Vodafone Group plc

Trading update for the quarter ended 31 December 2016

Analyst and Investor Conference

Thursday 2 February 2017

Commercial Review

Vittorio Colao

Group Chief Executive Officer

Good morning, everybody. Welcome to our trading update for the third quarter 2016-17. Before I start, you will be aware that we made a statement on Monday confirming that we are in talks with Idea regarding an all-share merger of Vodafone India, excluding our stake in Industries Towers, which upon conclusion would lead us to de-consolidate India. Today, I have no further update for you on this; therefore, I hope that you will understand that we will be unable to answer detailed questions on this subject.

As per usual, I will take you through the highlights and commercial developments, and then Nick will focus on the operational performance in our key markets, and then we will move to Q&A.

Let’s start with slide 4, highlights of the quarter, starting with a column in red on the left, which shows our financial performance. Group organic service revenue grew 1.7% to €12.3 billion. This compares to €2.4 billion in Q2.

In Europe, we reported 0.7%, which is similar to Q2 excluding MTR cuts. The story here is continued momentum due to our more-for-more actions and the strong fixed broadband growth. I would call out Italy, Germany and Spain for their good performance. The UK is a bit more mixed as, although we are solving our customer service challenges, there is heightened price pressure in Enterprise. In AMAP, growth slowed to 3.9%, with a slowdown in India due to the well known increased competition following the launch of free services by the new entrant, which continues to offer these free services and is now dominant in volumes of traffic. Outside India, we continued to see excellent performance in South Africa, Turkey and Egypt.

Excluding India, we enjoyed strong commercial momentum during the quarter, which you can see from the good performance of our growth engines, in the green in the middle. Data volumes grew 53%, supported by 4G adoption. We now have 65 million 4G users, a rise of 32 million in one year. In Enterprise, we delivered service revenue growth of 3.3%, which is the same as Q2, supported by continued customer growth in IoT, cloud and hosting, and IP VPN services. In fixed, we had a record 417,000 customer additions. 76% of our European net adds are now high-margin on-net fibre and cable users. Lastly, the right-hand column in blue shows the progress we are making in differentiating customer experience with Vodafone. We are a NPS leader or co-leader in 18 out of 21 markets. We have the best mobile network in most markets, 15 out of 21 on data and 19 out of 21 on voice, and our EU 4G coverage is now at 91%. On fixed, we retain our leadership position, with 90 million NGN homes passed, including now VodafoneZiggo, of which 38 million are on-net.

Turning to slide 5, this shows our commercial momentum. On the left, is the measure of consumer preferences or NPS. This continues to enforce our view that the markets we operate in are clearly made of two tiers. The chart shows that we establish and maintain performance at least on par with the next best competitor, which typically competes like us on network quality, while building a strong lead over the third player, which typically competes on price. In absolute terms, our consumer net promoter scores have improved in 17 markets, held steady in three and slightly deteriorated in one. The momentum in our, let me call them, hard commercial KPIs is demonstrated in the chart on the right, where we added more fixed broadband users than this time last year, maintaining our position as Europe’s fastest-growing broadband operator. Here, the key drivers are Europe and Fibre customers. In mobile, the pace of customer growth has eased, mainly due to the competitive pressures in India, and also we lapped last year’s strong growth in Turkey and Italy.

On slide 6, you can see the contribution of our growth engines to revenue growth in the quarter. Mobile data remains the largest contributor to growth, which is being led by the take-up of 4G in Europe and data adoption in AMAP. Europe remains stable, ex-roaming, as in H1. Enterprise is the second contributing 0.9

points and it would be even higher if not for the roaming drag. In this space, we continue to take share and outperform, led by gains in fixedenterprise and our exposure to sectoral growth in AMAP. Consumer fixed contributed 70 basis points, as we have added 1.5 customers over the past year.

Now, on the topic of roaming, as a reminder, we guided to a €300 million revenue hit this year, of which half is mitigated by our own roaming offers. Next year, the net impact could be higher due to the new regulation. It is important to note that our growth is entirely driven by our focus on our own brand and our own retail customers. In contrast, the areas where we see revenue pressure reflect strategic decisions we have made, for example to only offer 4G MVNO access on economic terms, which are fully costed including spectrum, and to reduce low-margin carrier voice business. In total, these areas have dragged down 80 basis points, similar to H1.

Slide 7 shows the progress on data in greater detail. Total traffic increased 53%, with continued strong growth in Europe, offset by slower growth in India. Nick will discuss India in more detail, but it is clear that the free services from the new entrant have led to some data leakage for us. Excluding India, traffic increased 63%, similar to the prior quarter. In absolute terms, this was a record 230 petabytes growth year on year. Average users per customer also continues to grow strongly; it's now 1.5GB per month across the smartphone base in Europe and 1GB in AMAP. 4G adoption continues to be the key driver of data growth. In the quarter, we added 4 million 4G customers in Europe and 4 million in emerging markets, taking the total to 65 million. Our ability to monetise this data growth has improved, following our large investment in network quality and the successful implementation of our more-for-more proposition earlier this year. Consumer ARPU continued its stabilising trend in the big markets of Germany, Spain and Italy, as you can see in the right-hand chart, with the usual season of quarter-on-quarter decline post the roaming season. In the UK specifically, lower ARPU reflects also an increasing mix towards SIM-only. Nick will cover the countries in more detail later.

Looking ahead, first we see further potential for ARPU recovery, provided our leading competitors remain rational, and we will have to work also to compensate the new roaming regulation next financial year. Second, remember only 60% of our active data users in Europe use 4G and, in emerging markets, it's only 15% of active data users on 4G, so I'm confident that the data remains a secular tailwind to our long-term growth opportunities.

