Vodafone Group Plc

Full-Year Results for the year ended 31 March 2017

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Vittorio Colao

Group Chief Executive Officer

Good morning, everybody. Thank you for coming to our year end results presentation. A special welcome to Peter Moyo, who sits in the first row. Peter is the outgoing chairman of Vodacom. Peter is going to run a listed company very soon. I think you're here to basically get the credit for the wonderful contribution and, hopefully, we'll also learn something. But Peter, it's great to have you here in such good days for Vodafone's results.

So, as we have had two big transactions post Project Spring, we thought it was good to change a little bit the format of today's presentation. I will go through a little bit longer illustration of results at the beginning but I will not go into the details of the countries. You still have the details of the countries in the appendix and you'll be able to get the usual things, but I will try to stay a little bit at the higher level. Then Nick will go through the financial review, as always, and then I will come back and give an update of our strategy across Vodafone post these transactions, post Project Spring, and try to give the sense of direction for Vodafone towards 2020. And then, of course, Nick and I will take questions from you. A reminder: India is not included, due to IFRS accounting rules, into the numbers but, again, for India as well, you have all the details in the appendix.

So, let's start with the full year highlights. I have to say we had a good year: 1.9% organic revenue growth. This is growth in both fixed and mobile. And, in most of our markets, we are gaining share. Good results on EBITDA: 5.8% EBITDA growth. This is a 130 basis point margin expansion. Nick will cover operational leverage but also cost reduction that has been successful in the year. 29.7% margin. Cash flow goes up three times. Of course, capex levels are going back to the normal level post Project Spring: €7.7 billion invested. €4.1 billion cash flow but €4.3 billion in guidance terms. And finally, the Board this morning agreed to increase the dividend by 2% to 14.77 cents, which is consistent with our intention of having a progressive dividend policy. So, overall, including India, we have met our guidance last year.

Now, let's have a look at the three areas of the Group: first of all, Europe. In Europe, as you can see from the red part of the chart, we continue to have good commercial momentum. One million contract net adds across the piece, 1.2 million broadband homes added, and 1.6 million NGN homes (next generation network). We are, again, the fastest growing NGN and broadband provider throughout Europe.

AMAP ex-India – the blue part in the centre – continues to grow very well. We have 6.8% growth. We added 9.7 million customers in the year and 7.5 million data active users in the year. Now, this chart doesn't say but, even in AMAP, we have growth in fixed broadband – 300,000 homes – mostly in Egypt and Turkey.

And finally, the third part is India. Now, of course, India, as we all know, has been challenged by the entrance of Jio. We had, in the last quarter, a -11.5% growth. This is actually in line or better than the two reference competitors – we have seen the numbers yesterday. The good news is that we are retaining now voice and data users. We are actually increasing data customers in the last quarter. Data customers have gone up to 38 million from 35 million – 3G and 4G – and so we see some signs that our, let me say, sacrifice of ARPU is working commercially in India.

Now, as I said, I don't want to go into the details market by market – you have them in the appendix – but let me still give you an overview of how things went across the piece. First of all, our strategy of customer differentiation based on network and customer experience measured by the NPS: as you can see from the chart, number one in Germany, number one in Italy and number one in Spain. We're not number one in the UK. In the UK, as you all know, we had technical issues. Now, we have a pretty well-working network: number one data and voice in London; number one voice outside of London and good performance on data. We have fixed the billing mistakes – now billing mistakes are practically eliminated – and we have halved the number of complaints that are coming into the call centres, which now have also a very good response – on average, 14 seconds we take calls, which is down 96% from the six/seven minutes that was the case six/seven months ago. So, not a great performance yet perceived by all the customers but, for sure, the basic operations are now in good shape.

The central bloc is the growth. I already commented on mobile and fixed growth. Just one comment on Italy: it looks like a negative on prepaid but the reality is that the active prepaid customer numbers in Italy are actually stabilised and we are doing pretty well across the piece on the mobile front. And finally, the piece of the slide that I really like: the bottom part – service revenue growth, EBITDA growth. As you can see, we have positive leverage almost everywhere – exception, of course, the UK. In Germany, despite MTR headwinds, 1.9%, 4.5% of EBITDA. In Italy, despite a very competitive headline market, we are growing 2.3%, and an amazing 10% at EBITDA level – excellent job done on cost here by our local colleagues. And Spain, ex-handset financing, 4% growth, 8% EBITDA growth – again, a very good job done on cost and an excellent job done especially on IT cost. As I said, in the UK, the financial performance clearly lags the operational recovery: -3.3%. Here, there have been the famous billing issues, we have roaming hits; there's also some accounting stuff. But again, as I said, the important thing in the UK, we have fixed the basic operations. Now there's a lag and then it will come also to the financials.

Emerging markets. Again, a fairly similar picture: number one in South Africa, number one in India, number one in Egypt, and number two by a small amount in Turkey. And I have to say good customer growth with good increase in usage – and this is important. Underlying usage: voice up 10%, data up 78% in AMAP, so the essential classic engine of customer and usage growth continues to work in AMAP.

Given the presence of the outgoing chairman, I have to say South Africa amazing. Peter, excellent performance on contract. This is the lowest churn I have ever heard in mobile in the world on contract: 3.2% churn on a yearly basis. This means 100%, essentially, of customers are happy. And excellent growth in data: 1.4 million data customers added in the year; 19 million total. An amazing data analytics and CVM (customer value management) machine that we are replicating throughout emerging markets. So, it's not surprising that the result is continued growth of revenues and adjusted EBITDA growth of 7.5%. But also, if you look at Turkey, look at Egypt, 30% growth in Turkey – here, again, a good job on the commercial front but also rationalisation of A&R, rationalisation of cost, 30% EBITDA growth; 22.7% in Egypt, where I was recently, again another great CVM machine. In each structure, we are gaining market share, despite the fact that we are very high. So, that actually could be the next target in South Africa, Peter. So, pretty good.

Now, India, as you would expect, a more negative performance. Q4 prices still see voice [revenue] negative 15% and data around the same number. The good news is that we start seeing stabilisation of recharges, and so, despite the fact that we have put more cost in it and we have a broader presence, we think we have another couple of quarters of pressure but probably the pressure will start easing off towards Q3. And as I said, we are now operational in 18 circles with 4G, so fully competitive and billing our customers, which is an important thing in that context.

So, before handing over to Nick, I don't talk about the small markets. We have a number of good stories also in our smaller markets but they are in your pack in the appendix. Just a quick snapshot on Q4. Blue part: this is the customer side of the story. We are ending the year in 19 out of 21 markets leader or co-leader in consumer NPS. We have very strong markets for voice everywhere and in three-quarters of the market for data, and we have now reached 36 million homes passed in our own footprint and 96 million total on the whole footprint, so pretty good progress from the customer point of view. We continue to grow in the fourth quarter in the three chosen engines: 62% growth in data, record NGN, as I said; and Enterprise continues to grow 2%. And the financials: group service revenue 1.5% growth, despite the headwinds that Nick will talk about, but most importantly, I want to draw your attention on the EBITDA growth. In the second half of the year, the margin expanded by 170 basis points, which I think is quite remarkable. And with that, I will hand over to Nick to talk about the overall financials.

Nick Read

Group Chief Financial Officer

Thank you, Vittorio. Good morning, everyone. So, our strategic moves to further strengthen our India and Netherlands business over the course of this year has resulted in an unusually complex set of results, so I will try to simplify the picture. All the numbers in our statutory reporting, as per the press release this morning, now exclude India, following the merger announcement with Idea. However, from an operational perspective, there is no change. The Group remains highly focused on the management of the business both prior to completion and thereafter.

