Vodafone FY22 Results
Live Q&A

Tuesday, 17th May 2022

By reading these transcripts you agree to be bound by the following conditions. You may not disseminate any of these transcripts, in whole or in part, without the prior consent of Vodafone.

These transcripts contain forward-looking statements, including within the meaning of the US Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties because they relate to future events. These forward-looking statements include, without limitation, statements in relation to the Vodafone Group's financial condition, results of operations and businesses, including guidance on the Vodafone Group's FY23 Adjusted EBITDAaL and Adjusted FCF guidance and certain of the Vodafone Group's plans and objectives. A review of the reasons why actual results may differ from these forward-looking statements can be found by referring to the information contained under "Forward looking statements and other matters" in the Vodafone Group Plc Financial Report for the 12 months ended 31 March 2022. This report can be found on investors.vodafone.com. Except as otherwise stated and as may be required to comply with applicable law and regulations, Vodafone does not intend to update these forward-looking statements and does not undertake any obligation to do so.

These transcripts also contain non-GAAP financial information which the Vodafone Group's management believes is valuable in understanding the performance of the Vodafone Group. However, non-GAAP information is not uniformly defined by all companies and therefore it may not be comparable with similarly titled measures disclosed by other companies, including those in the Vodafone Group's industry. Although these measures are important in the assessment and management of the Vodafone Group's business, they should not be viewed in isolation or as replacements for, but rather as complementary to, the comparable GAAP measures. Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on the Vodafone Group's website.

Information in these transcripts relating to the price at which relevant investments have been bought or sold in the past or the yield on such investments cannot be relied upon as a guide to the future performance of such investments.

FY22 Full Year Results

Nick Read

Chief Executive, Vodafone

Welcome

Good morning, and welcome. Thank you for joining us for our results call. Before we take your questions I thought I would just cover four key points related to our results.

Financial Highlights

Firstly, our financial performance in the year was good, and our results were in line with both the expectations for the year and the medium term financial ambition we set out earlier in this year. We grew revenues both in Europe and Africa, we grew adjusted EBITDAaL by 5%, we grew adjusted free cash flow to €5.4 billion, and delivered a real inflection point in returns with a 170 basis points increase in return on capital to 7.2%, well on the trajectory for returns to be above our weighted cost of capital.

Second, this good performance is a direct result of all the execution we have been doing on our organic strategy. And alongside that long-term strategy, we have very clear operational priorities, which obviously include Germany.

Third, we are not immune to the macro economic challenges in Europe and Africa. But we are very well structured to deal with it. We covered a number of those actions in the presentation that give us confidence in setting our FY23 guidance of €15 to €15.5 billion Adjusted EBITDAaL and maintaining our adjusted free cash flow at around €5.3 billion.

And forth, we remain fully committed to improving returns for shareholders through both a sustainable organic growth strategy, and at the same time, targeted actions to strengthen and simplify our portfolio.

We clearly have a very full agenda. And it’s a tough macroeconomic environment that we face. But both the Board and management feel very sure to drive forward on their plans that we have both organically and for our portfolio.

And on that, let me hand over to questions.

Q&A

Maurice Patrick (Barclays): Maybe if we can start off with the elephant in the room, which is the progress on in-market M&A, or rather the lack of progress. It’s been six months since you have laid out your priorities for mobile consolidation. We haven’t seen the visible progress yet. I mean the slides – you do talk about German fibre and Spain options. But you seem to have missed out on Spanish M&A with Orange and MasMovil turning down Iliad. Is mobile level M&A still the same focus it was in November? Maybe you could update us with your latest thinking on that. And then in the prepared remarks, you did talk about a number of live opportunities. Where generally are we in terms of that progress?

Nick Read: Yeah. Thanks for the question. I would say, first of all, and I want to be in no doubt at all, that the priorities we set out in November on the portfolio are absolutely at the forefront of everything that we are focused and are executing on, both the Board and the management team.

I think maybe it is important just to reflect on the goals that we are trying to achieve with these moves. The first one is that we want to have strong assets in healthy markets that are producing predictable free cash flow growth for us going forward.

