorio.

Summary

Vittorio Colao

Group Chief Executive, Vodafone plc

Just to conclude, I will not go again through what we have achieved. I just have to say a return to growth of service revenues, EBIDTA and customer appreciation, which is very important for me. What are the priorities that myself and my team have for the year? I would say five operational priorities. Clearly the continuation of the Care programme is very important to stabilise and improve the relationship with customers and, therefore, the monetarisation of data. More across the piece, mobile and fixed. For the technology roadmap, Johan clearly has a multi-year plan post-Spring to bring us into a new space post-2020. Nick mentioned engaging with the regulators on avoiding the risk of re-monopolisation and having better conditions for our expansion, and then efficiency and margin expansion, as Nick has presented.

Those are the five things that operationally, myself and my team will work on. Of course, we will continue to look at portfolio organisation opportunities and the Indian IPO, and everything with the view of supporting good shareholder returns. That is, as always, our long-term board objective. I would like to ask Johan and Nick to join me now for Q&A and my colleagues are also here in the front row to share questions.

And I have a small request. Given that we did an extended presentation, I know it's against the culture of the Q&A but, if you could, have one question at a time and not kind of 16, then we'll start with Polo, Maurice, John and then we'll go back.

Questions and Answers

Polo Tang, UBS

I'll just stick to one question, which is just in terms of EBIDTA growth. You've obviously guided towards 3-6% EBITDA growth in the coming year, but that's despite 5%-plus EBITDA growth headwinds. The question therefore is, is how optimistic are you that these headwinds will eventually fade and, therefore, EBIDTA can actually accelerate to something much higher than the 3-6% going forward?

Vittorio Colao

I mean, if we give you 3-6%, it's because we believe that 3-6% is the right range. There are, I think, I mentioned in my presentation that there are some areas that are watch-out areas. Clearly pricing in Italy is a watch-out area. There are two players, 3 and Fastweb doing things, and Telecom Italia is wobbling a bit in their commercial response. We have to look at that. We have to look at Deutsche Telekom. Deutsche Telekom, I think they liked it when we were clearly in a different space. The fact that we are coming back to what it used to be and should be, they're reacting on subsidies in consumer, and on ARPU and in enterprise in an aggressive way. We need to see Jio. Jio will come, how it will come and what we will do exactly, but there are three or four areas. Content cost in other markets, Spain is sorted out. We are clearly reiterating that we would prefer to distribute content but, if we have to buy, we buy. There's three or four commercial things that have to be watched out and at this point it's difficult to call where it could go.

Maurice Patrick, Barclays

This is Maurice from Barclays, a question on consolidation, life post Hutch/O2. The UK deal failed, whether it was Commissioner Vestager focusing on the creation of a fourth network provider for structural remedies or maybe the JV structure. But moving on to Italy and your thoughts on the deal there, you've talked in the past of not being supportive of bad M&A. I think this morning, you were saying you were supportive of the EC's decision in the UK to cancel it. Your thoughts on the likelihood of Italy going through and how supportive you'll be on that? And if you think that Fastweb as a fourth mobile network operator is a good thing?

Vittorio Colao

The problem with the UK was a specific problem. The UK has two-network sharing and our network sharing is the one that goes against BT, which is the dominant player in the country. Clearly, if the merger that they propose could strengthen our network sharing, probably the deal would have gone through. Trying to stay with two-network sharing, flip-flopping between one and the other, which of course from an economic optimisation point of view sounds good, but it clearly was a breach of competition law and a weakening of the competition. So, I think it was a UK-specific decision and, quite frankly, we support this decision, because we honestly think that the EU did not have another choice. The remedies were not good enough.

Now, Italy is a different case, because there is no network sharing there. The Commissioner will have to make up her mind on that specific case, but it's a case-by-case thing. Our problem with the UK was not any principle problem; it was a very pragmatic problem, relative to our joint ventures.

John Karidis, Haitong Securities

Thank you, Vittorio. It's John Karidis here from Haitong Securities. Now, I'm 1,000% clear that it's not Vodafone's policy to promote handset financing. Even so, I'd like to understand what the benefits to EBDITA were from the accounting for handset financing in H1 and H2 of the year you've just reported? And was that only in Spain, but also somewhat a little bit also elsewhere?

Nick Read

So essentially, we don't have any material handset financing elsewhere. Spain, in terms of EBITDA for the year, benefited to the tune of about €170 million.

John Karidis

Sorry?

Nick Read

€170 million.

John Karidis

One seven zero?