With that said, moving to the first chart, to aid comparability with future reporting, this slide shows our results for the year both including and excluding the Netherlands. This year, our performance clearly demonstrates that we are achieving significant operational leverage, which is starting to positively impact our EBIT and our return on capital. On the left, organic service revenue grew 1.9% year on year and was broadly consistent across H1 and H2, as expected. In the middle, thanks to our Fit for Growth programme, we grew adjusted EBITDA faster than service revenue, up 5.8%, accelerating through the year, significantly improving on last year's growth of 2.3%. On a guidance basis, which includes both India and the Netherlands for the full year, EBITDA was up 3.4% to 15.8 billion.

Turning to the chart on the right, to ensure the appropriate internal focus on return on capital, we have changed our annual bonus criteria for FY18 from EBITDA to EBIT across the Group. In this context, I'm very pleased to be able to report an inflection in the adjusted EBIT during the fiscal year, with an acceleration of 12% organic growth in H2. Going forward, we expect our EBITDA growth to continue to outpace the increase in our D&A expenses, lifting our EBIT margins and our return on capital.

Our reported loss for the year was €6.1 billion, which reflects three large, non-cash, exceptional items that are excluded from our adjusted-earnings-per-share calculation highlighted on this chart. Let me focus on India. You will remember, at the half year, we booked a net €5 billion non-cash impairment charge for our Indian business as a result of increased competition in the marketplace. Following the merger announcement with Idea, we have revised our fair value of the business and have written back €1.3 billion of the impairment in the second half. Excluding these items, adjusted EPS grew 17%, which includes the dilution of shares due to the issuance of mandatory convertible bonds at the end of the prior year. As communicated previously, these bonds were aligned to our Verizon loan notes and we are able to use the proceeds from the notes to buy back these bonds as they mature, avoiding dilution to our shareholders. Our effective tax rate this year was 25.4% excluding India, consistent with our unchanged medium-term guidance at a mid-20s tax rate.

So, turning to service revenue, as the chart on the left shows, our top line performance has broadly been consistent throughout the year. You will remember that, a year ago, we called out some exceptional items that delivered a strong Q4 in FY16, which are listed at the bottom of the slide. Together with the full quarter impact of the large MTR cuts in Germany, the combined impact of all of these was roughly 80 basis points on a quarter-over-quarter basis, so the true underlying Q4 performance was consistent with the previous quarters. So, solid momentum into FY18.

However, as the chart on the right shows, we will now face the final year of EU regulation on roaming, which is a drag worth €300 million. This impact, together with the ongoing effect of the German MTR cut, is expected to weigh on our revenue growth by around one percentage point compared to last year.

Turning to our three key strategic drivers, which Vittorio will cover in more detail later – mobile data, convergence and Enterprise – in aggregate, these allowed us to gain profitable total communications revenue market share in most of our major markets. Excluding the regulatory drags I just described, our European Consumer Mobile business is now back to modest growth, reflecting the contribution from our more-for-more commercial actions. Emerging market growth, largely driven by data, continues to be a key contributor, reflecting the excellent performance across the footprint. And momentum in convergence remains strong, with base growth of over 1.5 million customers during the year, supporting revenue market share gains in Fixed and TV. And in Enterprise, we continue to outperform our international peers, reflecting gains in Fixed and continued momentum with multinational corporates, along with good growth in AMAP.

As you see on the right of this chart, these healthy performances are partially offset by the EU roaming MTR regulation and by our strategic decision to exit some highly volatile, low margin wholesale carrier contracts, which represents about half of the drag you see highlighted on the chart, along with a decline in MVNOs of around €60 million.

Now, moving to our cost base, we sustained our commercial momentum over the year, with strong customer growth and structurally lower churn, as demonstrated at the top of the chart. However, our operating expenses declined in absolute terms during the year, reflecting the impacts of our Fit for Growth initiatives. Our gross margin contribution represented just over half of our EBITDA growth in the year, whilst facing a drag of approximately €200 million of increased content costs, principally in Spain and Portugal. The remainder of our EBITDA growth was driven by a net organic decline in our operating cost base of €0.3 billion. By focusing more on direct channels and the optimisation of subsidy and commission models, we reduced customer costs by €0.2 billion. We were able to hold our technology costs flat, absorbing incremental pressure from Project Spring of about €200 million, excluding India. Finally, we further reduced our support costs by €0.1 billion, despite inflationary pressures in AMAP, given our zero based budgeting approach. So, on an underlying basis, our operating costs you see highlighted in the box declined €0.5 billion adjusted for Project Spring, a result significantly helped by the final run rate delivery of KDG and ONO synergies.

Our Fit for Growth progress underpins the guidance we're giving today for a further net reduction in organic operating costs during the coming fiscal year. Rather than go through the drivers again, which are outlined on the left hand side, I'd like to focus more on a key enabler we are rolling out to structure our approach to margin optimisation and cost efficiency, which we believe will play a key role in delivering our margin expansion targets. Currently under development using our single global instance of SAP, combined with our data warehouse and data analytics tools, we are able to determine the profitability of our business at a micro level, moving beyond the flawed focus on averages to the drivers of cost and profitability at an individual customer level. As you see on the right, our customer profitability analytics platform will give us multiple views of profitability, given the hold of data at customer level. We are now rolling out this platform across our markets and see substantial opportunity for margin improvement, as we gain a richer and deeper understanding of the profitability of our business.

With healthier top line growth and a declining cost base, our margin expansion has accelerated this year. During FY12-15, we were struggling to grow margins, given the structural pressures on the industry. Only six markets improved margins in this period, collectively representing around 21% of the Group's EBITDA. Following our investment in Project Spring, convergence and customer excellence, combined with Fit for Growth focus, we are seeing the results. In the past year, 15 out of our 22 controlled operations have improved their margins, representing over 80% of the EBITDA.

Looking at our EBITDA performance on a market-by-market basis, there are some very strong results in the year. Italy was the standout performer, expanding margins by 300 basis points and growing EBITDA over 10% year over year. I consider this a great example of our Vodafone model: best network, more-for-more proposition, convergence drives, whilst reshaping channel economics and Fit for Growth delivery in absolute decline in costs, all achieved in a highly competitive market. Spain achieved a 210 basis point expansion in margins, growing EBITDA by 9%. Effectively, a reduction in handset subsidies, with absolute cost declines, more than offset the step-up in content costs. I was also pleased with the progress on costs in Germany, which help to accelerate H2 EBITDA and deliver our 150 basis point improvement in margins over the year. The UK was a clear underperformer on margins, which I will address in my next slide.

In AMAP, we continue to achieve excellent growth and margin expansion in Turkey and Egypt, despite cost inflation, and South Africa had a very strong performance – thank you, Peter – with EBITDA margin reaching 42.7% for the year. In India, it's worth noting that, since Jio has announced charging, we've seen a stabilisation in a number of our commercial metrics, such as prepaid re-charges, but clearly the situation remains fluid.

Moving to the UK, Vittorio has already commented on the commercial and operational actions taken on the left of this slide, so let me focus on the financial performance on the right. The top chart shows that, in sterling terms, our service revenue remained stable over the last four quarters. Q4 revenue last year benefited from a one-off capacity sale in carrier services, which we highlighted last year, with a strong comp in Enterprise. Therefore, the real underlying service revenue this quarter decreased by around 3%, which is similar to last quarter. Our results for April have been consistent with this underlying performance. The reported EBITDA decline was material, but this reflects a number of unusual items. Excluding these items, the EBITDA declined by approximately 7% this year. Given our commercial and operational results, we expect to evidence financial progress by H2 and have agreed a plan for margin recovery over the targeted three year, long range plan.