Secondly, we want to simplify our portfolio down to assets that are really leveraging our regional scale. Third, we want to make sure that we move Vantage Towers into a co-control situation. Why co-control? We want to take it off-balance sheet, have the right financial and capital structure moving forward for Vantage Towers to make the most growth opportunities in what is still a consolidating sector. And we want to be part of shaping that consolidation.

Obviously in the process we would monetise. And that goes to the fourth point, which is we want to take proceeds from all of the actions that we do to strengthen our balance sheet going forward to ensure that we have more financial flexibility. I think we have done a good job on de-leveraging the Group. We were at 3 times. We are now at 2.7. We are keen to bring it down to the lower end of the range at 2.5. It is one of the priorities we laid out.

To your point of progress, in-market consolidation, we highlighted the markets that we were focused on. We remain focused on all of those markets. We are in active conversations. And we have many conversations taking place, as we speak. I'd say when it comes to towers, we are very much focused on that co-control model with both industrial and financial players. And there is very strong interest and engagement from many players.

Clearly, if we were to ever get to the point where we were finding co-control was going to be an issue, of course, we can always monetise separately. And so therefore, we can, if you like, sequence that if we want to.

And then the final thing is obviously, Egypt. We are going through local clearance in Egypt. We look to complete that transaction by the summer. I mean, clearly, these are sensitive transactions. All I can say at this point is we are actively engaged in many detailed conversations. I can't share blow by blow what is happening for obvious reasons. But for sure, the Board and management are very much focused on it.

Akhil Dattani (JP Morgan): I had a question on Germany, if I could, just to better understand your turnaround plans in the context, obviously, a slightly weak quarter this period. I wondered, firstly, if you could just comment on what you are doing at the moment in Germany? How far you think you are through addressing the issues in that market? And I guess, as we are trying to understand the implications, could you maybe help us understand, is Q4 the trough on KPIs, so will we recover from here? And then how do we think about financials? I guess mechanically, the customer losses will impact financials in the next few quarters. But maybe if you can comment on how and when you feel we will have visibility around the trough here? And maybe just as a bigger picture to this, obviously, there has been CEO change in Germany. Maybe if you could just comment on the choice of your new CEO as well.

Nick Read: Okay, Akhil, really important question on a multipart basis. So maybe, Margherita, you can cover the second part regarding the financial outlook.

Let me first of all address the sort of operational challenges and the progress we are making.

First of all, I would say, before I start, that the financial performance of Germany has been good over the course of the year. I mean very good EBITDAaL progress and growth. And that has been on a multiyear basis. So I think that there has been good progress financially.

I did call out in November that, however, commercial performance was not where we wanted it to be. And this is due to a number of factors. And if I just invest a little bit of time breaking down those factors. So first of all, during the pandemic, we really caught out two things that we observed that caused us commercial issues.

The first was, obviously, we add a huge volume increase in the pandemic on the network. That had a challenge in terms of capacity in some of the clusters. I would say, secondly, our footfall in retail, which is a really important channel for us, was obviously significantly down throughout the pandemic, and has been slow to recover. Germany is running around, I would say, 70% of pre-pandemic levels overall. And there has been more of a shift, I would say, to digital, where I think we could strengthen more going forward.

And on top of those challenges, the third wave, which was in Q3, that we had the new telecom law and the new regulation. So customers were no longer automatically being renewed for 12 months. We had to re-contract with them. We put through these changes into an IT platform with a new set of processes for customer journeys, and frankly, they are cumbersome, and they did not work well on execution.

So if I break down what those issues were.Well, first of all, we had a process during the re-contracting that was an email-based. So the customer had to confirm back via email. That was really clunky in terms of the interaction with the customer. We have now migrated that in the fourth quarter into a voice-based system and that is performing.

I would say the second area was very much one of IT stability. So this was a new system we were implementing with these new rules. We had stability issues. Throughout Q4, we have worked on those issues. A lot of our Group team supported the Germany team to recover the situation. And in April, we are seeing availability of those systems now greater than 99.5%, which is the targeted level, i.e. less than two hours of downtime for maintenance each month.

And then the third thing was that we had very heavy fraud mechanisms and a number of technical releases go at the same time. And that created us a technical backlog. And so we have been working through that technical backlog, and we are about 50% of the way through, and we will finish off all the various releases in the first half of the year.

