Vodafone Group Plc

Analyst and Investor Conference Call

Results for the six months ended 30 September 2017

Tuesday 14 November 2017

Group Half-Year Results

Vittorio Colao

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Good morning, everybody. Welcome to our results presentation. I hope you enjoyed the videos. Today, we'll follow the usual order: I will give you the highlight of the announcements; Nick will go through the financial reviews; and then I will come back with some update on our strategy and progress on strategy. And then we go into Q&A and, as always, I'm asking you to keep the questions to one – and I'm sure it will be one.

So, first half, I have to say we had a good start of the year. 1.7% organic service revenue growth, which is really 2.6 ex regulation. We have got good growth and this is coming from both fixed and mobile, and from most of the markets. 13% growth in EBITDA. It's really 9.3% underlying, once you adjust to a number of things, with margin at 32% or probably 31 point something. Nick will cover all the details about our profitability but, again, very solid profitability. Free cash flow, €1.3 billion, up €1.4 from last year. This is a pre-spectrum number coming, of course, from higher EBITDA and working capital. And finally, the Board this morning has announced a 2.1% increase in the interim dividend to €4.84 cents. This is consistent with our progressive dividend policy. As a result of all of this, we are raising today our full-year guidance.

I will not waste a lot of time on the summary of the strategic progress but I can say – and I will go more in detail in my second part of my presentation – I would say we keep working on the same differentiators, with good success on customer experience excellence: 19 over 21 markets leading; good mobile networks – both voice and data – especially voice but both voice and data; and we continue to deploy on fixed our smart capital strategy, and Nick and I will cover it. And some indicators that we put on this page are indicating that the strategy is working: increase in ARPU ex regulation in Europe; still the fastest growing broadband provider in Europe; and, ex regulation, good growth in enterprise but, even non-ex regulation, we have, anyhow, outperformed the market, but I will cover more later.

Commercially, we continue to have what I will call a robust commercial performance. As you can see from the red bars, we had good mobile – the lighter part – good mobile additions in the quarter. This has been helped by GigaCube, which is our German fixed-wireless-substitution product. But also in fixed, 262,000, this is Italy, Germany and Spain, but this time we also have UK, with 33,000 net adds. Europe service revenue growth 0.8% – 2.1% ex regulation – with a progressive penetration of broadband users, 61% of whom are on NGN.

In AMAP, we continue to grow both in contracts and in prepaid. We had a slightly lower growth, at 6.2% in the quarter. This is Vodacom, which we will cover later, and also a one-week outage in Qatar due to network problems. But AMAP, the biggest and most important part remains only half of the customers have data there, so the opportunity continues to be big.

You have the details of the performance in each market in the appendix of the documents, but let me cover at high level both Europe and AMAP. First of all, consumer NPS rank: we continue to lead everywhere. We don't lead in the UK but at least we have number-two network in the UK. We lead in enterprise. And I have to say the network, the customer operations and the billing problems that we talked many times about in the past are sorted out now and we have good expectations for what Nick Jeffery and his management team are doing in terms of results for the second half.

Going market by market, in Germany, we have a stable competitive environment. We are having good performance in mobile contracts but I'm also happy that we have more than 60% now of cable connections coming at higher speeds – more than 200 Mbps. Good performance in terms of service growth – 1.6% – with strong customer growth driving it. But also an almost 8% increase in EBITDA, which comes, of course, from revenue but also, I have to say, even Germany now is starting to contribute on the cost front.

Italy, competition remains intense. More than a third of the activations are now below the line and very aggressive pricing but, despite that and despite the fact that we are lapping prior year increases, 1.5% growth and a 9% increase in EBITDA, again coming from good cost action but a lot of good personalised offers that I will cover later in my presentation.

UK: UK is a stable market. There are increases in ARPU both in mobile and in fixed. And I have to say that I'm happy to report not just that we had good performance on the fixed front but also that, on the mobile front, we have an underlying stability of our contracts, which is really the result of a growth in the Vodafone branded connections, which is a strong focus for our team, and some phasing out of non-branded, old contracts that we had in the market. If you strip out all the handset financing and underlying one-off, we are back to underlying growth – just about – in the UK, and we are stabilising EBITDA, despite the big investments in operations that I described.

And finally, Spain: Spain is a good market at the high and medium end. It's very intense competition at the low end, mostly MÁSMÓVIL and the second brand of Orange. But despite this, we have generated almost 4% growth in the market, with, essentially, much more-for-more actions, with some end of the handset financing lapping, but also a benefit from roaming, which, in southern Europe, has been booming over the summer. And in Spain, again, an excellent job on costs: almost 10% EBITDA growth, despite content costs, which, in Spain, are pretty high, as you know,

AMAP – a similar picture across AMAP: number one almost everywhere, except Turkey, where we are number two: South Africa is what I would call a stable pricing environment. In South Africa, we are proactively working on data pricing. You might remember we worked on voice pricing a few years ago; now, we're doing the same to data pricing. We are increasing data bundles to reduce the effective data price in the bundle but we are also decreasing the out-of-bundle data pricing, so it's, if you want, a self-immunisation strategy from a pricing perspective. About 4% growth and 2.9% EBITDA growth in South Africa.

Vodacom International is now 22% of Vodacom. We have a good performance, 4.1% in revenue growth. This is a combination of Tanzania improving, DRC with macro pressure, but still 8.2% increase in EBITDA.

And finally, Turkey and Egypt: Turkey and Egypt, today, after deconsolidating India, they are a third of AMAP. We have very strong positions in both markets. I have to say, 14% growth in Turkey and 21% in Egypt are pretty good results. I'm particularly pleased with Egypt, where the second competitor has a growth of seven, eight points less than us, and the third one 15 points less than us. And as you can see, EBITDA growth in both markets is pretty good. So, I would say both Europe and AMAP are areas are doing well for Vodafone.

We need to talk about India, which is a little bit – deserves a separate page. As you know, In India, there's still pricing pressure, competition is intense, prepaid validity has been extended, and we also now have, of course, some pressure on postpaid. And as you can see, the quarter posted -17.8% revenue growth. This is the result of -24% ARPU. Also, you have some seasonality, also you have some tax effects from the tax that has been brought from 15% to 18%.

The good news is that we are stabilising the margins – the green bars below, 22% – clearly, there's a lot of cost control and cost actions taking place. And we are focusing on retaining high-value users and focusing on our leadership circles. We are investing the vast majority of our capex in the circles where we have leadership.

There are positives in India. Of course, everybody knows that Jio has raised prices recently again, in October. That's a positive. Smaller players are getting out of the market, so there is consolidation of SIMs and customers and a more rational environment in the long term. And we are progressing with the Idea merger. We are pleased to announce yesterday the sale of the orphan tower assets. We are progressing in the discussions on the future of Indus. And we have got already SEBI and CCI approval, and we are working to get DoT and NCLT approval in due time, so we expect the transaction to be completed during 2018.

Looking ahead in India, we will have some pressure from MTRs. MTR reductions are coming into place. We will continue to focus, essentially, on high value customers and leadership circles until the merger is completed. With that, I think I can pass to Nick for the detailed financial review.

Financial Review

Nick Read

Group Chief Financial Officer, Vodafone

Thank you, Vittorio. Good morning, everyone. So, as Vittorio already highlighted, our financial performance in the first half of the year was very strong and I was particularly pleased with the broad based nature demonstrated of operational leverage. In May, I highlighted that we faced two extraordinary impacts during the fiscal year: first, a material drag from EU roaming regulation; and second, a boost from the commercial decision to follow the UK market practice adopting handset financing. At the time, we had expected these two impacts to be broadly similar and offsetting but, in the first half of the year, we ended up with more handset financing and a positive from visitor revenues. Combined with the two large UK regulatory settlements, this contributed to an even stronger performance in the first half. Therefore, I will refer to our underlying EBITDA and EBIT performance, excluding these items, rather than our organic headline results, as we really need to understand the real trends.