Moving to capex, our capex as a percentage of service revenues was 16% this year, at the top end of our mid-teens range, as expected. We remain confident that this level of investment will allow us to meet our growth objectives and maintain network leadership. This slide is focused on how we allocate our capex across the business to support our strategic objectives. The chart shows the mix of spending across our top five markets, which make up about 65% of our local capex spend. Just under 50% of our capex was spent on ensuring a stable, high quality experience for our customers in a world where data is growing at approximately 60%; therefore, 50% is spent on growing and developing our business. We spent 20% on adding mobile capability, 4G+ coverage etc. 8% was spent on Fixed. Vittorio will shortly talk about the infrastructure strategy and the trade-offs between buy, build and rent options. And as previously stated, the mid-teens outlook has limited fibre build. We continuously evaluate fibre business cases but we have yet to identify opportunities with the appropriate targeted returns. We will continue to explore these options and will bring forward, on a case-by-case basis, if compelling returns can be achieved. IT transformation remains a key priority, as we build new digital capabilities that deliver a customer experience at low cost. Again, Vittorio will describe these shortly. And finally, 14% or 2.2 percentage points of our capital intensity is directly linked to our commercial success and revenue generation.

The other critical item of our capital expenditure is spectrum. India has driven the majority of our spectrum costs over the past few years but, as you can see from the chart, excluding India and the Netherlands, our capex spending on spectrum has averaged €1.2 billion since 2010 – a period where we secured our 4G spectrum. FY16 was high, given an exceptional 4G auction in Germany, our largest market. Our spectrum amortisation charge over the last four years has risen to around €1.8 billion, but it's important to remember that this includes the excessively expensive 3G auctions in Germany, the UK and Italy. If we paid 4G prices for this spectrum, our normalised spectrum amortisation charge would move below the cash spectrum average. Predicting spectrum costs in an individual year is challenging, obviously; however, over the coming three years, we do not expect a major change in our overall average spectrum investment levels. The tapering in growth of D&A resulting from our normalised capital intensity and less volatile spectrum creates the opportunity for EBITDA expansion to deliver strong EBIT growth, as we saw in H2.

Turning to free cash flow, which increased by €2.8 billion this year, as Project Spring came to an end. As previously highlighted, we saw a large outflow of capital creditors, reflecting the timing of the final Project Spring payments, which fell in H1. Cash interest expenses declined to €830 million, thanks to our effective treasury management. Given our strategic decision to shift from floating to fixed in the summer, we have now locked in a cash interest rate of around 2.5% for at least the next five years, limiting our exposure to a rise in interest rates. Our cash tax performance in the year was a little bit better than expected, given a number of favourable settlements. In FY18, we expect to pay around €1 billion in cash taxes. We also saw a rise in dividends from our joint ventures and associate investments. These businesses have strong market positions and, over time, we believe they will be worth far more than the current dividend streams alone would suggest. We expect to receive substantial dividends from VodafoneZiggo in the future, noting last week the JV guided a total cash return to its parents of at least €500 million during calendar 2017.

Let me take the opportunity to briefly cover VodafoneZiggo, which experienced a tough quarter in a highly competitive market. We expect top line pressure to increase this year, given the impact of back book repricing, roaming and our investment decision to drive convergence into the base. However, we are focused on accelerating the significant synergies and believe the JV is well placed to deliver significant long term value.

Moving from free cash flow to dividends, clearly the right and only way to think about dividend cover is on a post-spectrum basis. On this basis, excluding India, as the chart on the left shows, we almost covered the dividend during FY17. Turning to the chart on the right, our three year long term management incentive plan has been set on the new Group moving forward, which excludes India. However, it is important to note that our annual incentive continues to include India, which is appropriate, given we expect to have full control of the business for much or all of the coming fiscal year. Despite the absence of India, which was previously expected to contribute to our free cash flow in the outer years, the mid-point of the three year free cash flow target has modestly increased to €16.6 billion versus €16.3 billion previously. If we took the average cash spectrum cost of €1.2 billion per the year I previously covered, and assumed the next three years were in line with this average, you can see the dividend is fully covered at target. Ultimately, the Board understands the importance of the dividend and has the intention to increase the dividend per share annually.

Moving to net debt, the chart shows the bridge from March ’16 to March ’17, all of which are well known items, with the exception of the India capital injection. Clearly, given India is excluded from the Group results, the capital injection, which was to pay spectrum, appears as an outflow. Excluding India, net debt at the end of the year was €31.2 billion and, at 2.2 times net debt to EBITDA, sits in the middle of the targeted 2-2.5 times range. Including Vodafone India, net debt was €39.8 billion. We expect to contribute the vast majority of Vodafone India’s net debt into the merged entity at closing, subject to the usual closing adjustments.

Finally, looking ahead to guidance for the fiscal year, starting with our base line of €13.5 billion, on an organic basis, we expect to grow by 4-8% from this level, which is equivalent to a range of €14-14.5 billion. To achieve this growth, as previously discussed, we will have to absorb €300 million of roaming headwinds. However, this will be offset by the EBITDA benefit of approximately €300 million flowing from the introduction of handset financing in the UK, which moves us in line with market practice, as we did in Spain. Note that this benefit does not flow to free cash flow, as it's effectively reversed in working capital, and will have a drag on service revenues of €130 million. When considering the guidance range, the key swing factor in the year is clearly Italy. The other factors are the usual ones: competitive intensity in all our major markets, and macroeconomic, political instability. Our free cash flow guidance of around €5 billion assumes that we remain towards the upper end of our mid-teens envelope on capital expenditure. Clearly, maintaining this strong momentum requires a clear strategy and robust execution, which brings me neatly back to Vodafone 2020 and Vittorio.

Vittorio Colao

Group Chief Executive Officer

Great. So, let's talk about our strategy going forward. First of all, let's see what Vodafone is today and start from after transactions after Spring. If you look at Vodafone today, you really think of three things. One is Europe. Europe is now three-quarters of the total. There is 0.6% growth, which is a combination of a healthy and positive 3.5% on fixed lines and, again, broadband, 1.2 million in the year, convergence – I will talk about these things. The mobile, slightly negative in the year because of the impact of MTR roaming and accounting changes. But as I said, growth in EITDA, 100 basis points in the year. So, this is three-quarters of Vodafone.

One quarter is AMAP ex-India. Good growth: 7.7% growth. 150 basis points growth in EBITDA margin, and I would say the classic sustained momentum of mobile customer growth and usage growth.

And then the last part is India, where, actually, we had a 220 basis point reduction in EBITDA and, as Nick has said and as I have said, the Jio impact will be seen for a few more quarters. But as you know, we have taken action there.

Throughout the piece, we have improved in the year our asset composition in the Netherlands with the joint venture with Ziggo. Now, we have a leading, essentially, competitor at par with the main operator, KPN, there. Nick has said there is some pressure in Consumer and some pressure in SoHo, but if you think that we only have 25% of Ziggo homes having mobile, again the opportunity there is more in the convergence direction. We announced yesterday the Vodacom/Safaricom simplification and this has clearly a dual purpose: on one hand said, as I said, simplify, but also to be sure that the two excellence points that we have in Africa – the excellence of Safaricom – financial inclusion, great management, marketing presence – and the excellence of Vodacom, which is more multi-country management and, of course, detailed analytics and CVM – go together to exploit opportunities in a more organised way across Africa. And finally, the merger with Idea, which is, essentially, 40% market share, 1,400 MHz of spectrum and $10 billion of synergies, becoming a champion of digital India. So, this is what is Vodafone today: three-quarters, one-quarter and the big joint venture in the fastest and biggest market in the world.

In terms of strategy, just a reminder, this is not a slide that you have already seen; this is the latest slide coming out of our Board's strategy review, but most of it should be familiar to you and it has the beauty that we put everything in one slide and now the whole of Vodafone strategy can stay in one slide. This is Vodafone 2020. The left part – part number one – is what you know. It's the core communications strategy. I will cover it later but, essentially, it's about number one, number two in customer experience and network delivery. The second is let me call them the seeds for the future. Somebody calls it more the Vodafone 2025 strategy but you need to put the seeds now and it's new digital businesses. I will cover them briefly.