Nick Read

Yes. Sorry, €180 million. Just to counter, Spain benefited €180 million there and then lost about €110 million of increased content cost and regulatory TV tax.

Robert Grindle, Deutsche Bank

Robert from Deutsche Bank. Just on the revised capital intensity target, it seems from the graphic that that is about fixed. That's where the ambition has been increased, and a lot of that seems to be around fibre. Is that fibre spend more about targeting the consumer broadband opportunity or is about more fronthaul, backhaul, for the virtualisation of the RAN?

Nick Read

Could I just do one slight correction? The increased capital intensity was on a number of fronts; it wasn't just fixed. Fixed, yes, had significant momentum, so higher CPEs, higher builds. That's one. Also, we had very good progress in 4G and 3G in emerging markets, so we want to expand our footprint there in mobile. Also, we want to accelerate the IT transformation, because there is a significant cost opportunity for us to get to that price quicker.

Stephen Howard, HSBC

Stephen Howard here at HSBC. Thank you. I wanted to ask a question about vectoring and the situation in Germany at the moment. Obviously the Commission is reviewing the decision by the local regulator to permit vectoring, and I would imagine this is something that you're quite concerned about.

Vittorio Colao

It's something that we're quite happy about it, happy that they are reviewing it.

Stephen Howard

I see; happy that they are reviewing, but concerned about the original decision from the German regulator. What I wanted to know was what do you think might emerge from that review? Are you genuinely hopeful that the vectoring decision might be substantially overturned? And is there a risk that this situation becomes very acrimonious and thereby destabilises the German market at just the point when it seems to be showing signs of turning less dysfunctional? Thanks.

Vittorio Colao

Thank you. You are really smart and you asked two questions in one, but I will answer both questions about the state of the acrimonious market and the vectoring one. First of all, the position of Vodafone on vectoring, vectoring is an intermediate technology. Nobody can discuss that. Fibre is the ultimate solution that we all need to have the true gigabit market, gigabit society, because you need fibre for that, two-ways, latency, all these things in the end – point number one.

Point number two, vectoring as an intermediate technology, has re-monopolisation risks, because it's a technology that essentially the incumbent can deploy to his own advantage. Hence, it needs to be looked at very carefully. What are the four conditions that Vodafone is strongly – I don't know if it will emerge, but should emerge from the review? We welcome the review of the EU. It should come with an answer to four questions. One, we want to connect at the central office level, so up in the hierarchy, not down in the hierarchy, because otherwise that's anti-competitive. Second, we want to be able to use whatever technology we want to connect customers, to connect base stations, to connect enterprise, to do what we need, regardless of constraints that artificially the incumbents are putting. Third, we want a price which is competitive to the current VULA situation or the current best VULA situation, and I don't think is unreasonable. Fourth, something that nobody discusses, we cannot continue to live with the service levels from incumbents at 60-65%, which means one out of three customers is not served. We should go to the 90-95% that we have in cable or in other things.

These are not unreasonable requests. These are about competition and decent operating life. We welcome the decision of Commissioner Vestager to look into this, because it is not about being against an intermediate technology. It's about being against re-monopolisation. Acrimonious situation in Germany? I really hope that this is not the case. I know that Deutsche Telekom took this pretty badly, and probably they attribute this to us. I think Deutsche Telekom is a great company; I think they have done a fantastic job of turning the company around and relaunching it also in Germany. They should accept that there is a market situation that requires competition, and Vodafone will be a player there. If they accept that, I don't see why it should turn into anything acrimonious. It's just the normal way regulation and competition should work. It's the opposite that would be strange, like the re-monopolisation thing.

Emmet Kelly, Morgan Stanley

Yes. Thank you. It's Emmet Kelly at Morgan Stanley. You showed a graph of acquisition costs and retention costs. If I look at the graph, these have fallen from consuming 20% of revenues to broadly 18% of revenues. How much further lower can acquisition and retention costs go and what would the key drivers be? Thank you.

Nick Read

I don't know if I can sort of come up with a magic number. I think a couple of things I'd factor in. Increasingly, as you've heard from Vittorio, we're driving on the fixed side. We're driving more convergence. When you look at convergence, you'll see the churn profile reduce. You're seeing a number of people do SIM-only plans, so the separation of handset. You're seeing the handset cycle times maybe in a couple of areas go a little longer, so there are a number of reasons why a combination of market structure, combined with our efficiency and our approach to commission and channels can improve it further, but obviously it does depend on market situations. So, as Vittorio highlighted, Germany has got a little bit of channel competition at the moment, in terms of increased subsidy by some of our competitors. We need to remain competitive. If everyone is more rational, then of course there's opportunity.