Moving to the headline numbers on the left of the chart in green, our organic service revenue grew 1.7%, combined with a reduction in our absolute operating cost, delivered a 9.3% underlying organic EBITDA growth. With the rate of increase in D&A expenses now moderating post the end of Project Spring and normalisation of capex, we delivered a 36% underlying EBIT growth.

On the right-hand chart, you see how our EBIT margins have inflected from the lows in FY15, at the start of the Project Spring investment phase, now back to around 10%, with further improvement to come, given our focus on operational leverage.

As you are aware, each year there are a number of non-cash items that impact our reported earnings. In order to present a clearer picture of our earnings performance, we adjust for these items, as you can see in the bridge shown in the table. I do not intend to go through the bridge in detail, as these items are clearly explained in the press release, but I will cover our cash interest costs and cash taxes later on in the presentation.

However, let me draw your attention to two important items: firstly, our group adjusted effective tax rate for H1 was 22.2% compared to 25% for the same period last year. This was primarily driven by a change in the country mix of Group profits and a reduction in the corporation tax rate in Italy.

Secondly, it's important to remember that our reported share count has been inflated by the mandatory convertible that we issued at the time of the Vodafone/Ziggo merger. We've almost completed the share buyback of the first tranche and it's our intention to buy back the second tranche using the proceeds from the remaining $2.5 billion in Verizon loan notes.

Turning now to our service revenue performance, as the chart on the left shows, we have consistently delivered an underlying top line growth, ex regulation, of around mid 2s. On a reported basis, our organic service revenue growth slowed in Q2 to 1.3% from 2.2% in Q1. There were three drivers that accounted for the slowdown:

Firstly, the impact of net roaming regulation, which was 30bps – lower than expected, given the higher visitor revenues. We now expect the net roaming drag on EBITDA this year to be around €200 million.

Secondly, as handset financing accelerated in the UK, we saw an increased drag. The effect was small at the Group level in Q2 but is likely to accelerate in the second half, reaching over four percentage points at the UK OpCo level and 70 basis points at the Group level by Q4.

Finally, carrier dragged on our results in Q2 by around 40 basis points quarter over quarter. This was a result of implementing a new intelligent routing system that optimised the internalisation of traffic, reducing both third party revenues and costs, with a net benefit to EBITDA.

The lower carrier offset a better than expected performance in Europe. As you can see on the right hand chart, excluding regulation, Europe accounted for 70% of Group service revenue growth in Q2.

When considering the outlook for the second half of the year, I'll take Q2 growth of 1.3% as the start point, given the new base line of both carrier and wholesale. We expect an underlying improvement in the UK to largely offset a slowdown in Italy, while the increase in drag from UK handset financing should be offset by reduced drag from regulation, as we lap the German MTR from December last year.

As you can see on the slide, we have contribution of our three growth drivers to our overall service revenue growth in H1. In the circles above the bars, you can see the change in contribution compared to H1 last year; in other words, whether that growth driver is accelerating or decelerating.

Excluding regulation, European consumer mobile growth continued to improve, reflecting the impact on ARPU of our more-for-more commercial actions in the period. Vittorio will be covering these in more detail later. Data growth in emerging markets remains robust but its contribution reduced, reflecting stronger comps and bigger data bundles in South Africa. Our continued commercial momentum in fixed and convergence provides a long term structural contributor to growth, a key point of difference when comparing to our European peers, as we discussed at the open office event in Venice. Enterprise continued to outperform declining incumbent peers, delivering resilient top line growth and stable contribution. On the right of this chart, the drags from regulation and wholesale will clearly reduce over time.

Moving on to our cost base, I am pleased to confirm that, even with the sustained commercial momentum in both regions, we remain on track to deliver an absolute reduction in our organic operating cost for the second year running. Our top line performance, combined with lower interconnection costs, supported a strong gross margin performance, offsetting higher year-over-year fixed wholesale and content costs. Meanwhile, net operating costs reduced in absolute terms by €0.1 billion, despite inflationary pressures, especially in emerging markets, along with experiencing 65% data traffic growth on our networks. This is the result of our increased focus on direct channels, the mix shift towards SIM-only, and the general Fit for Growth initiatives. On the right, you see the €0.2 billion net benefit, year-over-year, of regulation UK handset financing, and one-off regulatory settlements.

The result of that better top line growth, combined with a decline in operating costs, has led to a sharp improvement in our underlying EBITDA margins to 31.1%. This is now the third year in a row where the Group has improved EBITDA margins. This is the result of key programmes you see at the bottom of the slide, which Vittorio will cover in his presentation, along with exceeding the synergy targets from our acquisitions of KDG and Ono. On average, over the past three years, we have expanded our margins by just over 80 basis points per annum whilst reinvesting to strategically strengthen our long-term position. We believe our Fit for Growth and Digital programmes provide a sustainable platform to deliver continued margin progression over the coming years.

These programmes have enabled us to deliver systemic margin improvement across the Group, as you can see from the chart. Within our larger controlled operations, only one market saw a meaningful EBITDA margin decline, which was South Africa. This reflected strong, low margin handset sales and cost phasing, and therefore we are confident that we can see an improved second half EBITDA performance.

In May, I said we expected the UK business to stabilise EBITDA on an underlying basis in the second half of the year, but I am pleased to report that our execution is ahead of plan, coming close to stabilising in the first half.

In our current and future JVs, VodafoneZiggo saw an improved sequential performance in the quarter, with EBITDA margins rising year-over-year, thanks to lower handset subsidies. The JV has raised its outlook for the year and, despite continued revenue pressures from regulation, mobile repricing and the initial cost of driving convergence, we remain on track with our plans, with substantial synergies to be reflected in future periods. As Vittorio has already described, India remains very challenging, although I'm pleased that we have been able to stabilise our EBITDA margins in recent quarters, despite further top line pressure.

Fit for Growth has been an important contributor to our ability to invest in new areas whilst improving our margin and, on this slide, I detail some of the progress we have made in recent years. The programme consists of a number of Group led efforts, some of which you see summarised on the left of the chart.

We have increasingly centralised our procurement activities, now up to 77% of purchasing from 60% three years ago, releasing very large cost savings. We have also built and then scaled, through centralisation, our shared service centres, focused on IT development operations, network operations, customer back office, and finance/HR process, with almost 22,000 employees now based in India, Egypt, Hungary and Romania. We have saved around €500 million in annual costs over the past three years. Standardising network design across OpCos has been another big win for us, worth around €340 million per annum, and we have reduced our Group corporate overheads, through ZBB efforts, by over €200 million.

Finally, on the right, you see the three-year movement in our large markets, demonstrating our use of AT Kearney benchmarking by process to target world class performance levels. This is before we talk about the opportunity digital presents for our business.

So, let me now turn to that opportunity. Vittorio will provide you with a detailed overview of the transformation we aim to achieve in customer experience relative to our peers and, along with it, the relative revenue opportunities from our new Digital Vodafone programme. So, on this slide, I will just focus on the potential to maintain our recent progress in reducing absolute operating costs. There are three main areas of opportunity for digital efficiencies: customer touchpoints; technology management; and support operations. Acquiring, interacting and retaining customers digitally will have the secondary benefit of allowing us to optimise our channel mix, increasing our low cost direct mix whilst saving costly commissions paid to third parties, as well as allowing us to reshape our retail footprint. In addition, supporting customers will be far more efficient and effective, given new AI applications such as chatbots and virtual agents. In total, we spend around €5 billion today on these customer related areas.

We also see scope for efficiency gains in our network and technology costs, by using the power of real time analytics to enable smarter network planning and predictive maintenance. In addition, we aim to lower IT costs by moving 65% of IT applications to the cloud, we would therefore expect to drive more productivity from the capital investment that we have to ultimately drive greater differentiation in network quality and customer experience. Finally, we spend around €3 billion today on support activities, many of which can be simplified and automated through robotics.

This will be a multi-year effort which will require some upfront investment over the next two years, and the rate of savings will depend, to some degree, on customer behaviour shifts and the need for us to reinvest, but the opportunity is clearly material.