And the third one, I will not cover because it's, I think, fairly well known stuff that we debated a lot but it's really about technology and cost excellence: move from 4G to 4G+ to 4.5G. Fiberisation: there was a lot of concern about fiberisation. Our target is to get to 95% of urban sites fiberized; we are already at 70%, so we are going in that direction. Cloudification, virtualisation – if any of you have questions, Johan [Wibergh, Group CTO] is here in the room and can tell you about our technology programmes that, I have to say, I am more and more comfortable with. The more I see us and I ask vendors where we are, the more confident I am that we're going in the right direction. Fit for Growth, under Nick's leadership and Margherita's [Della Valle, Group Deputy CFO] leadership – she is here, so, if you want, you can ask her as well – it's getting into phase II and, as you have seen, it's starting to deliver. And then our Digital First programme is something new. We have not announced it yet. We're just mentioning it today. It's really the new wave of investment to, essentially, improve the customer experience but also reduce dramatically costs. This is about machine-learning and robotics. It's about online and it's about building transformation that Nick mentioned. This, I will not cover in the rest. All of this, enabled by the commercial platform CARE – Serpil Timuray [Group Chief Commercial Operations & Strategy Officer] could not be here today but we have Brian [Humphries, Group Enterprise Director] from Enterprise. It's the way we will deliver through connectivity, good offers, rewarding loyalty and easy access. And then the way we organise, which I will dedicate one word to at the end of this presentation. But essentially, it's three business pillars: one commercial delivery mechanism, one organisation and cultural element.

So, let's review how the core communication is going. I am pleased. We are increasing the gap versus our competitors in NPS in Consumer a little bit against both the next best and the second next best, as you can see on the left part of the chart, and we lead in 19 out of 21 markets. But also in Enterprise, we are maintaining an eight point lead and we are leading in 15 out of 20 markets. So, the strategy seems to be working, at least based on what the customers are telling us. What really makes me proud is the right part of the chart, and here there's three key numbers. We are improving our NPS position in 16 markets – the one above the horizontal line; we are leading in 19 markets – the one to the right of the vertical line – and, yes, we have more work to do in the UK and the Netherlands, as we said, but in the UK, we think we are on the right track and, in the Netherlands, we are now starting the integration. So, from a customer point of view, the work done is being recognised.

Now, from an infrastructure point of view, again this is a mixed qualitative/quantitative chart. This says that we have 92% 4G coverage in Europe and a number that is very used in the US: we cover 315 million PoPs, as they say, which is the vastest, the biggest coverage that you can think of. We reach 59% of homes through NGN and 22% – i.e. 36

million – through our own NGN. Now, this is an increase of 21 million in two years. Seven million is ONO, seven million is Ziggo, and seven million is our own build, and I will cover a little bit the difference between the different ones. This is the powerful technology platform that we have built with Spring and with the acquisitions.

We then have qualitative elements that make me also relatively confident that Vodafone is in good shape: a 0.37% drop [call] rate, which I've never seen anywhere in my life of 20 plus years in this sector, and 92% of data sessions above 3Mbps, which really means video quality almost everywhere. But also, as I said, fiberisation is going ahead: 70%. I remember people were saying, 'How are you going to deal with the need for fibre?' The answer is we are. And six million homes in Germany with more than 400Mbps. So, I would say, both from a qualitative and a quantitative point of view, I think the investment that we have made in the last years have been pretty solid and is now delivering also not just in the eyes of the customers but also objectively a very powerful platform.

So, then the question is monetisation. Let's start with mobile data, which is one of the three areas of growth. Here, I will not go into the details. At a commercial level, we keep doing two things, essentially. To simplify, we have more-for-more offers, which means two, three, one, five euro to give more to the customers. More is more data, it's roaming, it's rollover or plans, it's something included in this kind of expansion of ARPU. That's one way of delivering. The other way is personalised offers, which is more the Italian case or the South African case, where, instead of being at the headline super competitive, super promotional level, you go one by one and we make offers of the same kind but more personalised, which, of course, has the advantage of improving the yield. Nick has shown the funnel with all the euros coming down. The result of this is continued growth of data in Europe. We are now 55% growth and 1.7 GB per customer of usage. It's the top part of the central slide. And as you can see from the lower part, stabilisation or even some improvement of ARPU throughout the piece.

Now, the part of the chart on the right is the one I really like. It's the potential: so, what is the potential for mobile data? Again, here we could give you very complicated numbers, but the broad message is we have 515 million customers, including joint ventures, in Vodafone. Of these, 212 million are smartphones. Of these, 100 million are 4G smartphones and, of these, 75 million are 4G customers. So, one way of looking at it – of course, different ARPUs, different countries – we have an 85% 4G opportunity in our customer base, which I think is a good indicator that, with a powerful network and good capacity, we can actually continue along this strategy in a successful way.

Second element was convergence. Often, we are asked, 'Okay, tell us about your strategy.' Let me start with an explanation of Spain in terms of our infrastructure strategy. In Spain, we have 10.2 million homes that we cover through our own infrastructure. We have an undisclosed number that we can reach additionally through commercial agreement with Telefónica. And then we have the regulated rates at which we can get access from Telefónica again, and this leads to 18.7 million homes. Then these homes will evolve. There's the ADSL coverage, which now is wholesale and, over time, will go into VDSL or into, potentially, our own build, and that gets to 96% of the homes, or 27.7 million. And then there is a little bit of the country which will, essentially, not be covered.

This is how we look at the markets. We always look at how to balance commercial deals with the regulated access with our own investment, and try to reach the highest possible number in terms of economic coverage. I know it will be great and I asked to get this by GDP and not by homes, but apparently it's very complicated, but essentially try to be where it makes sense with your own investment and try to leverage on share and, eventually, third-party access, where the case is less positive.

Now, if I do the same thing for Europe, the same numbers are 36 million, 41 million – of course, with multiple partnerships – Italy, other places – 96 million, 119, and the white spaces remain only 25% of marginal homes, which means that, essentially, we can cover, already today, 75% of the convergence opportunity in Consumer through a variety of very efficient, I would call it smart capital deployment strategy throughout Europe.

Now, what is then the next step? The next step is clearly to deploy the convergence strategy, and the first element of it is: how many homes are converged already today in the Vodafone portfolio – a question that often investors ask me. Here, we try to give you an organic answer. The number of homes that we have in Vodafone today, excluding Enterprise – the 1.7 million at the bottom – and including Ziggo, is 14.9 million. Of these, 4.3 – the little pink bubble – are converged. So, 25% of Vodafone homes have already Vodafone mobile in their household.

Then you get to the other question, which is: how many SIMs? How many mobile customers actually are in the homes? And here, I need you to follow with patience because there are a couple of complexities. So, first of all, starting from the top of the pyramid, these four million homes have eight million SIMs, so it's a ratio of two, and these are fully converged homes, so these are integrated packages. Then you go down one level and there are homes where we are both in Fixed and in Mobile but in less integrated level. These are two – the number on the left – and three million SIMs. So, this makes the total six and 11, and this gives the answer to the question 'How many SIMs are in converged homes?' and the answer is 17%. This excludes eastern Europe, for simplicity. Here, clearly, opportunity is to upgrade them, so link the fixed and the mobile and bring them one floor up.

Then you go one level below and we have nine million homes where we don't have SIMs, and 53 million SIMs which are not in Vodafone homes. And here, the job is clearly cross-sell and bring them up. And then, of course, you go one level below and there's the homes where we don't have Vodafone and the SIMs where we don't have Vodafone, and that's an acquisition market.

So, if you look at the overall picture, we are already between 20% and 40%, more or less, converged, whether we look at Mobile or Fixed, and there is clear work to bring up the numbers. This is, I think, is a good start of our convergence strategy. With the platforms that I described before, we are confident that these numbers can improve over time.