Guy Peddy, Macquarie

Thanks. It's Guy Peddy from Macquarie. It's just a quick question on the UK. BT has a quite aggressive set of revenue synergies and a large part of that they're targeting from UK enterprise. The competition in there is that they combine fixed with mobile. Have you got anything in your plans? Do you see anything in your plans for 2016-17 as a potential competitive challenge from BT or do you think that is still further out into 2018-19, rather than the next financial year?

Vittorio Colao

I think BT is already a competitor and will become a stronger competitor the more they combine fixed and mobile. Enterprise is the place where I feel, quite frankly, better, because we have a good performance in enterprise. Enterprise fixed in the UK is actually good, and we traditionally also have very good experience in mobile. For us, combining fixed and mobile in enterprise in the UK is less of a challenge. If anything, it's more on residential where we need to ramp up our capabilities. We are starting to do it, but I don't feel there is a special new thing happening specifically on the enterprise front.

Andrew Lee, Goldman Sachs

Thank you. So Andrew Lee from Goldman Sachs. It's just a question on slide 43, where you talk very clearly about the underlying EBDITA growth, stripping out those temporary effects. Just to give us an idea of the sustainability of that growth, what proportion of that underlying growth is coming from efficiency gains and what proportion is coming from the operational gearing and mix effect?

Nick Read

What I was trying to show from that chart was that, if you compared it to H1, the gross margin leverage is increasing. What we're really focused on is driving the gross margin up. At the same time, if we can hold down customer costs and make more efficiencies, and hold down support costs, once we annualise on the impact of the footprint of Spring, then I would like to think that all the new technologies coming in and the fact that it's a shiny new network is going to be pretty efficient. So, I'd like to think that we've got good opportunity and it's one of the key drivers, in terms of operational leverage going forward, holding down the rest of the costs.

Simon Weeden, Citi

Hello. Simon Weeden from Citi. I wondered if I could offer you the opportunity to clarify your dividend guidance, in respect of sterling DPS. Is it conceivable that the dividend per share will fall in sterling terms, in fiscal 2017, as you transition to euros? The wording of the guidance suggests it could be, but as that was an offer of clarification, I wondered if I could sneak in a question as well, which would be that you've said that 24 of 26 markets are going to see EBIDTA growth over the next few years. Rather than asking you to list the 24, I wondered if you could tell us who the two are?

Nick Read

On the first clarification point, we are guiding euro dividends, so we will be announcing euro dividends and it's our intention to grow euro dividends. Of course, I can't predict impact of whether we vote in, out, Brexit or whatever, FX movement. There are certain things that are just not in Vittorio's control. I would say that's the clarification on dividend. On the 24 to 26, let's call them minor markets that you shouldn't worry about, but we do.

Nick Delfas, Redburn

Thanks, Nick Delfas from Redburn. It's a question on content. Nick just mentioned the increasing costs in Spain. You've obviously got some increased costs in Portugal. EE has access to content now in the UK, via BT. Mediaset Premium is getting together with TI, as part of a Vivendi grouping and we don't know what's going to happen in Germany. What is the Vodafone content policy to offset these threats?

Vittorio Colao

You've got a good example in Spain of what is our policy. I think I have to say I keep reanalysing, but I haven't changed my mind on this one. If you look at Spain, in Spain everybody has the same content that they had before; we just pay twice as an industry. I was asked this morning by some newswires, will we be able to put everything back into the customers. I don't know. I have some doubts that 100% of an increase of this size can be put back to the customers.

Once everybody has the same content, I think, more or less we're all in the same space. So, if we can, we would like to avoid strong competition for content, but we also have to be minded that, in the classic prisoner's dilemma, if one gets it, then you have to play and that's why we played in Spain. And we will play in any other market where it is required, in order to have a competitive offer. Of course, it depends a lot on our position in convergence and in TV in each market. But, I can guarantee to you that, in our main markets, we will not accept to be at a disadvantage versus the main players.

Ottavio Adorisio, Soc Gen

Okay, I'll go first. Just a quick question on spectrum: when you highlighted the different trend between EBITDA and EBIT, you highlight that EBIT was impacted by a 20 billion increase roughly on spectrum charges amortisation. We don't see spectrum in free cash flow. Now going forward, you're going to have spectrum to renew in Italy; you have spectrum to buy in India and potentially new auctions for 700MHz, at some stage. The question is if you can give us a bit of an idea how amortisation charges and your cash payment can evolve. This year we had almost £5 billion. It's random; it goes up and down, but it's recurrent. I'm sure that it will consume cash. The question is, first, if you can guide in terms of what sort of charges, both in the P&L and the cash, we can see? And if there is at some stage the plan to cover your dividends after spectrum, rather than before? Thanks.