Let's move to slide 8; let's move to the details of Enterprise. Enterprise accounts for 28% of Group service revenue and is a key strategic driver for Vodafone, generating 3.3% revenue growth in the quarter. Following BT's recent announcement, many have asked about our Enterprise exposure and the chart on the left sets this out. As you can see, we have a very different mix to most incumbents, who tend to be exposed mainly to the traditional fixed and mobile connectivity revenues in their local market. By contrast, we benefit from a diversified and resilient revenue base. 29% of our revenues are in AMAP, where Enterprise revenues are fast-growing. Fixed is 28% of our revenue base. We are a growing challenger in this segment and we have little exposure to legacy voice. In terms of customer segments, public sector is quite small, with multinational corporates, which I have talked a lot about, and SME and SoHo dominating the mix. Our growth is supported by strong Enterprise assets, including market-leading IoT services with 49 million connections, and an IP-VPN network that now reaches 73 countries and 272 POPs – this matches our largest competitors – and NPS scores in 15 of our 20 markets.

Moving to the right, you can see that fixed line is growing at 5.4%, benefiting in particular from strong IP-VPN sales, which are up 13%. In mobile, our growth is a bit more modest, but it's still a healthy 2.5%, as customer growth particularly in AMAP and our success in IoT offset pricing pressure in Europe. We have seen some slowdown in VGE, due to account loss in the UK in a prior period and increased competition in India, which Nick will cover. Overall, I would say in Enterprise we have a good performance and maybe it is an outperformance versus competitors.

Fixed, moving to slide 9, represents 22% of Group service revenue. The left chart shows our strong continuing customer momentum. This quarter, we reached 14.3 million broadband users. We added 457,000 NGN customers, of which 60% were high-margin on-net users. As a result, the total NGN base increased to 7.4 million, half of all of our broadband users. Here, I would like to call out Italy and Spain as having had particularly strong performances. We are also progressing rapidly on other fixed offers. The TV base increased by 100,000 in the quarter to 9.7 million, while our high-value fully converged customer base rose by nearly 200,000 to 3.5 million. Overall, we have a really strong momentum in fixed and in TV.

Moving to the right, coverage and potential of fixed for Vodafone, our total NGN coverage, including VodafoneZiggo, is now 90 million houses. This represents 58% of the total households in Europe, which is really comparable to our main competitor's footprint. We reach 38 million homes directly, with our own on-net fibre or cable infrastructure. This is up 10 million versus last year, reflecting the inclusion of VodafoneZiggo, but also 4 million extra from self-build efforts in Spain, in Italy and in Portugal. Similar to the data story, we see more growth ahead of us in this area. The penetration of high-value on-net NGN customers, including Ziggo, has increased but it remains just 24% in Europe.

Finally, a quick update on the Netherlands on page 10, where our joint venture with Ziggo is progressing well: we closed the deal at the end of December to create a fully convergent strong competitor in the Netherlands, one of our core markets. We will be a close number two, with nationwide cable and 4G coverage. The board, senior and second level of management are already in place, and I am encouraged by how well we are working together. Commercially, we are making a fast start and plan to launch new converged offers in March. We see a strong opportunity ahead, as less than 20% of Ziggo's 3.2 million customers use the Vodafone network today, creating a compelling cross-selling opportunity. Financially, the joint venture has already contributed to Vodafone, as we received a net €600 million in post-closing payments, following the recapitalisation of our business. Leverage is less than five times covenant EBITDA, and the €3.5 million NPV from synergies has been confirmed, taking into account the impact of the sale of Thuis.

Although this is not shown on the slide, a small update on New Zealand: the competition commission there is set to decide on our proposed merger to create a strong converged operator with Sky, later this month. Nick, you should lead us now into the countries.

Financial Review

Nick Read

Group Chief Financial Officer

Thank you, Vittorio, and good morning, everyone. Turning to slide 12, highlights, service revenue growth by market and the recent trends by region: as you can see from the table at the top, thanks to the ongoing benefit of our more-for-more actions earlier in the year, together with continued robust fixed and mobile customer momentum, Europe grew for a fourth quarter in a row. Excluding India, which was impacted by free services from the new entrant, growth was maintained at over 2%. The chart at the bottom shows that this growth was also supported by good performances across the rest of AMAP, notably in South Africa, Turkey and Egypt. Only four markets had negative growth in the quarter. I will address India and the UK, but let me briefly cover Ireland and the Netherlands.

In Ireland, underlying growth was positive, up 1.4% excluding the large MTR cut in the quarter. The Netherlands became part of the VodafoneZiggo joint venture on 31 December and, as a result, is excluded from our organic growth calculation. The 6.4% decline you see on the slide represents the underlying performance of the business excluding Thuis, the consumer fixed business, which was sold to T-Mobile. This compares to -5% in Q2. The decline was driven by increased price pressure in enterprise, along with ongoing pressures in consumer, from both the impact of KPN's convergence offers at the high end and no-frills competition at the low end. As Vittorio has just highlighted, clearly the JV provides the right strategic solution to these pressures.

Returning to the Group's Q3 growth of 1.7%, I'd like to remind you all of a few technical points for Q4. We had 70 basis points of leap year and accounting adjustments highlighted in Q4 last year that will lap in the current quarter, along with 20 basis points of additional MTR drag from Germany and Ireland.

Turning to Germany on page 13, this remains a stable two-tier market, with the chart on the left showing we have expanded our NPS lead to 17 points versus the third player, while remaining a co-leader with the incumbent. In terms of the mobile network, we continue to lead on voice quality, our 4G coverage is now 90% and we are delivering dropped call rates of less than 0.5%. This performance is reflected by our strong result in leading independent tests. In fixed, we are now able to offer leading speeds of 400 megabits per second to over 6 million cable households, out of a total reach of 14 million. The middle chart covers our commercial performance. Mobile contract net adds improved to 61,000, helped by our continued focus on sales to direct channels. We remain disciplined in indirect channels, where we are trying to address the long-term economics, but which comes at the expense of short-term volumes.