Now, TV is, of course, part of this story. Why TV is important is simply because it makes the convergence offer more appealing and it also has a positive benefit on churn. In Spain, we do 27/13/7; so, 27% churn single mobile, 13% when you add fixed, and 6% or 7% when you add TV. So, clearly, TV has a kind of gluing effect, which is positive. In TV, we have now seven markets active. We have a Vodafone TV platform, which is the nascent platform with, I would say, a very good performance. We are very happy about it. It's cloud-based, it's multiscreen, it's multi-feeds, it's on-demand and linear, so it is the most modern platform. We are going to leverage on it to launch and it's available to all of our markets to basically launch on marginal markets at a lower cost, because we share the platform. I often get the question: 'What's the Vodafone distribution strategy?' I can only repeat that we do want to have premium content because premium content is important in our offer. If we can, we'd like not to get it exclusive, because we don't believe that exclusivity, in the long run, creates a lot of value for Telcos but, if we need to bid for exclusivity in order to get it, we will, as we have done in a couple of markets. Giga TV in Germany is the latest deployment of this strategy and, again, it has all the premium content and it is very advanced from a technology point of view.

Then, finally, the third element of our core strategy: Enterprise. Again, if you have questions later, Brian Humphries – if you don't know him, raise your hand. Brian is here in the room. He's the new CEO, who joined a few months ago. Enterprise is doing well. It's now 30% of Group service revenue, and 30% of these revenues are coming from Fixed. As you can see, the growth – middle bar – is 2.3%. This is a combination of 1.5% on Mobile, 4.5% on Fixed. The 1.5% in Mobile is again coming from pressure on ARPU but growth in customers, so we are sustaining well the pressure in the Enterprise segment from a pricing point of view, having good growth. And Fixed: as you see, we have three lines of businesses: IP VPN, cloud and hosting, and IoT, which are growing double digits. So, Enterprise continues to be an area of growth – an area that I want to keep it as profitable, disciplined growth, but clearly we have an opportunity because we are sub [scale], I would say, 30% market share, so we can continue to grow there very well.

Now, one word on the new digital businesses, which, again, somebody talks about the 2025 strategy. First of all, it's three main areas. There's more but I would say these are three main areas. The first one is Enterprise IoT. We launched many years ago, in 2007, when nobody was talking about IoT. It's about smart metering, automotive, logistics. This is now available in 17 markets. The reason why I mention is because, recently, I was in Barcelona at the Mobile World Congress among CEOs and people who are supposed to experts of the industry, and I mentioned that Vodafone had more than €700 million of revenues in this area, and I was surprised around the table nobody believed that it was possible. Now, the reason why nobody believed it is because the total market in the world is considered to be €6 billion, so it means that even not being in certain big markets, we have a 12% market share. It's growing nicely. The reason why I mention it today is because this is a market that is estimated to grow to more than €20 billion – €20-22 billion – by 2025, so the growth opportunity, having a leadership position in Enterprise IoT, is very important.

The second area is data analytics. Now, data analytics, we launched in 2015. For the time being, it's inward focused, so we're not selling to third parties. But it's already active in 14 markets, with more than 300 data scientists – sorry, we will have more than 300 data scientists operating in 14 markets. And it's the engine and intelligence behind things like Play Every Day, again in South Africa – South Africa is one of the high points of this – but also in Turkey, where we have digital money, but also in Italy and also in other places. Now, the reason why I mention today, last year this overall engine produced more than three billion offers to customers – that does not mean three billion accepted offers but we produced two or three offers per customers in order to get them accepted. It's a huge machine and it's behind, I think, the secret and the profitability and the success of places like South Africa or Italy or Egypt. And it will be more and more, as Nick has said, our approach to marketing because that's the way we can profitably grow in the data environment.

The third one, on the right, is the new baby. The new baby was launched this year. It's really Consumer IoT. It's smaller kind of vehicles, tracking, consumer devices, family trackers, home security – this type of more consumerish type of applications. Here, we cannot talk about money numbers because it's very difficult to even estimate how big this thing could be but the real thing is that the number of objects that are forecasted to be connected goes in the hundreds of millions very soon. Now, not all of them will be profitable and not all of them will be with us, but again we think it's a great opportunity. It's about 100 people that will be working on this.

So, a final slide before concluding. I'm often asked: how do you manage this Group? How do you face the external environment, the social, the political, the business challenges of the macro world? And the answer is, essentially, in this chart. Today, we are 23; tomorrow, we will be 22 controlled companies, and we have three and will be four joint ventures and associates. A few years ago, we moved to the current model, which we call, in the Vodafone way, kind of jargon, One Company, Local Roots, which we think is particularly appropriate in this historical moment, in this historical social/political moment. This is really about having very, very strong shared, single-company platforms where it does really make the difference, and this could be hard things like procurement or enterprise or technology architecture or shared services, where we have now a lot of capability, but also softer things like HR management, compliance to be sure that the company is properly run, and brand architecture, which, actually, if you think about, is the reason why we have 48 partner markets – companies of every size who want to be part of our way of running the business. This is what delivers the scale benefits.

But then we always said – I always said I want to have local roots. Local roots means local commercial execution, local community and political engagement, which is very important in the current world, and local communication and local social responsibility. So, we are very convinced that this model is the model that has explained the success in places so diverse like Africa or Europe or convergence/non-convergence or the Middle East versus the Pacific, and will continue to be the basic setup that will enable the implementation of Vodafone 2020.

So, to summarise, I would say strong strategic progress, good transactions to increase the value of the portfolio, sustained revenue growth and, I'm really happy, margin expansion and cost reduction to support cash flow and dividends, which is the intention of the Board. Outlook for 17/18 – this is labelled Outlook; in the original version, it was 'Vittorio's objectives.' Vittorio's objectives for 17/18 are really NPS leadership – I have really the ambition to be at the top in all of the markets; to gain profitable revenue market share in total communications with our three engines of growth; and to deliver the guidance that Nick has illustrated of 4-8 percentage points of growth in EBITDA and 5 of cash flow to support the dividend intentions of the Board.

I thank you for your attention and now I think Nick and I will move to questions.

Questions and Answers

James Ratzer, New Street Research

Two questions, please: the first one on India. Your new joint venture partner Idea has talked about the idea that we could have seen the bottom in the last quarter in terms of revenue trends and things can start to sequentially improve from here. I was wondering if you're seeing the same trend in your own business, looking ahead for this year.

And secondly, looking longer-term in your European businesses, we're seeing an increasing number of moves to unlimited data offerings in Europe, so I'd be interested to get your thoughts on how the industry progresses on that front. Does that potentially curtail the ability to monetise data in the medium-to-longer term?

Nick Read

In terms of India, as I highlighted, when you look at the March performance versus January, and you do it by a segment basis, what we're really seeing is, since Jio announced the charging, we've seen a stability in total recharge values. We're also seeing a stability in high-value customers. Medium-value customers, a slight uptick, if anything; low-value customers, the same but more about ARPU capture as the market consolidates on SIMs. So, I think it's a bit early to call the bottom of the market, given it remains fragile and Jio could always determine a new promotion, but what I'd say is that we're starting to see a stabilisation on the important metrics going forward. And of course, the key date is September, because that's when Jio entered the market, so we start annualising, and that's when you should start to see some improvements on the year-over-year performances.

Vittorio Colao

On the European question, let me say this: first of all, there is a difference between 'worry-free' and 'free.' We like worry-free, because worry-free is what liberates usage and what allows customers actually to appreciate the quality of the networks; free is a little bit less of a good concept, at least in our view. And in the market, you see a wide variety of things: there's free content added to high-end packages; there is unlimited, which is really unlimited up to 5/6/7 GB and then it's constrained or choked and so on and so forth. In general, we are more for the worry-free rather than the free, and we will take actions and do commercial actions to liberate usage but in exchange of some monetisation. I think that unlimited, unrestricted is actually not a great thing for the industry, which is why we will be more segmented and more focused. And then engines like the CVM and data-analytics engines that we have now in all of our OpCos – and again, South Africa was a good example – will be crucial to be able to deliver the right offer to each customer without going into mass unlimited, generalised.