Vittorio Colao

Let me comment on the general spectrum thing and then, Nick, you take the financial and, Johan, maybe you can come in. In front of us, we have Italy; we have India. India is two different things. There is one that is pretty unaffordable and one that is more needed, and then maybe South Africa I think is the other one that is a bit unclear when it comes and so on. It is less than what we had in the past. So, from a commitment point of view, we think it is less.

The point that is very important is what Johan commented about. We start re-farming now. Now, we start having such a generous or at least wide spectrum portfolio that we can start to optimise and technology progresses a lot, so the more you carrier aggregate, the more you use spectrum efficiently, the more growth can be accommodated within things. In general, for the near future, the time horizon that we are talking about here, we think that it should be less than what it has been in the recent thing.

And of course, one of the goals that Johan has now is really to work hard on this, because we spent money; we spent shareholders' money to buy spectrum everywhere. Now we need to use it organically in a very efficient way, and this is the technical mission and this is the company's strategy. In financial terms, amortisation, I'm not capable of commenting.

Nick Read

What I would say in terms of financials is, over the last five years, we've averaged about £2.3 billion, given that heavy 4G acquisition across Europe and 3G and 4G in India. If we look at the three-year horizon coming out, it will be lower, because essentially Italy is a renewal of 900MHz in FY19. The 700MHz is probably past that date. The 700MHz in Europe is not in the next three-year envelope and we will be very rational in India. I mean, if you look at the pricing of the low-band spectrum, it looks a challenging business case, so we will definitely be rational on India. Of course, we don't guide specifically, because that would give away our auction strategy.

Johan Wibergh

To add on finally, just one comment. We have around seven spectrum bands in the markets where we are, and of those it's typically four or five that are utilised today, so we still have two spectrum bands with quite high capacity not used, for adding on capacity in certain areas. On top of that, when we move spectrum from 3G to 4G, we get double the capacity due to technology. There's still some mileage to go with what we have.

Vittorio Colao

We go there and then we come back here. Yes, James.

James Ratzer, New Street Research

Yes, thank you. James Ratzer from New Street Research. Thank you very much indeed for all the cost guidance that you have given. I mean, a couple of your peers have actually gone one step further and given guidance on net total opex outlook. I mean, do you think Vodafone could see a situation where your total opex base net actually declines, or do you think some of the savings you've announced have to be reinvested in other growth initiatives?

Nick Read

James, one of the things I asked specifically to Tim [Boddy] when he came into the job, and I said, 'look', we went to a conference in March together and, you know, I had a group of people saying 'Why don't we have guidance on this, guidance on this, what about guidance on that?' etc. So I asked him to do a piece of analysis on how many bits of guidance are given by our competitors, and I came away with two conclusions on that, you know. Number one, the more points of guidance they give, the more they miss, yeah. And secondly, the longer timeframe they go out, the more they have to do a reset at some point and start all over again.

So look, we tried to do guidance on the ones that we think are materially important, and that's why we give EBITDA guidance. Clearly, there are a lot of variables between top line, what type of top line growth we get, yeah, is it wholesale fixed, is it on footprint fixed, is it data monetisation, determines the margin and the acceleration that we get. So I'm trying to break down the costs to say 'Here are the costs. Here are the initiatives we're working.' Depending on the profile of cost, we will be working the cost agenda hard, so I don't think I have anything more to add over the comment I gave before.

Andrew Beale, Arete Research

Hi, it's Andrew Beale from Arete Research. I guess I wanted to ask you about the new capital intensity guidance in relation to the LTIP cumulative capex, cumulative pre cash flow payments that you get. I guess the implication is that you think you've got a relatively rapid return on investment from the extra capital spend, and I guess I wondered if you could put some context around where you think that return comes from. I mean, how much is from incremental revenue? How much is from better growth margin by having more network, particularly on the fixed line side, on NGN? How much is enabling more cost savings, for example, on the IT estate? I mean, can you just give us any, sort of, rough colour on those sort of sources?

Nick Read

I mean, I put that chart up at the end because what I wanted to really emphasise was if you take the, sort of, €16.3 billion midpoint, take off, let's call it, €4 billion for next year, just to make the numbers easy, you've got €12 billion, yeah? €12 billion over two years, €6 billion, so you're seeing a rapid increase in free cash flow. So we wanted to demonstrate the confidence, our plans are still tracking to what we said, on both M&A we're ahead, and on the £1 billion incremental free cash flow.