On the fixed side, it was another strong quarter, where we achieved net broadband additions of 110,000, including 77,000 in cable and 33,000 in DSL. The quality of the base continues to improve, with nearly 40% of cable gross adds taking our 200 and 400 megabit high-speed products, and one third of DSL gross adds taking VDSL. The chart on the right shows service revenue trends, with Q3 growing at 1.8%. The slowdown compared to Q2 reflects the MTR cut in December and the impact of wholesale revenues, which was growing strongly last year, but now stabilising. Our branded retail performance remains consistent with Q2.

In FY18, we would expect wholesale revenues to start to decline, reflecting our strategic decision not to offer our leading 4G network quality to MVNOs at discounted rates. Looking forward to Q4, the competitive environment is expected to remain stable and there will be an incremental 60 basis points of headwind from the full-quarter impact of the December MTR/FTR cut, as well as lapping the 50 basis points' benefit we called out last year from accounting reclassifications in fixed.

Turning to Italy on page 14, the chart on the left shows that our NPS lead over our competitors has improved sequentially, despite a heightened promotional market dynamic. We have maintained overall mobile network leadership in the market, as demonstrated by our 4G footprint coverage at 97%. Our 4G customer base now stands at 8.3 million, up 1 million this quarter alone. In fixed, our own fibre including our partnership with Enel open fibre, now covers 4.4 million households. We already have a 1 gigabit service live in four cities. Enel open fibre is on track to deliver the first phase of up to 3 million homes in 13 cities by March 2018, and the longer-term target of 9.5 million households in 250 cities by 2022 in the A and B areas. We are also encouraged by the early success Enel is enjoying in the tenders for the C and D areas.

As you can see in the middle chart, our active mobile pre-pay customer base remains broadly stable, despite the intense promotional environment over the holiday period. To date, we are seeing no sign that Wind and 3 are becoming more rational. In fixed, our broadband base continues to grow strongly, with 70,000 net adds in the quarter, our best since 2011, mainly driven by new fibre customers taking the fibre base to half a million and the overall broadband base to 2.1 million. Despite the competitive mobile environment, revenue growth further improved to 3%. We benefited in the quarter from the full impact of our move to a 28-day billing period for contract customers, in both mobile and fixed, together with strong Fixed customer growth, which offset the drag from lapping last year's Vodafone exclusive mobile repricing. Looking ahead to Q4, we expect a modest headwind from the leap year drag while, in Q1, we will lap the benefit of our pre-paid 28-day billing change in the prior year.

Turning to the UK on slide 15, as you will be aware, our customer service in the UK has been impacted by operational challenges following a major billing system migration. I'm pleased to say that we've made good progress on this issue, with a number of metrics such as customer complaints returning to normal levels. On the network side, our 4G coverage now stands at 97% and independent tests demonstrate we've established co-leadership.

Looking to our commercial performance in the middle chart, contract net additions improved to 99,000. This excludes the impact of a one-off non-revenue impact in customer base adjustment of 125,000 customers in the quarter. We saw a clear trend towards SIM-only during the quarter, now nearly 40% of combined gross adds and upgrades, versus 25% a year ago, which will weigh on future revenues, but not on profitability. In broadband, two specific large Enterprise customer losses were offset by 32,000 consumer additions, taking the total consumer base to 129,000. The chart on the right shows the 3.2% decline in service revenue in the period, comprising a 3.9% fall in mobile and a 0.9% decline in fixed. Absolute revenues have been broadly stable for the past couple of quarters; however, we had hoped for a slightly stronger performance, so we now expect H2 EBITDA to decline at a similar rate to H1. The service revenue quarter-over-quarter movement mainly reflects increased price competition in Enterprise mobile from O2 and EE. We also face a drag in fixed from the loss of two key accounts in prior periods. We have had several questions about our public sector exposure; this is around 9% of our UK revenues, mainly mobile contracts, and we have not seen any material change in trading.

More broadly, let me take this moment to reassure you that our accounting for Enterprise contracts is prudent. We expense all costs to the P&L as incurred, and revenue is only recognised when the customer is in full service. This clearly drags on our profits as we grow, but has the positive of minimising the risk of subsequent write-downs. The year-over-year decline in revenues also reflects a continued impact of wholesale losses, as well as roaming regulation. Whilst on the topic of roaming, it's worth noting that our Northern European businesses, such as the UK and Germany, clearly suffer from a heavier negative roaming impact than our Southern European operations, which benefit from higher visitor revenues. This impact will be pronounced again next year, which we expect to be the last year of material European regulatory headwinds.

Returning to the UK, in Q4 we expect a further drag to our growth rates, as we lap the 70 basis points' boost to service revenue from a large one-off capacity sale in carrier services, highlighted in Q4 last year.

Rounding off the major European countries, Spain on page 16. Starting with the chart on the left, we continued to demonstrate clear network leadership, with an 8 point NPS gap to the third player, with 5 points over the next best competitor. This reflects our strong 4G coverage at 92% and an extensive fibre footprint reaching 10 million homes on our own cable and fibre network, 16 million including wholesale lines. As the middle chart shows, the business is delivering strong commercial momentum, leading to robust mobile customer additions and record fixed customer growth, as we focus on cross-selling fixed services to our mobile base. During the quarter, we added 93,000 new fixed broadband customers and within this 115,000 fibre and 78,000 TV customers. We now have 3.2 million fixed broadband customers with 2.1 million Vodafone One converged customers and 1.3 million TV users.

The chart on the right shows the service revenue trend, with the reported figure in red. The bars in black show the growth rate, excluding the drag from handset financing, which remains very healthy at 4.1%, up from 3.5% in the prior quarter. This was driven by two factors: firstly, the more-for-more value enhancement for both new and existing customers; and second, growth in the fixed and mobile customer base over the year. When considering Q4, you should note that the handset financing drag will gradually start to unwind, and we expect this drag to unwind entirely by H2 next year.

Turning to India on page 17, we continue to maintain our network NPS number one position, given our strong voice performance coupled with 3G/4G investments in the 17 circles where we are either a leader or a strong challenger. I'm pleased to report that 4G services are now live in all 17 circles, following the spectrum auction last October, covering 94% of our data revenues. This gives us confidence that we are well positioned to compete in the market.