Nick Delfas, Redburn

Just going on to slide 22, I understand that's your incentive for '18, '19 and '20, and I guess it implies at least 10% growth for the average in free cash flow in '19 and '20 from the '17 base. But can you just talk about what happened to the equivalent chart for last year? So, is that adjusted for the deconsolidation of India? So, just if you could talk a little bit about the incentive scheme.

And then the second question is just on Enterprise. How come you're still growing Enterprise mobile, given all the bring-your-own-device trends, roaming etc? So, if you could clarify a little bit what's going on there? Thanks.

Nick Read

So, let me take the incentive – the moving parts on the incentive. See it as India is coming out. Obviously, India was going to be contributing in the outer years in terms of cash flow. Obviously, today it doesn't really generate free cash flow. However, you've also got a bit of FX movement, and then, essentially, you've got the €0.7 billion working-capital, Project Spring drag of FY17 effectively coming out of the numbers when you start to think about FY18 onwards. So, that's the positive factor on top of the growth of the business.

Nick Delfas

And in terms of how you're rewarded for the equivalent chart from last year, just so that we understand how this works.

Nick Read

So, on the previous one, we stay with India performance within the plan. So, up until the year that the completion happens, in the year the completion happens, we just put in what the target was for India in that one year, but all the ones leading up to completion, the actual performance is in there. So, bottom line, management will be hit by – if this is what you're looking for – the Jio impact into the market –

Vittorio Colao

We don't make it easier for ourselves – let me put it in a simple way – and the RemCo would never allow us anyhow.

On the Enterprise thing, again I encourage you to talk to Brian, who is in that thing, but the high level answer is, first of all, the bring-your-own-device thing, which is visible in some large banks, is not a generalised thing in the market. There are some institutions that are going into bring-your-own-device – you pay for it; others that don't. We have a lot of additional services that we give, especially in the area of security, device management and other stuff, which are considered important by a number of customers. And don't forget that we have more and more integrated fixed and mobile offers, which are now a large majority, especially at the higher end, where this thing of bring your own device doesn't really play.

Having said that, Brian has developed something that he will talk about, if you want, later in the individual sessions, called BYOx (Bring your own everything), which is a very flexible offer that you give to large companies that want to go more into the bring-your-own-device thing but still want to retain control of the service component, and so we have also adapted our offers to take into consideration that need. Now, having said that, probably we are also good in Enterprise, so we correct to grow because of that.

Andrew Beale, Arete Research

I just wanted to come back to the incentives and just to understand: I guess you've got the short term incentive, which you mentioned was EBIT. Is it exclusively EBIT in terms of the one year or can you give us the weightings of those? And then the rest is the three year cash flow incentive. Is that correct?

Nick Read

The annual incentive – the short term incentive – is 20% service revenue, 20% EBIT, 20% free cash flow; so, the 20% that was on EBITDA has gone to EBIT, and then 40% is customer appreciation, which was a lot of the things that Vittorio was presenting. On the long-term incentive plan, it's free cash flow.

Andrew Beale

And then, just in terms of the EBITDA guidance, I guess your exit run rate was 6.2% growth in the second half, and you obviously had the €300 million benefit from handset financing in the UK and the €300 million offset from roaming, but you also had some drags in the previous year from content and so on. Are there any other moving parts that we should be thinking about or is that you're coming in at 6% and you're really guiding to 6%, and the other things equal each other out?

Nick Read

We're a large group and, of course, there are a lot of moving parts and I think we are pretty transparent on anything material that happens in the Group. So, you're calling out a number. I could talk about content, I could call out synergies or various other things – Spring. What I would say, broadly, is we're in a 4-8%, midpoint being 6%. At that level, yes, it does include UK handset financing but it also includes a lot larger impact in terms of EU regulation impact onto our results as well. So, broadly speaking, I'd say our underlying performance is in line with the range.

David Wright, Bank of America

Two questions, please. Just on the wider balance sheet, you've shown that the gearing comes down with the Indian deal – obviously assuming completion – from 2.6 down to 2.2, give or take. The Indus transaction – and maybe an update on that, please – will bring you down to pretty well 2.0, thereabouts, with a 2.5% cost of debt feels somewhat underleveraged in this environment. Obviously, your free cash flow is starting to cover your dividend thereabouts this year, certainly the year after, so what is the plan for that balance sheet, as it were?

You mentioned briefly, I think you analysed fibre products. One market that does stand out, where you maybe are under scale in fixed-line ownership, is Germany. Could there be an opportunity to maybe even consider a fibre build plan in Germany – co-build with Deutsche etc?

And then maybe a second quick question, if I could, just on Italy. You flagged that as being one of your standout markets for cost cutting. I think a lot of the benefit though came with the 28 day billing both on mobile and fixed that laps H2, but could you talk a little about how you're thinking about the Iliad entry? Obviously, TI is quite front-foot with its mobile. What you guys are thinking. Thank you.

Vittorio Colao

Let me take the whole of it because I don't want Nick to get into complicated gearing ratios. First of all, you correctly said that there are two ifs. First of all, of course, we need to complete first the main India transaction; second, update on Indus. Of course, we are in discussions. We intend to monetise that but, again, how it happens and when it happens and how it interacts with the first deal is still to be seen, so we don't have a timeline. I don't have an update really to give you, other than we are working flat out on both sides – the main side and the other one. The main side is progressing well. We have filed with CCI, we have filed with the stock exchange, we will do the court case. Once we have done the court, we can go to DoT but there are steps. And Indus, of course, requires talking to our two partners – the Idea one but also Bharti, because there is an interaction with what they do – and we are, again, flat out on that as well.

Once those things happen, we will make a judgement. And again, you mentioned fibre in Germany. We could mention a lot of other things. We will look at whether we have good investment cases, which, so far, we haven't seen. We will look at them and, if they make sense, we will invest in the. We will look at different types of gearing and different types of shareholder remunerations, but it is a bit early now because neither one nor the other are short-term, so you and I will see each other probably again before that gets unlocked.

Italy and Iliad: Let me say this. Three things: first of all, we take Iliad very seriously, so we are not dismissive. And I said it from the beginning: I don't take the fact that distribution is difficult in Italy as a barrier. I don't take the fact that prices are very low as a barrier. As you have seen in India, people can also come at zeros sometimes. What really gives me comfort that we're taking the right approach is two things: first of all, we are really building the strength of our Italian business on excellent quality of network and excellent marketing and relationship, one on one, with the customers. That's the best long-term defence of any company rather than this secondary thing.

Second, we are contemplating all possible countermeasures. There's a project with a funny name that we follow. It's considering all possible options and we are preparing for all of them. And again, we will be as prepared as one can be for the coming of this new competitor.

Third, it's also true that, if you look at the Italian market, it is incredibly promotional again now. There are offers below the line that are really rock bottom and, therefore, it is also true that the space which is left is not huge, but we are taking it very seriously.

Simon Weeden, Citigroup

My first question was on the UK and your comment seemed to be that the second half of the coming financial year, we'd see an improvement in trends, and I wondered if you could give us any colour around how bad the first half could be, given that, in that context, and also whether you're taking into account any deemed consent rebate and how much that might be. That was one question.

The second question is just around 4.5G and 5G, and what you see as being the most urgent contributors from a commercial point of view from the pipeline of new technological features that those provide: what we might see coming first and what the customer demand is, how you're framing your thoughts about that.

Nick Read

I'll just do the UK. So, what I would say is that, I think, as Vittorio clearly covered in his presentation, we really do see tangible, clear results in terms of network and customer operations, so we are performing strongly in those areas and, therefore, that's given us a lot more confidence and visibility in terms of commercial momentum, which, again, we had very good fixed net additions. Our mobile net additions look low but that's because Talk Mobile is dragging on those net adds by about – I don't know from memory, 25,000 – something around there. So, ultimately, there is good progression, which means that H1 will show some progress; it's just really the type of progress we're looking for will be more evident in H2.