So on that basis, where we see the opportunity and Fit for Growth was about how can we drive a zero based approach on the current cost base to then reinvest on further growth opportunities going forward. So I'd say the large amount of the incremental capex was very much driven from incremental revenue opportunities that we see going forward. I'd say the cost efficiency programme is being driven as hard and fast as it was before, with maybe the only exception being when Johan came in we sat down, we were talking about IT transformation, and just the speed at which we could go at IT transformation and get that cost down.

David Wright, Bank of America Merrill Lynch

Hello, yes, it's David Wright from Bank of America Merrills. Just a question on India: I think, Nick, you've alluded to the 700MHz being pretty shockingly expensive, I guess, on the reserve prices. There's obviously the 2100MHz, which I think you guys could probably use very effectively, but what you've also got is a potential IPO, which creates a currency, of course, in that business. Is there an opportunity, do you think, to acquire spectrums smartly through consolidation of the Indian market? Is that a round and about way of avoiding some of these trading costs?

Vittorio Colao

It is possible. It is possible. As you know, the rules now allow that, so it is possible, and I have to say there's a number of players who are probably not very long term committed to the country, so yes that's a possibility.

David Wright

And that's the, sort of, let's call it one of the primary drivers of getting the local listing there, is to use the currency?

Vittorio Colao

I wouldn't like to call anything a primary driver. We want to consider the IPO, and I say consider because it's not decided yet, because it makes sense to have some local funding, local shareholders, capital who is more interested and more committed to India. There is capital in the world who wants to invest in India and just in India, and maybe not in other parts of the world. And it makes a lot of sense also, like in the Vodacom model, to have a more, kind of, local broad base. Part of the reason is also of course the financial reason that you can use the local funding to support the business, but whether it would support the spectrum or support the acquiring of spectrum from others we don't know. It will depend on the opportunities. Those opportunities we do consider, of course.

David Wright

Okay. Thank you.

Nick Read

I think it has the secondary benefit obviously in the sum of the parts. I think there's quite a wider range on the view on India, and I think it would also help narrow that range, in terms of what the true value is of their India business.

Vittorio Colao

Anybody who has not asked questions? Here. Then I'll get back.

Gareth Jenkins, UBS

It's Gareth Jenkins from UBS. Just a quick question on IoT, you talk about taking leadership. I wonder if you could give us some sense of your end-to-end business and what targets you have for the, kind of, non-human revenue.

Vittorio Colao

Nick, do you want to take it? We have here Nick Jeffery, who is the Head of Enterprise, and IoT reports to him, so talking about the commercial side of it. We already talked about the network one.

Nick Jeffery, CEO, Vodafone Group Enterprise

Yeah, non-human revenue is a new category on us, so we'll work on that one for sure, but it is. I mean, our IoT business is something we've grown up over the last six years. It's founded on a set of technologies which Johan and his team have built, which are unique to Vodafone, which give us the ability to have a single SIM that works on any network, anywhere in the world, and that platform, as you heard from Vittorio earlier on, is already deployed in 30 countries around the world.

It's a rapidly growing business for us, as you saw, 20-30% year over year growth. We see that continuing into the future. The main verticals for us are automotive, consumer electronics, smart metering, healthcare, and in some sense, some parts of the world, agriculture. So it's an important part of the business. It will continue to grow fast, and I'm not sure we can add much more than that.

Vittorio Colao

We can add the other part of the business; we're also considering the consumer part of it. As you would imagine, it's more fragmented and depends a lot much more on market by market and product by product. But I would say that the original choice, and it's one of the things that, you know, honestly we are very proud of, because the original choice of focusing on enterprise and having a proprietary platform, actually is very important. If I look at the rumoured price that the other platform has been transferred to Cisco for, I mean, we have for much less created a bigger, better and more successful platform. So it's a strong, strong, strong basis for future growth. Narrow band IoT will come. My prediction is also that wide band IoT will come pretty quickly, but I think Vodafone will be among the first ones to launch it.

Johan Wibergh

I think there are some really interesting things with this technology that will drive a lot of new business opportunities. I mean, the cost point for the connectivity, the target is less than $5. The battery consumption will mean that it can be up to 10 years with a AA battery. And, as I said, the penetration level, since it's a six times stronger signal, you get in houses everywhere and also increased the coverage. So it opens up a completely new business opportunity, and also with the launch of eSIM, where Vodafone is very early out in the market to support that. If you add those things together you have a lot of new business opportunities for the company to go after.