As you will have already seen in our competitors' results in the near term, the overall picture in India is clearly one of intense competition following the launch of free services by Reliance Jio. As a result, we are seeing a significant reduction in active data users, in prices and in ARPU. As I discussed with many of you, after our last results, we are taking a segmented strategy to respond to Jio's offers. For high-value customers, which represent about 10% of our base, our key focus is retention. Based on a detailed cohort analysis of the behaviour of our customer base since September, when Jio launched its free offers, I can confirm that we are retaining most of our high-value customers, thanks to our commercial responses, albeit at the expense of ARPU dilution. Our goal for mid-value customers, who represent about 30% of our base, is to upsell 3G and 4G services.

This more price sensitive segment has seen the highest proportion of multi-SIM activity to Jio, causing a decline in active data users and ARPU. However, there are positive signs of elasticity in data usage, where our new bundled offers introduced in December are helping us to remain the primary SIM.

For the lower value mass market segment where we are the primary SIM but experience high multi-SIM-ing, our goal is to capture 100% of the SIM spend. Our 149 unlimited on net voice offer is showing signs of traffic capture from the smaller traffic players, whose ability to compete effectively on price has been severely undermined. In addition, we are seeing a net ARPU uplift.

Turning to service revenue, as shown in the chart on the right, we declined by 1.9% when an intensifying impact from Jio throughout the quarter. The slowdown was mainly due to increased competition pressures and, to a much lesser extent, de-monetisation. Looking ahead, Jio has extended its free services to the end of March. Clearly, there could be further attempts to extend the free period.

Though our 149/349 plans, launched in December, have received a good early response, we expect further deceleration in Q4. However, as we outlined in November, we continue to view India as an attractive long-term growth opportunity. You are seeing industry consolidation accelerate in response to these pressures, which will ultimately contribute to the process of market repair. We believe we are well placed to be one of the scaled players remaining.

Moving to Vodacom on slide 18, which reported its results yesterday, starting with South Africa you can see that our net promoter score lead over the next best competitor is 20 points, the highest of our large markets. We have maintained our clear network leadership overall, with 4G network coverage at 70% and 3G at 99%. We continue to drive good KPI performance on the back of our network leadership, and successful segmented and personalised marketing programmes. As the middle panel shows, data usage and customer growth remain strong, with the number of data bundles sold up by nearly 50%, and contract churn now at record low of 3.3%.

The chart on the right shows the service revenue trend for Vodacom, with South Africa in the red bars and the international business in black. Growth in South Africa was 5.6% in the quarter, stable quarter over quarter. We are engaging with the both the government and the industry to find ways to meet the goals outlined in the recent white paper, which are to make broadband even more accessible and affordable. Vodacom's international operations outside of South Africa account for around 22% of service revenue. Here growth was 1.9% and below the previous quarter, due to economic and political disruption in the DRC. I'm pleased to say that the headwinds caused by the new customer registration process in Tanzania, DRC and Mozambique are easing, and we expect growth to recover in FY18 after a final tough comp in Q4.

So, to summarise on page 19, the Group continues to perform strongly, with growth, excluding India, 2.2% in the quarter. Our strategic growth drivers of data, enterprise and fixed are reflected in our robust commercial momentum, supported by co-best network quality and growing customer advocacy. India remains challenging, given the unique characteristics of the current competitive situation. However, we are making the right commercial responses to protect our high value customer base, and grow revenue market share at the low end. We remain confident that we have the right assets to capture long-term growth in a market which is consolidating. Looking forward, we face a difficult top-line comparison in Q4, as we lap the 70 basis points of leap year and accounting impact that we called out a year ago, a full quarter impact of MTR cuts in Germany and, of course, increased competition in India.

Even so, healthy underlying performance combined with a good cost efficiency programme means that we are confident that we will meet our full year guidance for free cashflow of €4 billion, and organic EBITDA growth at the low end of the 3% to 6% range. We are now entering our budget process, so it's too soon to give a detailed outlook for FY18. What I can share is that we are making excellent progress with the Fit for Growth phase two initiatives that I outlined in November, finding scope to accelerate a number of programmes. This will help to mitigate the impact of lower revenues and EBITDA in India, supporting the Group's free cashflow recovery and underpinning our dividend. On that, Vittorio and I would be happy to take your questions.

Questions and Answers

San Dhillon, Exane BNP Paribas

A couple of questions if I may. On your excellent enterprise growth, could you split the performance between AMAP and Europe, and any colour on mobile enterprise in Europe would be appreciated. Secondly, much of your commercial performance, which is great, isn't necessarily flowing through to the top line sustainably, which is in turn resulting in some EBITDA disappointment. When do you expect the commercial momentum to re-accelerate the top-line growth? Thanks.

Nick Read

San, just on the enterprise growth, clearly when we're looking at our overall performance, I would say that clearly India has been a bigger drag on our results in AMAP, so we have typically seen a slowdown in that area. Europe has remained a consistent performance quarter over quarter, with the one notable exception of the UK, which obviously we were calling out some more competitive tension.

When will revenues recover overall for the group? If you look at our overall performance, I tried to call out the group excluding India, because if you look at that just over 2% growth level we've had a consistent performance quarter over quarter. So just over 2%. If we look, going forward, into Q4, if we remove the one-off impacts that I've highlighted already in terms of Leap, in terms of accounting etc., I would see a similar underlying performance. Clearly, as I called out in the India performance, we've seen a deceleration not only in the quarter, throughout the quarter, but we expect to see that continue to decelerate into Q4.