Simon Weeden

[Off mic]

Nick Read

No, that's not a factor in our consideration.

Vittorio Colao

Yes, evolution to 4G+/5G, we see that as a continuum. We are moving. There's a big announcement in Italy about 4.5G. We basically look at things with the customer's eyes. We are not keen to jump into technologies for the sake of them. But it's clear that 4.5G and then 5G will enable, at the same time, some interesting fixed-wireless solutions. I'm not saying that they will replace fibre; I'm just saying that, in certain places, certain areas, it will make sense, and also all the Internet of Things, low latency type of applications which we are all working on. So, we see this as an evolution. Johan is preparing the network, single RAN, fibre, virtualisation. All of these are investments that we will make during the Vodafone 2020 strategy but things will be clearly ready for further developments, but we are not keen on the technology – we're keen on the applications.

Maurice Patrick, Barclays Capital

A question on Germany: on Friday, you saw the announcement that Drillisch and United Internet are looking to combine their operations in the market. Do you think a combination of the two would relieve some of the low-end competition – so, making more-for-more easier – or do you subscribe to the view perhaps that a strong United Internet with the MBA/MVNO contract might allow them to become more aggressive?

I guess, related to that, just on wholesale revenues, does your guidance assume much runoff of the MVNO revenues you make, I guess, at the Group level but also Germany perhaps related to this?

Vittorio Colao

A very easy answer. I believe that, as always, everything depends on the wisdom of your competitors. So, there are cases where consolidation is positive and cases where it's less positive. This one, I think, is positive because it will create a long-term viability for United, which otherwise was less clear. And in general, with a big increase in data, all these MVNO models are becoming at the end of the day, they're becoming difficult to support. So, I think it will be positive. Of course, the wisdom is always in their behaviour.

And on the wholesale side, we have, in Germany, secured a couple of years of wholesale revenues from United Internet, and then I assume they will migrate to the new home, but that will be good because it will leave the D networks up there, and then there's a new home, which is a third network, which will be more wholesale and not just the same positioning.

Nick Read

And just to build, within our long range plan, we do assume a sharp rundown on the contract in the outer years.

Jerry Dellis, Jefferies International

A question on the UK's role within the Group: how important is the UK nowadays to the core Group objectives of growing profitability, growing the dividend, improving returns? What dissynergies would there be if the UK were to be carved out of Vodafone today? How significant might perhaps the loss of competitive advantage in Global Enterprise be, if the UK were not part of the Group?

And then the second question relates to your capex guidance. I suppose, in November, the perceived range was in the order of 15-16%. You've subsequently taken the view perhaps to pull back on fibre own-build in Spain. Does that therefore mean that the new teens guidance is more like 15% as a result of the pullback in Spain or are there other things that have come in to take its place?

Vittorio Colao

Let me take the UK question and Nick will give you the guidance question on capex. First of all, there's no plan currently to carve out the UK, so your question is a very hypothetical one. I do believe that there is good potential in the UK for improving their margins and going back to a level of profitability which is significantly higher than the current one. We do have an opportunity to have a stronger commercial platform. Don't forget we have very high spectrum allocation and so we can play more aggressively, which we have started doing recently, in the data environment. Part of the coming back in London is also linked to the fact that, in London, people are starting to recognise that we have a good network with good capacity. So, there's no plan in the direction that you are hinting at.

In terms of how strategic, clearly Enterprise is important in the UK. We have a lot of the old Cable & Wireless customers but also new customers. So, it is an important component of the whole Enterprise strategy. That's the simple answer.

Nick Read

Just on capital intensity, guidance, as I said in the presentation, will be at the upper end, so you can assume between 15% and 16%. There was a bit of a pullback on Spain but I wouldn't call it huge, and you've got other factors like success based capex, given our commercial momentum that's gone through a little stronger than we had originally planned. So, call it good capex.

Polo Tang, UBS

I just have two questions. I think one of the main standouts from these results is actually is cost savings. So, you talked about entering the next phase in terms of the Fit for Growth programme but how much of an opportunity is left, and is this something that can be a tailwind for several years?

The second question is really just coming back to Germany but, rather than the no-frills segment, can you actually talk about what you're seeing in terms of the competitive landscape in the premium segment of German mobile? So, we've had StreamOn, in terms of that initiative, from T-Mobile. Can you talk maybe about the response to your big data bundle offers because, from memory, I think you've got a 12 GB offer at €33, so what's been the reception for that?

Vittorio Colao

Nick and Margherita here can be asked any question on cost. I give you my high level answer: my high level answer is that, on one hand, again my colleagues have set up a very systematic machine to go through all the cost elements, and either by sharing or by share elimination, I think they have done a good job but the job will continue. I personally believe that there is more they have to do on the commercial cost front, just as an industry, not just as ourselves. The more you think about it, if it's about SIM-only, if it's about, essentially, three brands of devices, and devices which have longer lives, the whole distribution cost that the industry carries is, I think, too high. Online, hence our Digital First programme, which I will not talk about today, because otherwise my colleagues say that I'm violating, we'll talk about it, but clearly it will have a commercial element that has to be the next wave of cost, but I would say confidence on cost. Nick?

Nick Read

Yes, very good. I think what's really exciting also is digital – just everything: My Vodafone app, digital in the shared service centres, AI – all of those things give us a multiyear opportunity structurally.

Vittorio Colao

I give you a small anecdote: I was in Egypt, where we have our machine learning unit. They showed me a human interaction with our systems and a system-based one. By the time the human had changed one thing, which was a change of address, the machine changed seven. So, this gives you the idea of the type of opportunity that you can have if you apply better analytics and better systems to our own industry. So, I think the opportunity is great.

On Germany, you asked me about the premium segment. Listen: what we are seeing is Deutsche has done the StreamOn offer, which you can look at it in two different ways. You can say, 'Well, at the end of the day, it's a good thing, because it will push the MVNOs into a more difficult space and it can push the bottom of the market in a more difficult space.' You can also say, 'What was available before for €55 and €45, now is available for €55, €45 plus music plus video.' So, it's not really a more-for-more; it's the same for more. So, the way we would like to implement those things is different but, directionally, I think it's the right direction. Probably the implementation could be a little bit more inclined to a more-for-more type of strategy. If I compare our results with Deutsche's results, there's nothing to brag about but we did better than them in the latest round, so I think we are doing something right. Our Giga offers are all inclined to be at the high end and to take usage up in Germany. Usage is up to 1.2 GB finally in Germany with these offers. Germans are more cautious users of data. But the vision is the same as Italy, the same as the other places: take people up in usage and try to increase loyalty, reduce churn, improve direct relationship and, eventually, give more data in exchange for this.

Dhananjay Mirchandani, Bernstein Research

My question is related to your branding and commercial strategy in the context of Vodafone 2020. How sustainable is what, in my view, simplistically spoken, is a mono-brand strategy in markets that are increasingly segmented and a competitive landscape – take BT in the UK, take Deutsche Telekom in Germany – where you have, at a minimum, two if not three brands that are attempting to address very different customer segments and needs.

Vittorio Colao

It is not sustainable, which is why we have more brands ourselves – as simple as that. If you look at Germany, we have Otelo and we have now Vodafone Easy, which is a sub… it's not exactly a new brand but it's a sub-thing. In Spain, we have Lowi, which is becoming now a converged brand as well. And in the Netherlands, we have always historically had them. So, there's a tactical/segmented usage either of product brands – sorry, Portugal, Greece – I can mention on and on and on – of brands which are either segmented brands or discount brands which we will use. I prefer the segmented brands because they cater to a specific segment – youth is the classic example – Vodafone You or things like that – and I prefer to have some kind of attachment to the main brand but, if needed, we can also have them separate, like we do have in several cases.