Moving on to capex, our capital intensity was 14.1% in the first half – 60 basis points lower than the last year. For the full year, our position remains unchanged, expecting to be in the top half of our 14-16% range, with seasonally higher capex levels expected in H2. On the left, you can see we have allocated capex across our top five markets, which make up about 65% of our local capex spend. The key movement was the increase in the CPE and success based capex, up 9 percentage points year-over-year, reflecting the strong commercial momentum we have in fixed. Excluding CPEs, our capital intensity was 12.5%.

As a reminder, our mid-term, mid-teens capital intensity guidance excludes material, incremental fibre build opportunities such as the €2 billion GB investment plan in Germany, which we will report on separately in future results. As communicated in September, we do not expect a material cash impact from this plan in the current fiscal year, as we scale up our operational capabilities for a faster deployment in FY19 and beyond. We have no more further plans of this magnitude on the current horizon.

Free cash flow, on a guidance basis, increased by €1.4 billion year-over-year. This improved performance was principally driven by higher EBITDA; lower capital creditor outflows, reflecting the final Project Spring payments in the prior year; and higher net dividends received. Cash interest expenses were higher than last year, where we benefited from a number of timing differences. For the full year, we still expect cash interest costs of around €800 million and a mid-term average net cost of debt of 2.5%. Cash tax is expected to be slightly higher, at €1.1 billion for the full year, given higher profits. Dividends received grew, primarily due to VodafoneZiggo. Following their results and their upgraded guidance, we now expect to receive higher total cash returns this calendar year. Dividends paid to minorities fell – primarily, Egypt.

Clearly, the true free cash flow available for returns is the cash left after spectrum and restructuring costs paid. This figure will be highlighted in our presentation and future releases; however, given that both of these items tend to be volatile, we will continue to exclude them from our guidance free cash flow, which will be characterised as free cash flow pre-spectrum going forwards.

During H1, we had spectrum payments totalling €0.8 billion in both Italy and Germany. Assuming the UK spectrum auction slips into FY19, and given modest cash restructuring costs of around €300 million expected for the year, we expect free cash flow post spectrum and restructuring costs to exceed our €4 billion dividend commitment this year.

Moving to our balance sheet, we reported closing net debt of €32.1 billion, with leverage of 2.2 times. During the first half, cash outflows included the payment of FY17 final dividend of €2.6 billion, spectrum purchases in Italy and Germany, and commencement of our share buyback programme for the first tranche of the mandatory convertible. These items were partly offset by free cash flow generation in the half, the €1 billion of net proceeds from Vodacom's stake disposal, and FX movements. For the full year, we expect net debt to be around €31 billion, with payment of the H1 dividend and the remaining share buyback being more than offset by free cash flow generation in H2. Net debt in India, which is not included in the Group's net-debt position, declined to €8 billion, almost 80% of which is spectrum related debt. This was down from €8.7 billion at the end of last year, entirely due to the devaluation of the rupee compared to the euro.

Capital allocation is a key focus for Vittorio and I, as you can see from the chart. In Europe, we have further deepened and strengthened our position in fixed, where we signed, in the period, three strategically important agreements using a capital smart infrastructure strategy, which Vittorio will cover in more detail. In Africa, we completed the exchange of our 35% indirect interest in Safaricom for Vodacom shares, and the sale of a 5.2% stake in Vodacom. In Other AMAP, we have begun exploring the potential for an IPO of New Zealand. This is an attractive asset and we anticipate strong demand.

In India, we remain focused on closing the merger with Idea and pre-planning to ensure a fast start to realising the $10 billion of capex/opex synergies. Yesterday, we were pleased to announce the sale of the standalone towers for a combined consideration of $1.2 billion, which will support the reduction of net debt for the JV. The combination of this improved pricing environment, tower disposals, targeted synergies and proposed extension of spectrum payment from 10 years to 16 years are all important factors for establishing a sustainable capital structure for the JV. In addition, we have the 42% stake in Indus. Using a Bharti Infratel valuation would value our stake at over $5 billion. We are active in discussions on multiple options, including tower merger, a partial or full stake sale to a third party, or IPO. All of these options have different timing and tax considerations. Given the strength of the Group's balance sheet, we will focus on maximising long-term value.

Finally, to finish on guidance, we now expect EBITDA to grow organically by around 10% compared to our original guidance of 4 to 8%. This implies a range of €14.75 to €14.95 billion at guidance FX, which, at the midpoint, is around €600 million higher than the original outlook. Broadly, around €300 million of this improvement in the outlook has come from non-recurring benefits I described earlier; however, the remaining €300 of the upgrade reflects stronger than expected underlying European margin performance as well as later than expected commercial launch by a new entrant in Italy. As a result, we now expect underlying EBITDA growth of over €1 billion at the midpoint. It's worth noting that the UK handset financing boost this year does not flow to free cash flow, as it reverses out through working capital; however, the good news is that the stronger underlying EBITDA growth of €300 million, together with the €100 million lower roaming drag, will flow directly to free cash flow. Together with our unchanged capex guidance, we now expect free cash flow to exceed €5 billion.

And on that, I will hand back to Vittorio.

Strategy & Progress

Vittorio Colao

Good. So, let's have a look at how the strategy is progressing. Always useful to start with the customers – what the customers say. As you can see, we continue to lead in Consumer NPS – actually, a little bit more than the same quarter of last year. Here, the good news is that not only we are leading in 19 out of 21 markets but I'm happy to say that we have improved our position in 15 – we have improved the absolute score in 15 – and we have increased the gap in 12. So, good on Consumer. We are good and solid on Enterprise, where we lead in 19 out of 20 markets.

And I have to say the key measures that we look at for assessing how good is our infrastructure, how good is our support, continued to give good results. 91% of our mobile data sessions above 3 Mbps, we are offering speeds of 1 Gbps in four markets and, of course, we want to extend to all the other markets, where we can. We have good penetration of our digital app, which is very important – I will cover about it later in my presentation – and we have two thirds of contacts with customers that are resolved at the first level. This is not fantastic – the fantastic one is the countries which are already at 70-80%, so we want to push everybody there. This remains the key thing that we look at in judging our strategy: how happy are the customers with our service?

Let me now cover the three areas of mobile, convergence and enterprise to see how our progress is there. In mobile data monetisation, I would like to cover both the revenue and the cost aspect, because I get a lot of questions from investors on this topic. So, we have continued with our much more-for-more actions that you are very familiar with. This has been the period of Vodafone Pass. Vodafone Pass is the ability for the customers to pay a little bit in order to get unlimited, worry-free access to a service – video, music, chat, social, whatever. We now have around eight million active customers on Vodafone Pass, and Vodafone Pass is active in nine markets to date – it says seven on the chart because it's clearly only the first half.

So, Pass is good because it's driving both ARPU and usage. The example in the centre is it the Italian example. In Italy, we have an average usage of 3 GB per month. This cohort, which are clearly the early adopters of Vodafone Pass, was a 5-9 type of cohort. As you can see from the chart Pass has added 3-5 GB per month of the specific Pass service to the usage of the customers, but the good thing is it also lifts the usage outside the Pass, and we have early indications that around 30% of the customers who take the Pass, then they stay with us and they continue to pay the 3, 5 whatever euro per month additional.

The German implementation, on the right, goes straight into ARPU accretion. We increased the price of the bundle by €3. We include one Pass of choice and then customers can add other Passes.

So, I would say this is, again, a demonstration that you can work on both increasing usage and ARPU at the same time, which we think is what customers want. Then the question is: how is ARPU going? I suggest we concentrate on the second set of bars – the underlying ones – and the sum of it is that ARPU, underlying, is up between 2% and 4%. This is very important because it's up despite the fact that we are pushing much more SIM-only in the market. SIM-only, on the right, you see are between 20% and 30% of the base, but they are 40% of the new customers. So, on one hand, they depress a bit service revenue but, on the other hand, they also depress acquisition and retention costs, which is clearly very strategic.