Clearly the key point of inflection for India is going to be when Jio starts to charge for its services, and then we need to see the dynamics and how the market plays out for India going forward. When we look into the next fiscal year, the two callouts I would really just say is roaming, which obviously impacts from June onwards, and we will have some drag from MVNOs next year as well. But underlying, you would have to look to our overall broad commercial momentum. Clearly on consumer fixed in the quarter, grew 6.8%. So that was up quarter over quarter, so we've got good momentum there. As Vittorio highlighted, good enterprise momentum where we consider we're taking market share, and ARPUs in Europe, in the mobile side, stabilising with our more for more strategy. Of course, clearly we are looking at areas going forwards.

Polo Tang, UBS

I've just got two questions. The first one's on India. So just a high level question. It looks like you're seeking a JV with Idea, but can you give some clarity in terms of are you committed to the Indian market longer term, or is this deal a way of gradually exiting the Indian market. The second question is really just in terms of cost-cutting and EBITDA growth. I appreciate this is a trading update focused on revenues, but can you maybe just talk about your confidence in terms of being able to drive EBITDA growth? So if you can give us a bit more colour in terms of what you were mentioning earlier in terms of Fit for Growth, and how should we think about the other moving elements in the cost space? So for example, do you not start to lap out rising Project Spring cost, and start lapping out at the step up in terms of content costs? How should we think about EBITDA growth trajectory? Thanks.

Vittorio Colao

I couldn't hear – we have some issues in hearing who spoke. But whoever it was it's a pretty good question. So I'll take the first part, and then, Nick, you will on the cost-cutting and the other stuff. Polo, okay. They tell me it was Polo. On India, first of all I cannot really give you too many details, because discussions are still progressing so it would inappropriate and also not very serious. Let me say, to the second part of your question, this is not an exit, this is creating a much stronger asset. This is creating the number one telco in the country, with a little bit short of 400 million customers, a huge spectrum [inaudible], the largest network by far in the country, and the possibility of being the best management team through the combination of the two management teams. I wouldn't call it an exit. It's, as you correctly put it, a joint venture with equal rights, which creates, we are convinced, value for both companies and for the shareholders of both companies. That's the principle. It indicates that we are flexible and pragmatic, and like in the Netherlands we do whatever strengthens our assets and has a good return. And we are not dogmatic on which form that has to take country by country. That's really as far as I can go, Polo, today, because anything else is for the next time.

Nick, EBITDA, cost-cutting? I have to say, just a qualitative comment, I'm really pleased by the way Nick has been orchestrating the cost effort. It's becoming kind of a normal thing in the company. This time of the year is always not particularly fun, but very impactful. So we are just at the beginning of the budget and three year plan process. I already had plenty of meetings on this. It's early to give you detailed indications, but I have to say this is becoming more of a normal source of growth for the company in margins. Nick, details?

Nick Read

Yeah, I think Vittorio did a good summary. We're in the middle of the process. I think what we were pleased about was that we highlighted in November the second phase of Fit for Growth, and I itemised the areas that we were targeting. What I'm pleased about is that we've accelerated a number of those, and we see the opportunity to accelerate structural improvement on our efficiency in terms of our cost base.

If I was taking it at a very high level, if you put India to one side for a minute, because obviously India is a special situation, and just look at the rest of the growth, H1 numbers, EBITDA grew around 4.5% for the rest of the Group if we take India out. We'd be expecting to see a similar type of performance in the second half. I think when you're looking out further, you're right to say that we've had a number of drags this year that will be eliminated. So drags this year, we had content cost, we had the UK service issues that we invested behind, and we had the spring step up in terms of the size of the network, as well as obviously some roaming and MVNO drags. So some of those things unwind, effectively, as drags into next year. At the same time, I think it's fair to say that roaming will probably end up being a slightly bigger drag for next year, and of course we have an element of MVNOs that roll off for next year. So some positives, some negatives and underlying a stronger cost programme.

Nick Delfas, Redburn

Just a quick question on Italy. I understand Enel delivered you 30,000 lines to market. Obviously it's a small number, but any comments on how that's going in Perugia. And also just to clarify on the Enel contract, are there any penalties for late delivery, and how many do you think they're currently building on a weekly basis?

Vittorio Colao

Yeah, Nick, thanks for the question. Let me say I don't know, to be honest, the details of penalties. I would be surprised if there are, because the nature of the contract – it's a commercial contract, so I don't think that should be. The qualitative thing – I was in Italy again this week. The qualitative answer, talking to the guys on the ground is first of all they're delivering even a little bit ahead of time. So they're pretty good. They're now moving to the next two cities. It's working very well, and all those questions about operational capability, implementation, blah, blah, blah, honestly they were exactly proven what I said they would be i.e. groundless. Both Enel and their contractors are working very well. We were very pleased to see that they won also the five other regions, other areas against competition, which proves that their cost model is right, is efficient. And of course, this has reinforced in Enel the determination to continue. I think the solution is a pretty good solution, and my understanding is that even in other countries this could be copied as an efficient way to move to a more fibre-ised market, with an open access type of company. The question on the penalties, I honestly don't know. Do you know anything, Nick?

Nick Read

No.

Vittorio Colao

We will get back to you on that one.

Nick Delfas

Can I just follow up, then, also on the UK, because I think you've done some trials in King's Lynn. Do you expect anything to happen in the UK in terms of similar fibre builds?

Vittorio Colao

For the time being, I haven't seen any major initiatives really going in that direction. I have picked the comments from Openreach. There's a lot of talk. We are, as you know, small in the UK. We just had 32,000 this quarter, which is okay. It's not a huge number, but it's a promising thing. It works very well. Satisfaction of the customers is very good, and as we said many times this is for us mostly a product that we want to push to our own customers. Should, in the UK, opportunities like the Italian one arise, but I was not referring to the UK, to be honest, with my remark 'in other counties' of partnering with electricity companies, or with companies that have access to ducts or to other infrastructure at a better cost than simply digging of course we would consider.

Akhil Dattani, JP Morgan

Thanks for taking my question. A couple of things. Firstly, Vittorio and Nick, you've both mentioned India's a bit of a special situation at the moment. I appreciate it's very early stages in terms of the budgeting process, but how does that impact how you think about how you might present guidance into next year? I guess I'm just thinking could that entail potentially looking at the two pieces separately, particularly with India now in strategic review as well.