Dhananjay Mirchandani

Could I just very briefly follow up on that? So, if you were to take your advertising costs over a five-year period, what percentage of that would you allocate to curating these second brands product or standalone?

Vittorio Colao

Not a huge amount. Not a huge amount, Dhananjay. And this is the important point to get: Vodafone is a brand that remains a brand, like Deutsche, like Telefónica Movistar, like everything else. When you use these second brands or sub-brands, it's most of the times focused on segments and, therefore, you have much more direct access, much more online, much less retail, in order to address a specific segment. The massive, the big part of our €750 million spending still goes into Vodafone.

Robert Grindle, Deutsche Bank

Just a quick one on Nick's comment on the exiting of the low margin carrier business in the UK: is it a case that you've chosen to exit that type of business or was there a particular contract? Would you get back into that space if the economics improved at some point in the future?

And then my second question is about handsets and equipment revenues. There was an even wider gap between total Group revenue growth this quarter and service revenue growth – it must be handset sales. But actually, it started to narrow a bit in Europe. I wonder: is the European handset cycle improving. And of course, it's important for future service-revenue growth as well.

Nick Read

So, in terms of the handset cycles, no, I've not seen any material shifts in handset cycles, so I have to review that gap, just to see if there's anything other that's skewing it. But in terms of metrics of handsets sold, no.

The first question was around the UK carrier. These are ultra-low, low margins. Our strategy has been one of we build a network for ourselves and then we can sell capacity to third parties at a reasonable margin. If they get too low there tends to be high volatility and we said let's just take the volatility out of the system. We have high growth ourselves as a company already, so choose to exit those contracts. It was our choice to exit those. Could there be some more of those next year? Yes, there could always be more of those.

See it as a bit like an airline. You're constantly yield-managing your infrastructure for your own business first versus others.

Guy Peddy, Macquarie

I just wanted to follow up on this. There has been lots of chat about margin in here, but I just wanted to bring it back down to the revenue line. If I look across Europe, some operators are giving the messages that perhaps things are getting a little bit tougher, consumer pricing is getting a little bit tighter, the ability to absorb price increases is limiting, product innovation is falling – i.e. 4G has been around here for a long time and giving more data isn't really an innovation. On the fixed line side there have been no major revolutions of technology, so therefore things are getting a little bit stagnant as well. Is that something that you're picking up in your business that perhaps the overall industry is getting a little bit tougher now than perhaps it was 18/24 months ago when 4G was newer?

Vittorio Colao

Yeah, let me give a quick answer. What I'm picking up is that not all of the pricing moves that I see across Europe make complete sense to me. Some of them look a little bit short-term and don't factor in competitors' reactions, which I would not say which ones. But, you know, clearly we do like our model because in our model all pricing moves are very seriously evaluated and very focused by segment. And that's why we think we are generating a good margin this year. So do we see the same thing? Probably, yes. Do we manage it exactly the same way? Probably not, and I hope that we will be able to continue like that. How many do we have? Two – last two.

Ottavio Adorisio, Societe Generale

Shall I go for the first? A couple of questions. The first one is a follow up on India. One of the reasons why that keeps going up this year is the €3.6 billion equity injection in India. Now, with the NewCo, you're going with a debt you confirm yourself and Idea will have 4.5 times roughly to be done. Because most of the towers are leased the debt will be capitalised and, therefore, credit – by the credit ratings. So it'll be in excess of six times. EBITDA going down 23% on your side, 34% on their side. You have an average interest rate of 10% on the debt, if I remember that's what it said on the presentation on the deal. So do you reckon that is sustainable balance sheet going forward, and what of the risk that you have to keep in check equity over the next one or two years?

And this actually aside – I've seen also – I noticed that more than 10% of your free cash flow is dividends from associates. Then you've got also this shareholder recharge, another €200 million, so almost 15% of you free cashflow comes from taking cash out of these associates. What's the gearing you have in places like Australia, Ziggo and of course India, and Indus – the four that contribute to the dividends.

And the second question is on the –

Nick Read

Your third. Third on a multilevel.

Ottavio Adorisio

This one is very simple. It's actually a clarification of the broadband, because, as you said, it was many different variable – it's a bit convoluted. So you have 36 million NGN coverage, and a coverage on wholesale of 83 million, is the balance between the 119 million and 36 million. How many of the NGN customers connected are on the 36 million coverage and how many on the wholesale coverage? It should be relatively simple this one. Thanks.

Nick Read

Can I suggest – rather than getting into filling the whole spreadsheet out, we cover a lot of the more detailed points on the one-to-one afterwards. But what I would say in terms of India I would say that currently on the plans of the two combined businesses, there is no further need to put in capital to the business. So the question then becomes how is trading currently versus our expectation, and we are smack in line with our trading and expectations. So, as I say, it's really important that when Jio started charging what happened to our commercial metrics, and basically I'm saying they've stabilised. And, therefore, we've gone into – April results are in line with our expectation, and the same for Idea.

There are a number of other aspects. Obviously we have to dispose of towers – the orphan towers that sit within our business, their business, India's stake in Indus, obviously, from a leverage perspective. But currently we feel comfortable from a go-forward basis. I suggest all the shareholder recharges etc. – look, our free cash flow is driven off the fact that we have operational leverage on our core business, its real free cash flow generation, and our capital intensity is now normalising going forward, which I hopefully highlighted in the presentation.

And in terms of on footprint NGN – 26% penetration on average.

Vittorio Colao

One more – probably the last one, and then we can move to individual sessions with the ExCo members, which I'll introduce quickly.

Emmet Kelly, Morgan Stanley

Yes, good morning. It's Emmet Kelly at Morgan Stanley. On slide 35 you talked about some of your new digital businesses, in particular IoT and Data Analytics. Could you talk a little bit about the Data Analytics side and how you might be able to monetise that? I just read some reports which show that mobile operators have perhaps the best data set out there in the market in terms of big data. You've got location based data, and other data you have is real time as well. You have data on some customers going back about three or four years. You have their surf history as well. You say you're not selling to third parties in terms of data monetisation. Can you just say what the revenue opportunity could be here at some stage in the future?

Vittorio Colao

Thank you, Emmet, for your question, because it's a very easy answer for me. First of all, thank you for saying that we have one of the most interesting data sets. I am very jealous of one company that knows what we are all thinking and another company that knows what we are all buying. Those two companies also have a very interesting data set. Yes, we do have a very interesting data set, and the answer to your question is we have not, for the time being, decided to apply it to third party revenues. The reason is very simple. We have set up a centralised data analytics unit; we have to hire people in a lot of markets that are very difficult to hire, and very much in demand, and we have a huge opportunity in our own business.

So the initial work of this 200 and whatever – 250-300 people by the end of the year – is really focused on improving our economics. And there is so much we can do in our own kind of commercial management. But even in his management, Johan in the technology, where you put sites, how much Capex you put, where you put it, how you put it. There is so much value that we can generate, and honestly it's a value that comes at a +30% EBITDA margin while if you sell to third parties, you know, you have a completely different type of thing. So for the time being these units are focused internally. By the end of this year, when we have deployed everywhere and we are 100% sure that we have the cruising speed on our own deployment, then we start thinking about the external work.

Now, let me very quickly say that we would really love to interact with you on a one-to-one basis. Just for your information, if you're interested in small European countries, Ahmed [Essam] is the CEO of the small [European] countries. Brian [Humphries] is the new CEO of Enterprise. Margherita [Della Valle] is the deputy CFO on cost and everything else. Matthew Kirk and, behind him, Joakim Reiter, his successor, on regulation and all the pleasures of dealing with Brussels. Vivek [Badrinath], CEO of emerging markets and expert of Safaricom, Vodacom, India and everything else. Rosemary Martin, if you're interested in compliance and anti-bribery and legal risk, and Johan [Wibergh], CTO, is very well known.

Thank you very much for your questions, we really look forward to further interaction in the next 15 or 20 minutes.