Vittorio Colao

You will, my guess is that you will hear about this for the next 10 years in these meetings, 15 maybe. Second round of questions now.

Guy Peddy

Thanks. Just a quick follow up: you're planning to roll off 3G at the end of 2021 because you're going to basically lose the, potentially lose the spectrum, so I'm just wanting to make sure that was the primary reason why you're rolling off that technology.

And my secondary point, your networks in the UK and in Germany are behind where you were originally planning. Is that just down to timing or is there something to do with the fact that you're partnering with O2 in the UK, which is becoming a little bit of a – it's making it difficult for you to roll out networks. Is there anything else that we should be aware of? Thank you.

Johan Wibergh

So first of all, the spectrum we have on 3G, we use two frequencies of 2100MHz and 900MHz, and what we have started doing in some markets is to take – you take it in portions. So if you have 20MHz of 2100MHz, you take it in blocks of five, so you do a gradual switch of the capacity from 3G to 4G, and we're going to start by doing – we started with the 2100MHz. When that's done, we have in most markets also 10MHz of 900MHz, and that's one we save to the last. That's where you do voice calls and we have some data traffic, and eventually you take 5MHz of that for 4G and then finally take that final piece away, so that's the strategy.

The build out, as you say, in UK, Germany, was behind our regional plans. We have had good progress anyway in the last time. In the UK, it's dependent on a multitude of factors, and we have had, roughly had the same speed both in the Telefonica part as in the Vodafone part.

Nick Read

I'd say the Beacon side was a bit painful to start off with, but I wouldn't say that now. I'd say that it's running in line with the run rate. It was just a little bit slow to deploy, and therefore we've been running behind since the start.

Vittorio Colao

Simon, I saw your hand up, and Nick again, James again and John again, and then you tell me the time we need to close.

Simon Weeden

Thanks, Vittorio, Simon Weeden. On Italy and Enel in particular, I wondered what you could share with us, in terms of your confidence about how this is going to work, and if it's going to work, and also if there isn't an independence clause in the agreement which means that Enel's fibre to the electricity meter network can't at some point be taken over by TI, for example.

Vittorio Colao

Sorry, I didn't get the second part of the question

Simon Weeden

The second part was – the first part was confidence thing.

Vittorio Colao

What happens to the fibre of Enel if TI does what?

Simon Weeden

Could they buy it? Could they buy the fibre piece out of, off Enel...

Vittorio Colao

Could they buy it?

Simon Weeden

...sort of, under the agreement that you have with them?

Vittorio Colao

First of all, let me say, will it work? It does already work in Ireland, so this idea of putting fibre into electro ducts and on the poles is very obvious. You only need to go to certain eastern European countries to see cable on poles. And of course it is not properly done in a completely coordinated way, but, once you start thinking about it, it is the cheapest way to reach homes.

The other thing is the electro ducts. Electro ducts are another type of ducts, and assuming that they have the right amount of space and everything, it's also a cheap way of getting there. And finally, the third point is if you have to put a meter into a home, anyhow you have to go into a home, and so putting also the – you know, the end of the fibre cable doesn't really cost much more in addition. So it is clearly a synergetic type of deployment.

We are confident that this will happen. Enel is very committed. The initial commitment is good. There's a number of other cities that are already in the plan, and then there's a question mark about the C and D areas, which actually will have also the support of government money, so the project is very solid. We're committed to it. We signed. I think Wind either have signed or are signing together, so this is becoming a clear alternative to Telecom Italia.

Well, what happens? Telecom Italia can do a variety of things. They can join, which is good because this would lower also our costs. So there are provisions which say that depending on the number of people, both on the horizontal and on the vertical, the costs go down. They can try to buy, in which case we have a certain set of protections and clauses that would describe what happens if Enel decides to sell the fibre. So I'm pretty confident that that is a good project.

Now, Enel and Telecom Italia are both trying to buy Metroweb. From a competition, again, point of view, I believe that the dominant player buying the only alternative is a little bit dubious, but if it happens, it will have colossal remedies, so fine, we can live with it, and in any case we will still have access to Metroweb after that. So Italy, I think, is going in the right direction, and their reliance of – we had all these questions about, you know, the Fastweb – you know, 'Do you need to buy Fastweb?', and so on. Over time, that question will fade away.

I think Nick had a question, James had another one, Ottavio had another one and John has another one.