So, I would say it's very important that we see our much more-for-more actions as both customer friendly, because they allow more usage, but also company friendly, because there is some ARPU attached to it.

Then the question I often get is: data monetisation is also about costs – how are your costs going? Here, I put on this slide a few thoughts about the cost. First of all, data traffic is clearly growing. It's growing because there's more demand. It's growing because we do initiatives like the Passes. It's growing because visitors are clearly – and roaming is clearly being unleashed now. It's also growing because people are moving away a little bit from WiFi. We have seen a decline in usage of WiFi by four points. It is obvious because the networks work well and also the allowances are more generous, so people can use them. The result is, as you see in the black dot, a 62% increase in usage, and usage which now, in a couple of years, went from 1.1 GB per customer per month to 2.1.

So, the question is: how is the cost handled? On the right, we put our network costs, which are clearly relative to that type – European network costs – that type of usage. As you can see, there has been a very, very marginal increase in costs from 100 to 102. Now, this is a 30-35% unit-cost reduction per year, which is very good, because it allows to follow the data monetisation in a very cost efficient way. Think that 4G+ is around 40% more efficient than 4G, but what we have in front of us is 5G, which is 400% more efficient than 3G, due to spectrum efficiency reasons. So, we think that this data growth can be followed pretty well.

There is often a question that I get about the density of the network. Often, it's in relation to the US examples. Don't forget that, in Europe, 5G will be implemented on lower bands, not the millimetre waves, so the density of the network will be different, and most of it – and Johan [Wibergh, Group CTO] can take questions, if you want, later – most of it will be built on the 1,800MHz grid. So, we already have the infrastructure – most of the infrastructure that will be needed for 5G.

And finally, backhaul and transition costs: yes, they will be more but, with a smart mix of fibre and high speed microwave – which, by the way, is also increasing from a technological point of view – we also think that that trend can be respected. So, we see an increasing amount of data usage attached to some increase of ARPU, and a very, very good decrease of cost. Data monetisation, I would say, looks good.

Now, there is also another aspect of data monetisation, which is extending our reach. We announced last week the launch of Consumer IoT. Consumer IoT is expected to multiply – every estimate is valid here but let's say between six and seven times in the next four or five year. We launched last week a category brand for that – 'V by Vodafone'. We launched four initial products: V-Auto, V-Camera, V-Bag and V-Pet. These are fixed-price plans – three or four euro or pound per month – that can be added to the main subscription of the customer. For the time being, we launched four markets and, of course, we want – only in direct channels – and, of course, we want to extend to all markets, all channels, but also the non-telco channels, because these are not necessarily products that we need to handle ourselves.

Now, why would Vodafone be good and strong in this? Well, first of all, remember we are leader in industrial IoT, which is our enterprise platform – 62 million SIMs active on it – probably the biggest in the world. The experience of adding these new little objects is very easy and very seamless. I did myself my own – I don't have pets but I activated my wife's car, so I can she where she is this morning and where she goes – and she can do the same to me, to be very clear. And it's very easy. I activated literally in 12 minutes just by adding £4 to my subscription. And of course, then it goes into the charge-to-bill platforms, so we can activate also third parties. And the big ambition here is to invite all third parties to create connected devices. We will give them billing, we'll give them provisioning, and it will be very easy. In the fourth quarter, we will start with developers. Our ambition is to have a full ecosystem sometime next year.

Now, the second area of growth for us has been fixed and convergence. Nick has already talked about this. The left chart is the well-known chart. We have around 99 million of commercial footprint for our NGN. Of these, 42 million are on special conditions and 36 owned NGN network, and we keep building. On the right hand, you see the progress so far: 1.2 million broadband net adds. We are by far the fastest growing in Europe. We have around 12 million NGN users, which is 70% of our broadband bases; added 1.8 million just on NGN in the last 12 months, and this does not include Ziggo. 4.7 million users: 1.4 million including Ziggo is the number. 700,000 is what we added as Vodafone. So, we are pushing with convergence.

Now, the important point is that we are doing it with what we call a capital smart strategy – a strategy that continuously optimises itself based on alternatives that we create in the markets. Since the last time we met, we announced three of them; one is the gigabit investment that Nick has talked about. This is really business parks, rural homes and upgrade of cable. The beauty of it is that it gives us incremental growth with relatively limited investment, but also very good customer perception in a country that needs the Gigabit plan.

We announced UK CityFibre. CityFibre allows us to go up to five million homes with an exclusivity period and 20% commitment on our side. Now, the other beauty of CityFibre is that, at this point, this will put some trade-offs in front of Openreach. They will need to decide whether they want to keep prices high and, therefore, create a market for CityFibre, or whether they want to invest and take prices low, in which case we will be very happy to work with them. So, again, it's this circle of reinforcing the strategy along the way.

Smaller but not to be neglected, also in Portugal, we announced a deal with NOS. Again same story: it was not possible to find an agreement with PT; therefore, we went with NOS, and the result is that, now, PT will have the competition from both us and NOS in 80% of the homes of the country.

So, the strategy works. We are the fastest growing but we are growing with a lot of capital discipline and a lot of smart strategic deployments.

Finally, Enterprise: The red bar looks like we grow 0.5%, which is true, of course. It is a bit less than the previous quarter, but if you go ex-regulation and other impacts, in reality it's really 2.5% at the same level. What is going on here? What's going on is a decline in mobile ARPU. Mobile ARPU is under pressure, so a 4-5% decline. But we are increasing customers and, most importantly, we have a strong presence in emerging markets and we have a strong growth in fixed. And the result is, on the right, you see Vodafone is the red bar. Here we take not the underlying but the reported number, and you can see that, versus our worldwide competitors, we are doing either a bit better or really much better.

So, I'm sometimes asked: how come and how can you do it? In the centre, we listed some of our advantages, what the customers tells us that we have. It's geographic reach, which is not just the ability to price internationally but also the ability to support internationally. It's the fact that we have a greater presence in emerging markets – 17% of the revenues now is AMAP. We don't have old, legacy fixed voice, which, of course, is dragging some of our competitors. And we have the IoT platform, which is more and more mentioned as a reason to engage with Vodafone.

So, to conclude this part, I would say mobile data monetisation, convergence and enterprise – the key elements of our strategy – are delivering, not just financially but also operationally.

Now, going ahead, what do we have ahead of us? Let me remind you of the context, as Nick has already said. Nick had arrows; I have a snake, but the concept is the same. We started in FY '13/14 with Project Spring. Project Spring was about strengthening the quality of our delivery. Then Nick has started Fit for Growth. Now, Fit for Growth is a great programme to deliver on costs but I would not underplay also the modernisation aspect of it and the upgrade aspect of it, which is now important but I believe will be even more important in the future. Then, a couple of years later, we started with the customer experience programme, which is really aimed at making the customers perceive the difference and get rewarded if they are loyal. And everything is now converging into Digital Vodafone, which is our bigger transformation that will lead the company in the next few years.

Let me talk about it, because I think it's very important. First of all, what is Digital Vodafone? Here, I don't pretend to be particularly creative innovative. Like every other company, we want to have the most engaging digital customer experience. Here, we really want to blend the best of our physical assets, which tend to be people or, usually, retail shops, with a digital interaction that is easy, instantaneous but, most importantly, personalised. Three main aspects:

The customer side, which is, in the end, the continuation of our customer experience programme, so building differentiated experience.

The technology aspect, based on data analytics and the use of all digital information to improve and personalise offers, so make the offers more effective with the customers but also more efficient for us to deliver.

And finally, in operation delivery, better allocation of capex, simplifying products and services and platforms to what really delivers the higher return on investment for our money and, of course, automation, as Nick has described, to drive efficiency.

So, Digital Vodafone, it is about costs – and, of course, the cost opportunity is big – but it is also, I think, as importantly, about revenues and about reducing churn. Let me give you a few examples, starting from the digital customer experience. First of all, the marketing: we really want to max out on big data analytics and digital media and capabilities to deliver predictive and personalised offers everywhere throughout the Vodafone Group. This is about ARPU enhancement. The best example is the AI engine that we have in South Africa, which has delivered, with Just 4 You, already 800 million bundles sold now and, of course, allows also much less replicability from the competitors, because offers become one to one.