Second question was just on MVNOs. You've called out MVNO related issues. Obviously you're proactive decision to step away from wholesale contracts in both Germany and the UK. Could you just quantify for us what those revenue exposures are, just so we can start to think about that drag and how it progresses? And then the very last thing just on pricing. Vittorio, you mentioned earlier on in your presentation that you are still optimistic on the ARPU trajectory across Europe. How do you think about that? Obviously you're calling out also some issues around competition in Spain, UK. So, when we pull it all together, how do we think about that messaging? Is it more about more for more prices continuing to push through the base this year? Is it about data growth? What are the drivers, and how confident are you data growth will continue to accelerate? Thanks a lot.

Vittorio Colao

Since Nick seemed so anxious to get the answer on the guidance thing, why don't you start, and then I will go and also cover the MVNO impact, and then I will take more the philosophy vis-à-vis MVNOs and the pricing question, which are very related.

Nick Read

I was just going to say, in terms of the guidance, you're right to call out it's a slightly unique set of circumstances, especially given we don't know what's going to happen with Jio in terms of charging, and therefore the world could look very different if they charge from 1 April or if they decide to delay again, and what stance the regulator takes. So look it's under consideration. We're going through the budget process now. I don't think now's the right time to make that call. May is the more appropriate time because we'll have more facts and we will have concluded our budget cycle. But obviously it's a key factor.

The MVNO impact, broadly speaking Germany is about €250 million. It's important to – with Germany, it's more the fact it's stabilised over the last couple of quarters. We had very strong growth last year, so that's why it's weighed on our year over year growth profile, but actually it's been stable. UK's pretty small. It's like €30/40 million.

Vittorio Colao

Let me take it from there on the more broader pricing philosophy, which includes also of course the wholesale side. First of all, on the wholesale MVNO side, I think we are sticking to our position, which is not we are closed to 4G MVNOs. But the point is that we are open to 4G MVNOs if and when they are willing to recognise the return on capital that we need to have to our infrastructure and on spectrum. And again, country by country, case by case, we look at them. It's not an ideological, a priori position. We simply need to get a good return on our assets. And of course, if MVNOs are not willing to do that we are happy to differentiate and create a two tier market.

On general, more in general on pricing, my feeling is that there is room for continuing to have ARPU expansion. On one hand, there must be some ARPU expansion because of roaming. Clearly, mid-June, roaming essentially goes away, so there is a mechanism. The wholesale rates which have been agreed are okay. I wouldn't say they are great, but for sure they are taking care of the problem of disintermediation from foreign, low-cost operators. So that is a positive. Of course, the rules for permanence, the four months and everything else is a little bit complicated to implement. So my guess is that we will need to incorporate into the monthly fees and into the regular ARPUs some kind of component for roaming. If the whole industry is disciplined, again, this could be a much less traumatic thing than some people fear. I am optimistic. I have seen already some moves here and there. So I think it could go in the right way. Of course, we are not alone, and it will depend also on what others do.

More in general, there is something that I keep repeating. The data trends are very healthy: 63% growth excluding India, average usage of smartphone 1.5GB, but it keeps going up. I go around. When I go into the shops, people want bigger and bigger allowances. If we price services and allowances in a generous way it's a win-win. Customers are getting a lower per gig price, and we are getting a stable/increasing ARPU. Can this continue everywhere? Probably not everywhere, but I would say most markets I see that opportunity. When there are pressures from second brands like in Spain, the Jazztel case or MVNOs I think our answer will be a segmented answer, possibly using second brands, possibly using third parties if they are willing to recognise the right price. Overall, the opportunity to have stability of ARPU and increase of ARPU is still there in Europe. India clearly is a different story.

Andrew Lee, Goldman Sachs

Just a question as a follow-up to Akhil's question on European growth, and then a question on cost-cutting, please. On the European growth side of things, there are clearly lots of headline drags. But is the underlying growth improving in your view? And can you just talk us through the risk factors, i.e. what would have to happen for Europe to go x growth next year, and what would stop the growth accelerating in year to March 2019? As you rightly point out the regulatory headwinds fall away. I think I have an idea of one of the risk factors, but if you could talk through how you think about that? And secondly, on the cost-cutting, clearly a great job has been done in engendering a culture of cost-cutting, which speaks well for the longevity of it, but I wonder if you can talk about how flexible you can be with that, i.e. if do experience more sustained pain in India, or maybe more importantly in Italy, can you ramp up cost-cutting to offset some of that top line pain? Any colour on that would be great, thank you.

Vittorio Colao

Andrew, I take the first part of the question. If you ask me what are the risks in Europe I would say it's the same. It's the other side of the opportunity. So what we're seeing in Europe is a healthy smartphone demand, more SIM only. More SIM only also means, by the way, lower cost in distribution, and potentially some better rationalisation, more online, fewer call centres, less cost to support the customers. So there is a virtuous circle that we have tried, quite frankly, to ignite in Europe, and to some extent we have managed to ignite in Germany, in Italy and so on of a better pricing and lower cost environment. If you ask me what the risk is, it's exactly symmetric to that. It's the risk of smaller players or MVNOs – and you referred to Italy with a new entrant – coming in with ARPUs – not prices, be careful – ARPUs below what the market should support.

Now, I'm not afraid, to be honest, of people offering generous allowances. So when I see the 10 gig, the 20 gig, provided that they're priced at the right level that lifts, on average, the whole market, it's fine. I'm more concerned about the small offers with a lot of power to disrupt. So the opportunity is in healthy dynamics with smartphone and data ARPU pricing, and the risk is exactly symmetric to that. That to me is the description of Europe.

From a cost perspective, I see that everybody essentially – we are – I don't know if we are good or better than the others, but everybody is working on more rational industry cost structures, especially in distribution, and especially in support and care. The more we go into allowances, the more roaming goes away, the more – the less there will be support also for customers. In other words, the simplification of our tariffs will also drive some of the cost reduction. And there is, you know, quite some room to go.