Nick Delfas

Yeah, thanks. Nick Delfas from Redburn again. So just a quick question on European mobile service revenue growth. So it's minus 1.1% in the spreadsheet. Obviously more people are going to SIM only, and handset cycles are lengthening. I wonder if you've got a figure stripping that out, in other words the, kind of, gross profit to Vodafone after you take account of the fact that people are repaying handsets less in the service revenues. So is the minus 1.1% in Europe already growth if you strip out the handset effect or is it –

Nick Read

That sounds like a really nice technical question that I want to do afterwards so that I don't rush an answer.

Vittorio Colao

I'm so happy to have Nick here.

Nick Read

Yeah, exactly. I'll handle it afterwards.

Nick Delfas

Okay, but broadly it's better than the minus 1.1, obviously, if handset cycles are lengthening.

Vittorio Colao

This is a Nick to Nick conversation.

Nick Read

Yeah, I'll take it.

Nick Delfas

We'll do it afterwards. Okay, thanks.

Vittorio Colao

I'm glad to have Nick here. James.

James Ratzer

Yes, thank you. So the follow up question actually follows on a bit from Simon's question, just interested in understanding the Enel agreement in Italy a little bit further. As a result of this agreement, have you now just, kind of, suspended your FTTC build within Italy and all the, kind of, future emphasis is now on FTTH with Enel? I mean, did you also design the network rollout with them? So it's, kind of, encouraging to see they're saying there's a 7.5 million build, of which 5.5 million actually don't overlap with your existing footprint. Is this something that is actually more economically attractive for you, or is the attraction actually going to FTTH rather than FTTC?

Vittorio Colao

Both. Very good question. So, as I said, we are consistent with our position. Clearly, FTTH is better, and therefore everywhere we will have the opportunity to go FTTH we will. It is also economically beneficial to us, so this is a win-win, because Enel will get their money back earlier and we will give to our customers better performance at better conditions for us. And this also, I have to say, proves my evergreen point that all these incumbents are overcharging for their services, because otherwise things would not work.

Now, having said that, FTTH is still useful, because actually we are doing pretty well in that area. We will of course design our future – FTTC, sorry – FTTC investment, based on where Enel is going or is not going. So of course now the primacy is to – supporting the Enel deployment rather than our own, which is also – has implications on when we will migrate and so on, because of course we will try to support the new partner as much as we can. But it's a good deal and it's a fairly visionary thing for the country, and it's, as I say, it's interesting that Italy and Ireland are doing it. We're now looking into other electricity companies. I have to say though, the idea is interesting.

James Ratzer

Can I ask, sorry, a very quick follow up on that?

Vittorio Colao

No, no second questions.

James Ratzer

How do you get to the C and D areas? I missed that bit in your original...

Vittorio Colao

C and D are areas where the government has found that there is not economic incentive to invest because they are market failure areas, and therefore they will put money to whoever bids in those areas. They could be won by Telecom Italia, could be won by Enel.

James Ratzer

So the intention here with you, Enel might be interested in bidding for those areas.

Vittorio Colao

Again, we separated very clearly the first bar, the second bar and the third bar, because the third bar is subject to auctions, so who knows who will win them, but it's a further opportunity.

James Ratzer

Right. Thank you.

Vittorio Colao

John, yes.

John Karidis

Right, thank you. So my question is about the UK and Ofcom. So in February they said that they want to incentivise companies such as yourself to invest heavily to give Britain alternative fibre networks. And as part of that they said they will look at the Openreach prices, because, in their words, they don't want to make it too easy for you to wholesale capacity when you have scope instead to be building your own network. So what do you think are the practical implications for that for you, and could you talk about your appetite to invest heavily to build Britain alternative fibre infrastructure?

Vittorio Colao

I would say the first point is an important one. Openreach overcharges for what they do. I think it's proven that they had excessive profits over time, excessive not in the sense that they were undue profits, excessive versus a certain expectation ex ante. And, you know, at the end of the day, regulators have to be very pragmatic. The more they allow one player to charge more, the others – the more they take away the investment case from the others, so it's a fine balance between – a little bit like the Italian example, between putting pressure on the incumbent to come down with, you know, their own prices to create an incentive for others to go there, and also create the conditions for the alternative.

If they give us access to the ducts and they give us a right of way at decent condition, of course in certain areas of Britain it would make sense to consider an investment. But if you don't have access to the ducts and you don't – and if you have to always be under a, kind of, low level of service from Openreach, by definition the incentive will not be there. So I really look forward to this consultation and this DCR process as a moment where we redefine the role of Openreach in the country, for the good of both investment and competition.