The second is the sales aspect, and here, really, it's about focusing on digital channels and giving instant to services at a much lower cost. We are selling these days in Italy a product which is called Shake Remix. Now, it's not really a product. It's more than 400 different products that the customer can choose among data options, minute options, SMS options; self-select from the main Vodafone app, which is very instrumental in this; Shake the phone and get it done on the bill, a little bit like the Consumer IoT thing that I was describing before. This is delivering much lower commissions and much better commercial efficiency, but also more effectiveness. Since 4 October, we had activations up 12%.

The third is clearly care through the use of more artificial intelligence and chatbots. In the UK, we introduced it over the summer. It's faster and easier for the customers, so with a higher NPS result, but it's also much cheaper for us. We are already at a point where the chatbot in the UK understands 90% of the time, correctly what the customer request is, and this is just a few months in operation. So, a lot of digitisation will happen on the commercial front.

What about technology and operations? First of all, Nick mentioned smart capex. This is really about deploying based on profitability. In Germany, we use a customer profitability model to increase capex efficiency. Capex are very high – or relatively high in Germany. We want to be sure that they are deployed in the right place. So, this is a financial allocation of capex as opposed to pure technical parameters defining where capex go.

The second aspect is the introduction everywhere in Vodafone of what is called DXL – it's the Digital Experience Layer. This is a layer that you put on top of your legacy systems to avoid having to touch every time the big IT systems – expensive IT systems that we have – and also to give a much faster time to market. We introduced it in the UK first. The example on the slide is Alexa. We developed the Vodafone Alexa skill just in a weekend, so without touching the main systems but working at the layer above. This is going to be introduced everywhere in Vodafone and is a big change in the architecture of our systems to deliver a better digital experience and a lower cost. And again, Johan is here; I think he will be happy to take questions on that.

We are, like many companies, introducing the agile operating model in our units. This is mixing, in essence, commercial and IT people within the units to go to very, very fast delivery cycles. The example on the slide is the UK. From the first idea to the first customer, we developed, in eight months, a full, complete internal MVNO on the youth proposition called VOXI. And again, this is what will power in other markets, which I will not mention here, the other ability to develop second brands and other offers in a very, very quick cycle and inexpensive cycle.

And finally, automation and simplification: Nick mentioned the 22,000 people that work for us in shared-service centres. We have introduced automation everywhere. The improvement in productivity is between four and six times the processes that they replace, so, again, it's speed but it's also cost here that will change completely.

So, what's the ambition for Digital Vodafone? I would say the ambition, first of all, is big but we don't start from nothing. As I said, we already have 60% of penetration of the app in Europe. We have chatbots already everywhere – it's not just in the UK. To give you an example, in Italy, we have already between 500,000 and 600,000 interactions per month which are managed by chatbots. We will increase the number of bots in operation from 100 today to more than 200 by year-end. And we are progressively changing the organisation everywhere. We have four big ambitions here, and these are real numbers.

We want to increase the amount of customer marketing campaigns powered by data analytics from 15% today to 100%. Now, 100% is the future but we have a short-term objective of 25%, which will be sometime next year.

We want to move our digital share mix from around 10% today in terms of channels to more than 40%. This is not just for following the customers; this is also because especially indirect channels have economics which are pretty bad for us and, therefore, going digital will also improve the economics there.

Move the support channel from, today, which is mostly human and a bit digital to mostly digital and very good human in the future.

And introduce customer profitability analytics to drive commercial investment and technical capital allocation from four markets to all markets.

Now, Nick has said that this is a multi-year programme. Of course it is a multi-year programme but the beauty of what we are experiencing in the first year of implementation is that early gains are very quick and very possible, so the ramp-up, especially on the commercial front, will really be in the next 12 to 24 months.

So, before concluding, one final word on the brand. You watched the new videos. We moved the positioning of the Vodafone brand and we did it, after a lot of study and a lot of thinking, from the empowerment space, where we were before, which was 'Power to You', to 'The future is exciting. Ready?' Why did we do it? There are three reasons for this big change.

The first one is really a strategic reason. Empowerment is a great concept but we had evidence that technology in some areas is becoming more complicated and more frightening. We wanted to put Vodafone into the space of inspiring optimism and inviting people to readiness – to be ready for innovation and be the reassuring entity. There's a lot of concerns out there on privacy and security and other things. Vodafone is making big investments there. So far, we have been also good and we are recognised as good in that area. We thought it was a great idea to own that space and put Vodafone into the positive optimism for the future with an invitation to be ready.

The second was, quite frankly, to be much more branded in our communication. We want customer benefits to be clear, as you can see, whether you talk about unified communication on the right, working from home in the middle, deploying fibre or even applying for a job, the customer benefit of being associated with Vodafone has to be very clearly spread, because we want to strengthen our brand consistently with our MVNO, direct channel and digital strategy.

And third, quite frankly, I think our colleagues here did a wonderful job in making it a little bit more modern and a bit more elegant in terms of appearance. And I say, the early acceptance is very good and, again, it's going to reinforce our focus on NPS and customer excellence.

So, to conclude, I think we had a pretty good first half, which I'm pleased about. We continue to have leading customer experience and network quality as our big pillar. We progressed well, market by market, in our smart NGN strategy that we've been describing for many years. Our three growth engines continue to work well: mobile data, fixed/convergence, enterprise. Fit for Growth is delivering cost savings but, most importantly, is also delivering modernisation which is very important for the future of Digital Vodafone. And then Digital Vodafone, we have a big ambition there to generate not just a cost reduction but also incremental revenue. And as a result, we increased the full year guidance at around 10% of organic EBITDA growth and excess of €5 billion for the free cash flow. So, with that, I would conclude and say: the future is exciting. Ready for questions?

Questions and Answers

Vittorio Colao

Here, I need to remind you of two things: one, one question each, please.

Maurice Patrick, Barclays

On the distribution question, you've talked a lot in the presentation about changing the distribution mix and more digital interactions decreasing the impact on indirect channels and so on. Have you seen much change in that so far this year? I see Freenet is still delivering very strong growth in Germany, for example. It feels like, in markets like the UK and Germany, there is still a very strong reliance on the indirect sector, so have you seen much change in that this period and how quickly should we expect to see a change in the coming periods?

Vittorio Colao

We have reduced in Germany our reliance on the indirect channel. As you correctly say, it is still very important and we are not going to take it to zero, of course, but the reality is that the economics of the indirect channel, especially in Germany, are not very good. So, it's not that we are ideologically against working with partners but, if the partners take too much money to do the thing that we can do ourselves, in our own shops or, even better, digitally, over time this is going to be the trend.

I think Germany now is the place where we have – it's less than half but it's still the highest. Then we have Italy, for different reasons – there's a lot of indirect but it's a different type of indirect. It's more a fragmented indirect. And then, in other markets, quite frankly, we have reduced considerably. And I think this is the trend in the market. Sometimes, competitors don't follow, so you have to, a little bit, play, but it's not an ideological position – it's just driven by NPV and return-on-investment considerations, and my sense is it's going to continue with digital.

Simon Weeden, Citi

[Inaudible]

Nick Read

Maybe a way of explaining it is to look at our EBITDA performance – underlying – in the first half, because I think it really sets the story. So, you've got the 9.3% underlying EBITDA growth. That's €600 million. Of the 600, operating-cost reduction in absolute is 100. And then, basically, you've got a 50% split between more-for-more ARPU actions etc – so, Spain is a good example where you saw, this quarter, a full quarter's worth of the pricing action that we took in the previous quarter – and then the other half, I would say, is more [customer] base growth, primarily driven by Fixed but also a contribution from Mobile.