Nick Read

I'd just build on Vittorio's comment on the cost reduction. I really want to stress that you should view the Fit for Growth programme as a multi-year, long-term getting us fit in every single market, and benchmarking well process by process to be top quartile. You saw at the half year mark that 19 out of 26 of the markets were expanding margins. We see scope for 24 out of that 26 markets to expand margins going forward on a multi-year basis. So we're doing the right things for the long term optimisation of that business. Of course, there are always short-term things we can do, but we wouldn't be doing those that damages our long-term prospects.

Robert Grindle, Deutsche Bank

You called out the trend to SIM only in the UK, the accelerating trend. And we can see that in the widening gap between your European service revenue and total revenue growth this quarter. Would you call out any other countries where SIM only is picking up? Is it a widespread acceleration, and is the trend changing in Q4? Secondly, just briefly, on the UK, what were the nature of the two large fixed enterprise contracts that you lost? Were these legacy CWW contracts, and did you lose these contracts on price? Thank you.

Vittorio Colao

I'll take the second part of the question, and the answer is yes. They were two – because I was involved at least in one of the two in trying to retain it. Two large Cable and Wireless contracts. Completely – let me say, one of them completely lost on price, which, again is a choice sometimes of our competitors. The other one, I would say, probably a combination of price and an old solution that was probably not the best for the customer. And eventually we had to decide whether it was worth or not. But I would call it one completely on price and the other one predominantly on the quality of the solution that we were providing through Cable and Wireless, and a little bit on price, of course, as always. SIM only, UK, other countries?

Nick Read

Yeah, what I would call out, there is no material shift in any of our other markets that we're seeing at this point in time. So it's just predominantly the UK. However, I would say – and it goes a bit to Vittorio's point he was answering on a previous questions – yeah, longer term as you go into convergence, market by market, then that can change the dynamic, because clearly you're selling a fixed line and then SIMs on top, and therefore that doesn't always come with a handset. So I can imagine that on a medium/long term the dynamics will shift.

Andrew Beale, Arete Research

Hi, a question for Nick on the current India capital structure, if I can. If I'm not mistaken, VIL external net debt was about €4 billion at September, after the capital increase, and then you spent, I think, €2.7 billion on spectrum, so I guess that puts net debt at about €7 billion. But I think spectrum-growth debt is more than €8 billion, so I just wanted to get confirmation of those numbers and the balancing items being gross bank debt and cash in round numbers, and also just ask if there's any more India-related intra-group debt either at VIL or higher up the chain.

And then perhaps a related question for Vittorio: does the Indian capital increase last September represent the totality of equity and debt capital that the company is prepared to allocate to India? Are you just working within a real constraint to achieve a strengthening JV organic stabilisation on your own or some other option?

Nick Read

Andrew, I'm not going to go through all the breakdown. What I would say at a high level is that we approximately have about €8 billion of net debt within the India business, and it's a combination of both internal and external, the vast majority of which, though, you are right to point out, is the government – i.e. payment for spectrum secured already, which, obviously, doesn't have covenant restrictions.

Vittorio Colao

On the second question, I cannot give you details, again because there is no joint business plan we can talk about. What I can tell you is that the ambition for the JV is to self-fund, or will be to self-fund, and again we are discussing mechanisms and agreements. So, I will stop at ambition to self-fund.

Andrew Beale

Understood. I just wanted to check that, even if that deal didn't happen, would you baulk at putting more capital into India or are you just happy to continue to put money into that market?

Vittorio Colao

It's an interesting question because then it would require a definition of what is Indus Towers: is it Indian money or is it Group money? And don't forget that Indus Towers is not or would not be part of a possible deal with Idea. So, let me say we have plenty of ways of looking at the future. For the time being, we are focused on the joint venture ambition to self-fund.

James Ratzer, New Street Research

Two questions, please, the first of which is about the Spanish market. I think, at the time of the results in November, you sounded quite nervous about the pricing environment in that market with some of the lower-end branding, and yet your results there are, in fact, the strongest we're seeing across Europe, so I was just wondering if your view on the outlook now for that market had changed and become more positive with regard to pricing trends?

And secondly, on Italy, it's extremely strong broadband net additions. I was just wondering if you could give us a bit more colour on where those are coming from? Are these customers you think that are new to broadband in aggregate or do you think you're winning market share in Italy at the moment?

Vittorio Colao

James, very good questions, especially the first one and second one, I'm not sure I have all the details of an answer, but let me cover both. First of all, Spain, you said that at the results I sounded nervous. I know that it sounded nervous but it was not nervous. It was a little bit of irritation because I do think that the Spanish market has a potential to recover. Don't forget where we're coming from in Spain. There's been years and years of decline and I was indicating that the use of the second brand by one of the competitors was not helpful, in light of also of the arrival of a Yoigo MásMóvil new one. Now, again, everybody makes their own decision and they continue to do the same thing. It must be good for them. Let's see. I reacted more than nervousness in the sense that it could go bad, which it didn't. It was more a little bit of irritation with a missed opportunity.

Having said that, you're right – we're doing well in Spain. You mentioned good connections in Italy in fixed broadband. I would say I am also very pleased by the good connections in Spain, where the number is even higher, actually, and with a good part also of TV into the mix. So, I would say fixed broadband in Spain, Italy, Germany, in a smaller way UK, other smaller markets, is really going well. And to the question are these new to broadband or people switching, I honestly don't have that answer. It's an interesting question. My guess is that these are mostly existing Vodafone customers who are going into a kind of single-relationship type of situation. We now have 3.5 million fully converged households in Europe. It's a trend that we actually see as positive because it creates lower churn and it creates an up-sell opportunity, so we'll continue with this and we'll look a little bit more whether they are new or not. I think they are mostly existing Vodafone mobile customers.