John Karidis

Sorry, maybe I can take it offline, but essentially, if they reduce the prices that they pay Openreach you have less of an incentive to build your own network.

Vittorio Colao

This is a false argument, and I really say ideologically false, because if they reduce the price we have an incentive to invest commercially. You create a bigger base. Once you have a bigger base you have an incentive to invest. Look at, you know, other cases. So this argument that incumbents put forward, they say, 'Oh, we keep high prices because this will create – keep the market price high and give an incentive' is completely self-serving. They keep high price, everybody gives you money, you reinvest the money into BT and nobody else would have any incentive to invest, so it's completely unproven, this point.

The reality is that as, you know, what incumbents don't like is a chart like this, where you see Vodafone is the top red line and they are below. So they don't like that there is somebody creating this. Now, part of this red line is also Turkey. Now, in Turkey we are exactly able to invest in the business, because we have decent margin to play with. If you don't have margin to play with, you stay out of the business. So it is a false line of reasoning. Sorry, false, it is a self-serving, which is not false, but it is not completely genuine, let me say. Robert again.

Robert Grindle, Deutsche Bank

Yes. To follow up on the Project Spring capex thing, the €800 million carry over into this year, the cash capex that has to be spent, will that still give some network advantage beyond what we saw at the end of March? Because I was just looking at your spring targets and you beat them all in AMAP but you didn't quite get there in Europe. Is that because there's a follow through?

Nick Read

It's capex committed cash out, because we have, let's say, 120 days payment terms, yeah? So physically we've, I mean, sure, you can order, it can sit in the warehouse and then go out, so maybe there's a residual still to be deployed physically, yes.

Robert Grindle

So in those delivered base stations, are they actually in the ground today and yet to be cash paid for, or is there, sort of, some quality of service still coming through?

Nick Read

No, there will be some. There will be some because there'd be a degree of warehousing, but our warehouses are only so big, yeah?

Vittorio Colao

I think we have time for one more. Who has not asked a question and wants to ask, or otherwise I will take Ottario's final question. Ottario, you have the privilege of the line.

Ottavio Adorisio

Yes. Thank you very much for taking the last question, so I will try to make it quick. It's basically for Nick. It's on the cash. Through all this refinancing and the convertible issuance now you sit on almost £13.5 billion of cash, looking at the appendix to this presentation. I don't think that there's a lot of maturities, at least not that particular magnitude coming your way. During your presentation you mentioned uncertainty macros and that's the reason why you want to carry a bit of cash. So, if you can give a bit of granularity about what you mean, and what will be the use of cash you project going forward?

And the very – and this is clarification. This €800 million of working capital or capex already spent and has to be paid, because you basically use [inaudible] in your free cash flow, if you can give us a bit of colour, which sort of working capital cash outflow we have to expect for next year that is basically impacting your free cash flow? And that is overall free cash flow, not just – overall, the working capital just coming from the capex that we mentioned in the previous question?

Nick Read

Yes. So you were saying about – sorry, the first bit, just say the first bit.

Ottavio

£13.5 billion cash was the cash balance you have at the moment in your balance sheet.

Nick Read

Yeah, there's a reason why cash is high. Over the course of the past year, obviously we were in early talks with Liberty, that then closed. While we were in talks, in terms of the bond market, though it was available to us, the pricing wasn't attractive, so once the talks finished, yeah, we were able to go back into the bond market. We chose quarter four as the opportune time to do it. I think we got some great rates, but what we had was a high level of CP, and then at year-end effectively a whole bond issue came in on top.

So we're sitting on CP. CP is less than one year of debt, so it matures off over FY17, unless we wanted to keep it open, so let's say Brexit. And if there was disturbance in the market, we're sitting in a very good position from a liquidity position. Once we're through uncertainty you would expect the CP to drop down. There's no other uses of cash. It's just more, I would argue, timing and tactical.

And in terms of the working capital, what I was just drawing out is we've got exceptional flow of working capital because the capex is at a very high level, and we are bringing down capex in FY17. So we will just get a normalising effect once we're past the €0.8 billion. But, just bear in mind I'm not going to quote a working capital number for the group, because the group at any given one day can have, you know, £500 million flow through it, so, I mean, it's – you know, there's a lot of movement within working capital.

Ottavio

Thank you.

Vittorio Colao

Very good. I thank you for your attention. I think the key takeaways are good financial performance, I hope you agree with it. Back to growth, good performance in fixed broadband, really accelerating enterprise and mobile data, and growing guidance for next year 3-6% in euro. With all the complexity we need to learn all the numbers again. Thank you very much for coming. Thank you.