Polo Tang, UBS

Just a bigger-picture question, really, just about EU regulation going forward, because we had some pushback recently from the European Parliament against a move towards to deregulation in return for investment in infrastructure. Separately, we're also seeing a move towards regulation of cable. So, what's your view in terms of how things will evolve ultimately and the impact on Vodafone?

Vittorio Colao

Yes, it's a very good question, Polo, but it will require a separate conference on it. I have here my briefing. I was counting over the weekend, when I was preparing. We have 10 key issues that are being debated, and finding a graphical way to represent who stands for what is almost impossible. You need a multidimensional thing. The reality is that most of the proposals of the Commission, we are in agreement with and we think they are good. There's only one that we have a slightly different opinion. And we think that the balance between competition and investment and protection of customers and protection of financial health of the industry is pretty good at the Commission level.

Parliament is halfway there and we'll know by Q2 next year, probably, where it goes. It's especially on this concept of joint dominance and collective power that we are spending a lot of time – and I'm personally spending a lot of time – explaining to them why they are going in a way which, in our view, is not positive. And the Council – i.e. the countries – are a little bit, depending on the issue, either here or there, and it's sometimes more difficult to get agreement there, because they represent more national interests.

We think that the line of the Commission is the right one and we are supporting the line of the Commission on almost all issues, and I'm moderately optimistic that we will get, out of this process, most of the things right. When I say 'most', I don't expect, for example, on spectrum life, that it's going to be extended as much as we thought, let's say, eight or nine months ago, for example. But on the other topics, I think some balance will be found, and the Commission interprets probably the most pro-industry vision.

Stephen Howard, HSBC

I was just wondering, following on from your announcement of the collaboration with CityFibre, and you've got the Gigabit-investment plan in Germany, just given that you're, therefore, placing bets on FTTP, it's interesting to see in the release that you're also calling out the success of the GigaCube product in Germany. So, I was just wondering: to what extent had you considered fixed-wireless-access solutions as your route to market in places like the UK and more widely in Germany, and why did you wind up rejecting that in favour of going with a more FTTP route? Because that's slightly different from, say, the US carriers.

Vittorio Colao

This is clearly inspired by the continuing saga on US fixed-wireless access as a 5G concept. Let me try to simplify things. First of all, what is the GigaCube? What is the need for, let me say, wireless access that you see in normal situations? It's second homes, it's working in multiple locations, it's having some kind of non-permanent, secondary, location where you need to get high-speed broadband. It has to be in a not super-highly dense area because, if everybody gets that in a super-highly dense area, then you need a lot of spectrum; hence it can be a replacement for fibre but, again, it depends on the place and it depends on the circumstances. So, it's a great product and we will probably roll it out in many more markets but it's not the ultimate solution for highly populated areas. For highly populated areas, at the end of the day, fibre will be the most efficient way and the best way to deliver broadband in the future.

The US 5G story is really a story of not very densely populated areas – places where you can put an antenna on your roof or outside of your window without a big problem – and cabinets that are very close to the neighbourhood which you want to serve, which could work in Europe, somewhere. We are looking at it and, two nights ago or three nights ago, I was discussing with one of the major vendors about this, but it is a very, very specific solution for, say – I don't know – I always say Sardinia or a place where you don't have the density which allows the efficient buildout of fibre.

John Karidis, Numis

I just wanted to ask about India – just some information, please. I just wondered whether you could expand on what's left to be done there in terms of the Idea deal and whether, at this stage, at the end of 2017, you're able to refine a little bit your estimate of when the deal might close.

Vittorio Colao

We had good progress and it was, frankly, quicker than what we thought in certain aspects, but we still have to get DoT approval and we still have to get the court actually approving the merger scheme. So, those are the two most important things. There's still maybe an RBI application for the ownership but that's a relatively minor thing. But those are the two things that are still to be done. We still expect them to happen in 2018. We cannot give you mid-year and then, don't ask me, mid calendar or mid financial because I will play between the two, so I would say somewhere. So, we don't know. I think, last year, we said September '18 or –

Nick Read

Yes, 12 to 18 months.

Vittorio Colao

12 to 18 months. 12 to 18 months lead to September ’18, really, so that’s what is the status today.

Akhil Dattani, JP Morgan

Just a question, I guess, just broadly on fixed-line strategy. Both of you have gone through today some of the interesting deals you’ve announced in the last few months in a number of your markets. Obviously, fixed-line is a big growth tailwind for you as a business. It’s very high return on capital in terms of the new initiatives. So, I just wanted an update in terms of: how are you thinking on the overall build versus buy? It’s always been case by case but does it at all shift the way you’re thinking, given the deals you’ve managed to sign here? And also, I guess, linked to that, it was partly linked to the earlier question of Polo: the joint-dominance debate. Has there been anything new around that and how are you feeling on that, relative to what you told us back at the investor day in Italy?

Vittorio Colao

I can only say that, by definition, the strategy on Fixed has to be country-by-country. It has to be country-by-country because the way it works, because the infrastructures available are different, because the cost of building in certain areas, in Portugal and Spain, is completely different than the cost of building in central London. Even This morning, I read that we might use the sewage system in London, which, by the way, is what they also do in Spain. And in some places, you can put fibre on the poles and, in other places, the poles fall apart – they fall down, if you put them. So, it is so local that it has to be a case-by-case, country-by-country analysis and, sometimes, even with a country, it’s also region by region. Point number one

Point number two, it also depends a lot on the strategy of the incumbents. Incumbents tend to resist and tend to say, ‘I do it but it’s for me only and, if it’s for you, it’s very high price.’ Quite frankly, we have demonstrated, country after country after country, that this is a strategy that eventually leads to more competition, and we are very happy to have that chance to exploit new competition to then realign the prices to a good commercial level. So, it has to be country by country because it depends on the physical constraints and also competitive behaviours that are difficult by country.

What I’m happy with today is that I know that there were, two or three years ago – or three or four years ago, scepticism about the ability to deliver the strategy. It’s actually becoming real and the numbers show it. So, we think that we have been successful without having to invest massive amounts. Now, an M&A opportunity arrives; of course, we will look at it, because, of course, it’s make versus buy, and we will look at what is the time and the return that we can expect from M&A.

On joint dominance, I spent a day in Brussels talking to all the relevant proponents of it. I have to say they have concerns that I don’t share and, most importantly, there needs to be a methodology to define what is the joint-dominance risk. It seems to me that, today, the real problem in most places is to create competition to the usual former monopolist who controls the fibre. So, for me, the idea of creating joint dominance in the moment where Vodafone is bringing more competition to the system – and liberty, also, to be fair – I think would be wrong. So, our position is wait, tell me which problem you’re trying to solve. If there’s no problem, just allow competition to flourish.

Robert Grindle, Deutsche Bank

A point of clarification, first, on the CityFibre question: do you have to book the liability to CityFibre on your balance sheet for that transition? And my question – that was a no, was it? My question is about handset financing. You mentioned that that is increasing. It's offset by better roaming but that's increasing as an effect. Is that a multi-market thing? Is that UK? And what's driving that? Is it iPhone related? Is it people stopping moving to SIM-only, for example?

Nick Read

So, fairly straightforward. CityFibre is a wholesale arrangement, so there's a contractual obligation in terms of minimum commitments but it's not like we are internalising that capex. It's a wholesale arrangement. I would say, in terms of UK handset financing, it's building just through sheer volumes. It's not to do with iPhone at all. If anything, when you look at iPhone volumes this phase, I wouldn't call them particularly strong relative to previous cycles, so I would say this is more to do with demand in the marketplace. As Vittorio said, the UK has been really improving performance, it's commercially on the front foot; therefore, volumes are rising.

Vittorio Colao

Let me take the broader side of your question: is handset financing and instalments a good thing or a bad thing? I do believe that it is intrinsically a good thing because this makes customers think, 'Do I need to change a phone? Do I want to get the new iPhone X?' If they do, great; if they don't, what's the next best thing they can do? 'Maybe I can increase my allowance. Maybe I can put my dog and my car and my whatever on my plan. Maybe I can get a higher' whatever – fibre broadband. So, it separates more clearly a telecom/broadband-connection type of decision from a hardware decision, and the beauty is that this is happening, not by coincidence, when we are investing in customer relationships with the CXX programme, we're investing in network with the Spring programme, and we are trying to digitise the experience as best as we can. This will have a positive impact on commissions, subsidies and, in general, commercial costs, and it's starting to show. It will take time but it's starting to show.