James Ratzer

And do you think potentially those two markets – Italy and Spain – have the potential to actually accelerate further from current levels?

Vittorio Colao

It's a difficult question because we discussed many times, especially with Italy, in theory the answer yes but, in practice, in order to accelerate, you need to push on pricing. In Italy particularly, both Telecom Italia and Fastweb have very aggressive entry points: €19 online promotion on Telecom Italia; I think it's €20 Fastweb, including a Sky offer or something like that. So, yes, we could, but then the cost would be sacrifice or trigger price wars in Italy. In Spain, we have to see what happens with this Jazztel/Orange thing. Potentially, in Spain there is a bit more room but, again, it's always a very delicate balance of how much market share you want to get versus where you push the ARPU. And don't forget that both markets have already very aggressive and competitive ARPUs, so we need to be ambitious but also balanced financially.

David Wright, Bank of America

I wonder if could just direct you back to slide 6 in terms of the service-revenue-growth contribution. And I guess, conceptually, Vittorio, for you, just why, given all the more-for-more strategy that's been in place for some time now and the Project Spring benefits that are accruing, why is data not driving revenue growth? I think it's definitely a question that we're asked by investors so often.

And then, just on the consumer-fixed-line benefit there – the 0.7 percentage points – are you able to quantify how much of that was the 28-day-billing impact in Italy, or perhaps, of the 5-12% service-revenue-growth acceleration in Italian fixed, how much of that was purely the billing impact that benefits, I guess, the next four quarters but then laps away?

Vittorio Colao

On the first part of your question, David, data is driving growth. Of course, don't forget that there is always a compensation with voice that is becoming progressively more and more included in bundles and does not create ad hoc metered billing which needs to be compensated. So, as I always said, there is a positive. It's a little bit what happened in fixed line 10 years ago, there is a positive staircase of data pricing but, of course, we need to compensate people who used to pay metered voice and they are doing it less and less. I guess that's the answer. It has been the case for the last three, four, five years. It is improving but we still have some space to cover.

Nick Read

David, on the fixed, when I look at slide 6 and I look at the 0.7pp, I wouldn't necessarily over-index on Italy. I would just say we have got strong net-add performance. If you look at our past year in terms of quarter over quarter, we are consistently adding, let's call it 350, 400,000 customers, and that's really fuelling that growth, on top of which just understand the dynamic that happens generally in Europe in fixed is, the first year, we normally run a promotional first 12 months, so it's a discounted ARPU in the first year, and then, as you lap that one year, the promotion rolls away and then they go back to normalised pricing. So, Germany is a good example but also Italy etc. So, what I'd say is you're getting those two engines: one is net growth and then the other is, over time, you'll get the discounting fall away.

David Wright

Sorry, Nick, just to be super clear, isn't the IFRS accounting that it's not that way? Actually, what happens is the ARPU you report is the blended across the entire contract, or am I wrong on that?

Nick Read

On first year.

David Wright

Just to push a little, on the 5 to 12 in Italy, should we think that three, four percentage points for 28-day billing, is there any kind of just indication you can give us, a one, two-year view of the model?

Nick Read

I'll tell you what let us take it offline because we don't want to just pluck a number out of the air.

David Wright

Just very finally, just relating to a question we had before, can you give us an average blended cost of debt in India? Are you able to give us that?

Nick Read

We only have a small amount of debt left, given the recapitalisation. Excluding the government spectrum, you're talking, it sits around 10%.

Justin Funnell, Credit Suisse

A couple of questions, please. Vittorio, I think, if we sort of process of elimination, we'd guess this sort of reference to the utility fibre, we might end up thinking about Germany. We've got a company like EWE Tel building out fibre, presumably overlapping Unitymedia/Liberty Global. If you could do a deal with EWE Tel, does it mean you don't really need to do a deal with Liberty in Germany anymore?

Just secondly, on India, can you tell us what the exit rate was for the revenue decline in December, please?

Vittorio Colao

Let me comment on the first one. I don't want to refer specifically to what you mentioned but, of course, the concept that you referred to is correct. The more in Germany we do agreements with companies that either have fibre coverage or they want to deploy fibre, or we take a commitment or a commercial agreement like the Italian one with companies that want to deploy fibre through their ducts or through their infrastructure, clearly the smaller is the synergy – I wouldn't call it the need but the synergy – with a potential combination with Unity. It's just math. Given that these combinations create great advantages in cost, if you have another alternative, you don't have a high synergy. There are still other reasons – commercial reasons – why, of course, having a single operation nationwide in any country – not just in Germany – makes sense. But technically, you're right, these alternatives are, in a way, reducing synergies of a possible combination.

On the exit in December?

Nick Read

Justin, I don't think it's good practice for us to be breaking down by month because, let's face it, next quarter you'll ask me what it is by week. So, I think, generally, just look at it, we were decelerating throughout the quarter. It was a pretty linear month-to-month movement and we expect to continue to decelerate through Q4.

Closing Remarks

Vittorio Colao

Thank you for your questions. I would summarise the key takeaways as follows. So, apart from the exceptional situation in India, I am pleased with the commercial momentum during the third quarter across the Group. I mentioned data, I mentioned enterprise, I mentioned fixed, all of them performing well.

Europe, we talked a lot in the questions: mobile ARPU continues to stabilise, reflecting the success of more-for-more propositions. And really, I think the strong fixed net line additions illustrate that our conversion strategy works. And the last question was also proving that we have several alternatives, not just one in Europe, and we are the fastest growing broadband company there.

In AMAP, we have got good performance in South Africa, Turkey and Egypt. We are devoting significant energy now to find a solution both commercial and strategically in India. We are well-positioned to capture the inevitable recovery of the market, whenever the newcomer starts billing.

And finally, as Nick has covered, we are working on the cost base to mitigate the impact of the headwinds in India, and we are confident that our efficiency actions will be good, and we'll update you on them in May.

This is my summary. Again, thank you for your questions and looking forward to meeting you individually.