James Ratzer, Newstreet

I had a slightly wider-ranging question about Germany in general. It looks like, relative to expectations, that was one of the ones that beat expectations. Most significantly, it's your biggest market, so I was just wondering if you could talk a bit about how you see that market developing for you over the next six to 12 months. In the past, you've talked about indirect competition being aggressive; maybe you're suggesting that's now a little bit less so. What's happening with United Internet potentially migrating some of the MVNO away? Are you picking up share from O2 Deutschland at the moment on contract adds? It's a broader-reaching question on how you see Germany over the next six to 12 months, please.

Vittorio Colao

James, I'm optimistic on Germany; otherwise, we wouldn't be putting two billion extra money in Germany. I think Germany has a good market structure, and credit goes, if we are honest, to both us and Deutsche. There's two players who are doing fully integrated, in a wise way, convergence. We are serving corporate customers in a, I would say, disciplined way and we clearly are the quality providers of the market. I was comparing last night the pricing levels of Deutsche versus us. We are a little bit cheaper on the service and they are a little bit cheaper on the handsets, so it's hard to really say, but we are clearly competing on quality, we are competing on innovation, we are competing on branding, and we are, I think, competing, as Vodafone, well, as the numbers show.

Then there is another part of the market, which we tend to defend through second brands and other stuff – Otelo and Congstar and other stuff – which is more in the hands of other players. And my assessment is that wholesaling and MVNO-ing your own network in the long term does not strengthen your operation. We have to see what will happen in Italy, which is another market where the number three is playing the same game, and the results don't seem to be particularly good. It doesn't surprise because, when you give away too much your own infrastructure and your own service for a price which is not in line with the market, customers eventually switch.

So, convergence is intelligent. There are richer, higher-end bundles now, including Vodafone Pass. Deutsche includes the – how do they call it – the Binge On German thing, which is fine because, again, it goes in the direction of creating a better experience and then you manage the cost implication of it. And so, I am optimistic about the structure of the market, provided that both us and Deutsche continue to be run in a disciplined way.

Nick Read

I'd just say two builds on that: the Fixed in terms of the quality mix of the gross adds, in terms of higher speeds, 60% are on the 2[00] Mbps product and above, so good mix. And Enterprise was historically very challenging and has improved as a market environment.

Andrew Lee, Goldman Sachs

I just wondered if you could talk about how much of your digital cost savings you think you could get to keep. Are there markets in which everyone else is doing this and you think that the benefits are just going to be pass through to the customer in lower prices, like we've seen in previous cost-cutting examples, or is there a reason why Vodafone is going to be better able to deliver substantial cost savings than its peers in each market? And then, just as an add-on question on that, what can the regulator do to get in the way of the returns-enhancing moves you're making?

Vittorio Colao

Let me take the first – well, probably both. But I give you the answer that I like to believe in because I have to believe in that answer. Digital cost savings come – there's a part that comes anyhow but they come with very deep transformations and very radical changes of organisations and technology infrastructures. I like to believe that Vodafone will do it by – and is doing it by contaminating, in a much quicker and much deeper way, each operating unit. The examples I gave – and here, we have Johan [Group Chief Technology Officer] – we are, again, seen by the partner markets that pay a fee to Vodafone to be part of the club as a source of technology expertise. So, they ask to see Serpil [Group Chief Commercial & Strategy Officer] but they want to see a lot of Johan now, because the introduction of digital layers, because massive MIMO, because smart capex allocation is becoming the name of the game. We have many OpCos. We can learn from Italy, learn from UK and, very quickly, put them. The other day, I was in Hungary. There was a Spanish team learning things. So, we can really do that probably quicker than others. It doesn't mean that we do it better than others. Hopefully, we'll also do it better, but, quicker, we should.

Will this be competed away? That is a revenue question, and my comment related to Germany about Italy is we see number-three players typically giving away more but not necessarily getting much more in terms of financial performance. At least if I compare the recent announcements, I'm not really impressed by what I see, which means that, at some point, there will be a squeeze on them. Different story with the low-cost providers – very low-cost providers – the Masmovil, potentially Iliad in Italy. Those, we need to counter in the market with very focused initiatives, because these guys will come, unfortunately, with good conditions that they got from the others, and so we will need to be very focused, which is why having agility, having the DXL layer is very important, because we need to be able to roll out fast in every market to hammer the new entrants. But this flexibility is what I think will make us a little bit better.

The second part of your question?

Andre Lee

Just how can the regulator stop your gains? Just to your point –

Vittorio Colao

The regulators clearly are signalling that they don't like markets to go to three. As soon as they go to three, they recreate a fourth, so that, to me, is already the answer. The joint dominance is clearly a possible risk that we are fending off but, honestly, the rest which is left is international calls, which is not big for us, at least. It's bigger for the traditional fixed guys. There could be something on contract renewals and these things but there's not a huge amount left, apart from spectrum. Spectrum can be expensive.

David Wright, Bank of America

One question that's spanning two markets but it's essentially the JVs. You've increased the cash distribution – or I should say the JV has – the Netherlands, and that's come with a credit downgrade, I believe, over the last 24 hours. It does feel like you're, clearly, then willing to run a higher gearing, but actually I guess my question is more about India. Since you've announced the deal, you always announced the leverage on the full-year '16 EBITDA, which, clearly, full-year '17, is a very, very different level, so we're talking five times-plus leverage. The MTR decisions arguably – the termination-rate decisions – have probably gone against your expectations, I would have thought. So, what I'm trying to understand is the need for more capital in that business. It feels like you're struggling a little bit on the capex side. Bharti are certainly attacking you and that's a very essential cost of business in India, so what's the potential for that JV needing more capital is ultimately my question.

Nick Read

The answer is it's too early to say because, if you stand back, as Vittorio said in his summary for India, Jio started charging at the start of the fiscal year; July, put prices up; September, put prices up – who knows what happens the next quarter and the next quarter? So, they were putting prices up quite significantly. The last one, at the half-year, was 15-20%, so there were material increases going on. On top of that, we're definitely seeing traffic flow from the value players exiting the market to the other players, and we're taking our reasonable share. So, yes, I understand that MTRs is a drag in the second half, but we've got some fundamentals that are starting to improve. If you cast your memory all the way back to when there was a 14-player price war going on seven-odd years ago, yes, it went down and then it came back very quickly, with price increases.

So, I think, firstly, the market is showing some promise. I'd say, secondly, don't forget 80% of this debt is to the government for spectrum payments, of which they're already talking about rescheduling from 10 years to 16 years, so we'll have to see that re-profiling go on. We're working very hard on the towers, so I think we landed, I think, a good deal for us on the orphan towers. We're now working on the Indus options and we're progressing those.

So, I think the answer is we've still got – who knows – anywhere between nine months, 12 months still left to run to close out the deal. We're being very active and we're aware of needing to have the right capital structure when we go in, but there's a lot happening in the market as well.

You mentioned the Netherlands. What is common to both of these is very sizable synergies, and both of them have a lot of infrastructure. So, if you think about it, India's got its spectrum, big network; in the Netherlands, we already had national cable build, national 4G. So, a lot of the infrastructure is in the ground and, therefore, the synergies have a big leverage effect on both of these, which allowed us to tolerate higher leverage.

Wilton Fry, RBC

A quick one on the scale of the UK in terms of CityFibre and that deal you just announced. Phase one of that is for one million homes passed, with phase two going up to five million. Is that an automatic flow-through from phase one to phase two or are there any certain conditions you need to meet to do that? Secondly, within that, the size of that five million homes passed is determined by the 42 cities that they're currently in. Would you have any aspiration to beyond that, say to the top 100 cities and much more than five million homes, or is that dependent on Openreach's response?

Vittorio Colao

You have the answer. It's very difficult for us to say today where we want to go because, as I said, our strategy is a very iterative strategy. You develop an option, you exploit the option, you see whether you have alternative and you keep going. So, we'll look at the first million. The decision to go to five will depend on how things go. If Openreach insists on saying, 'We need to raise wholesale prices because we need to invest', I think they're creating room in the market for CityFibre – and for others, by the way, because the more they insist on that strategy, the more room there will be for other entrepreneurs to do, Deutsche Glasfaser in Germany or other initiatives of that kind. If Openreach change their stance and they change their conditions, then, of course, it will depend on the levels. So, it's difficult to answer that question. In Fixed, unfortunately, it's not like in Mobile, where you say, 'I do this and I will do it' and, in three years, it's done; you have to change along the way.

Nick Read

All the terms from the one to the five roll.

Nick Delfas, Redburn

It's another difficult-to-answer question, which is about this issue of the lower-priced entities in each market. So, you've got quite a nice structural improvement here with the MNOs consolidating and many of the MVNOs being under pressure, but you still have the MÁSMÓVILs, the Iliads in Italy, the Drillisches. So, what I'm not quite clear on is how you strategise around how much oxygen to give those guys or to allow them or, put another way, how can you be confident that your customers on the main brand are a little bit sloppier than you might like? They might just actually take the price cut at some stage. So, is there anything you can tell us about NPS, about how you strategise about that? Because, very often in telecoms, everything can look good until, suddenly, everyone starts to churn down to the lower price.

Vittorio Colao

I can tell you what we're doing in Spain or in Italy, which are the two markets where we have one live case and one to-be case. First of all, look at the market prices. If you look at the promotions that are available in Italy today – 20 GB - €10; 32 GB - €10 – it's already a market which is incredibly low in terms of opportunities, so the real bottom end of the market is already followed in a very aggressive and very, I would say, promotional way, which does not mean that nothing will happen there but I'm not so sure how much oxygen is really left.

What we did at the higher end of the market, again through advanced IT systems, we analyse customers. We are analysing additions. We analyse the reasons for going. And for example, in Italy, we have covered already more than a million and a half of – sorry, a million, not a million and a half – we will be a million and a half by then – customers that, for analytical reasons, we know that they have some pain points or some reasons, potentially, to go, and then we intervene and we change conditions to those. But we change one by one by one, so it's incredibly sophisticated. You see all these maps and you drill down and you get to Nick and say, 'Nick needs this.'

So, you immunise at the higher end by removing the pain points. You do more convergence, so you offer converged. We launched, in Italy, the one converged product at, I think, a relatively aggressive price, because it's a good price, with mobile and with a Vodafone Pass included. Some of them, you lock them in the family, some of them you give them more, some of them you compete with your thing, and then, eventually, you can also consider other brands or second brands or sub brands, which, again, have to cost nothing. Hence, again, the agility and the importance of having these engines. There's no single answer, I would say. In Spain, Lowi is clearly going after Masmovil because we need to respond.

Nick Delfas

Do you look overall at any market share of SIMs or of revenue that you want to maintain in each market? Because I guess, in Spain, maybe your market share – actually, this quarter might be okay but you've ceded some market share over the last couple of years in Spain, I think.

Vittorio Colao

In Spain, we ceded some market share – us and Telefónica – to the second brands of Orange and MÁSMÓVIL. It's interesting that, if you look at the main brand of Orange, they're not doing particularly well, and this is the problem. When these guys start enabling other guys, you suffer. We are going into this more articulated set of responses everywhere. I don't have a target. I think it's good to – you don't kill anybody in business. You allow everybody to survive but it's good to leave as little oxygen as possible, so that, eventually, sanity has to come back into the market.

Andrew Beale, Arete

Just in terms of a longer-term question around 5G, I guess that's now coming onto your investment horizon. Is there an opportunity, do you think, to get ahead of the curve in 5G and perhaps do some things that either the wireline incumbent might not choose to do or the three or four might not be able to afford to do? Can you achieve some lasting differentiation that way and, if so, can it be done within the existing capex envelope that you have?

Vittorio Colao

The 5G topic is a complicated one because, when people ask me this question, first of all, be assured that we talk to every single possible person everywhere on the planet who knows anything about it, whether this is Chinese people or manufacturers or Americans or whatever – Koreans. Everybody who pretends to be ahead on 5G, somebody in this room – Serpil, Johan, myself, Nick, we are in contact with. So, I think it's hard to see a single strategy to be first because you need to align spectrum, technology and devices.

Probably the area where you will see earlier implementation of 5G will be IoT, maybe in the areas of smart cities, maybe in the areas of industrial IoT, depending on whom you talk to. I don't think that, for consumer, normal use, there will be a particular reason to really rush ahead. What you can do with 4.5G is very good. Now, that does not mean that, for example, in Milan, because of the tender conditions, we are not already experimenting – and I will probably say a few things more in Barcelona in February about it – with very advanced solutions, but I don't believe that, other than segments or pieces of it, it's going to be really worth trying to be first in 2018 or 2019.

A different thing to say how much of 5G we can use to reduce our cost, increase our capacity and go in the monetisation – the right part of my chart, which Johan believes very strongly on and you can talk to Johan after, because that is a serious reduction of cost versus 4.5G. But that's more capacity and cost, really. Augmented reality, maybe, but how long will it take, again? So, I don't think that, for consumer applications, you are talking much earlier than 2020-2021.

Andrew Beale

Is there anything on the pre-planning side where it makes sense to do further densification or other activities?

Vittorio Colao

Of course, it makes sense to have network readiness and it makes sense to get transmission in the high-capacity, high-traffic sites brought up to fibre. We have this target of 95%. We are on the way there. It makes sense, of course, to prepare the platforms that will deliver the services – IoT in particular – earlier, because in any case we are – let me say the reason why we launched Consumer IoT in November '17 is not really for what we're going to do in '18 or '19 but is to prepare a strong platform for the following 10 years. So, all those things, we are doing. So, it's more platforms, it's more enablers, and then, in the meantime, talk to whoever in the world is doing the different pieces, so that we can apply the best one. And we might be first in one city or in one country but I'm not sure I see a generalised consumer early adoption.

Jerry Dellis, Jefferies

I've got a question mainly on Italy, please. In the context of the UK, you described how the joint venture with CityFibre is a logical approach to keeping Openreach's feet to the fire in terms of their pricing strategy and their fibre ambition, and I wondered whether the Vodafone strategy on Italian fibre is similarly open-minded as you think about the potential sources of supply going forward, be it Telecom Italia or Enel.

And then, within the Enel coverage area currently, which is, I suppose, no longer particularly trivial, are you actively switching existing Vodafone fixed-broadband customers across from indirect wholesale access from Telecom Italia onto the new Enel network? Are they are any practical economic constraints to switching customers over quickly?

Vittorio Colao

Let me start from the end of your question. The answer to your question is: yes, we are switching [new] customers and, no, there are no constraints. Actually, it's a contractual obligation that we have with them, and so, whenever the lines are made available to us, we see who is there and we switch.

And then, going back, the answer to your question is: yes. We don't have any ideological resistance to working with any incumbent. And sometimes, if they give us good conditions and they work in a transparent and completely neutral way, we are very happy to work with them. The problem is that most of them, they get there only when there is a real threat, and now there is real threat everywhere. So, if I were the Parliament or the Commission, I would celebrate St Vodafone, because thanks to St Vodafone, there is competition in Italy, in Germany, in Spain, in the UK now, in Portugal, in Greece, in Ireland, and on and on and on. So, it is not an ideological thing; we just want to get good conditions and good prices, so happy to consider.

Do we have one more or we close it here? We close it here.

Closing Remarks

Vittorio Colao

I would like to thank you very much. I would like to reiterate a good half, very solid strategic progress and increased guidance to reflect all of that but, most importantly, the future is exciting. Ready?