So I stand back. It is not what we wanted. We are saying that it was very much an operational execution issue in Germany. We've got the remedial actions underway. This is on top of all of the network capacity upgrades we have been doing on our network over the course of the year. And now we believe that we will have resolved any capacity issues on our network by the summer. We have a few clusters left to work on.

So I would say we are very much calling Q4 as the commercial low point in terms of customer losses, and you will see gradual improvement in our commercial KPIs over the course of H1. May be financial?

Margherita Della Valle: On the financial side, different situation from the commercial side. As Nick has just said, commercially, we will see gradual improvement from there. And it is a result of the action as well as the mechanical effect of the put forward of terms generated by the new telco law, which will wind down in the course of the next few quarters.

On the financial side, you have seen the consistency of our growth in Germany so far. We still need to see the KPIs impact going through the financials. And therefore, what you will see in the near term is a further slowdown of the fixed broadband revenue growth. It has slowed down in Q4, and will slow down further going forward.

The point that is worth making in terms of overall financial performance of Germany is that this is one of our growth drivers. But the three other growth drivers that we have in Germany are performing very well. You have seen our mobile service revenue growth. We expect this to continue well. We have seen Vodafone Business accelerating. We are growing more than 3% in Business. Again, this trend will continue.

And then finally, if I move from service revenue to cost, you have seen us calling the achievement of the cost and capex synergy of the Liberty acquisition over two years in advance of the original targets. And we now have further opportunities that will materialise in the coming years to go after. So, three out of four working well.

Nick Read: Akhil, just to your final point, which was on choice of CEO. Well, look, I am delighted to have Philippe join us. Philippe is a strong, inspiring leader. He has strong knowledge both in telco and technology, which I think is increasingly important going forward. He has that commercial agility, so bringing together sales, marketing, brand, products, propositions together for the customer and a great experience, I mean, Microsoft is known for that. And I think that we will benefit from that. And he also knows how to leverage Group efficiencies and scale advantages. So I think that he will have a big impact.

We have also strengthened the wider leadership team in Germany. So it is not a case of waiting for Philippe to come on Board. We are working with Hannes on a very smooth transition. We strengthened the team, we clearly understand the issues, we have got clear plans, and we are in execution, and Philippe will just take that forward.

Andrew Lee (Goldman Sachs): I just wanted to slightly follow-up on Akhil's question and just ask around what your guidance for EBITDAaL implies for service revenue growth across the rest of the Group and particularly Europe? And then just as a side question to that, I wonder if you could talk about what you are factoring in, and what your ambitions are as to your ability to mitigate cost inflation with price rises?

Margherita Della Valle: Sure. On the guidance, let me try and maybe first paint the picture of what is our, I would describe it as, mid case expectation for service revenue growth in Europe and broader EBITDAaL performance.

I would say first, as Nick was mentioning, we are pleased with our consistence service revenue growth so far in FY22. As we look into FY23, there is a degree of macro uncertainty for the industry overall. For us specifically, I think the factors you need to think about in terms of evolution of our services revenue growth are three.

Number one, what we have just discussed with Akhil. We will see service revenue growth slowing down in Germany in the near-term as a result of the weak fixed broadband performance. This will be offset in the UK, where you should expect an ongoing acceleration of service revenue growth. What we have seen in the UK is very strong commercial momentum. We have connected over 0.5 million contract customers in Consumer in the last year, lowest churn on record. And also, of course, from April, we are seeing now the benefits in our revenue growth of the pricing measures around inflation.

And then finally, the third point to keep in mind – also supportive to growth - is the impact the European recovery funds are going to have in Southern Europe. We were explaining a little bit the key elements in the presentation earlier. I would say particularly in Spain we are seeing strong success in the context of the digital toolkit investment allocation from the government. You know that they are putting over €3 billion on SME digitisation. The first half a billion is being distributed now. And we are really punching above our weight in terms of market share of the connection on this. And this is going to support an acceleration of service revenue growth, also in Spain, in the coming quarters.

Net-net, if you take all this at the midpoint of our guidance range, we expect Europe to continue growing in FY23 and, of course, broadening the picture, good growth also in Africa and in the Group as a whole.

On the cost front, as if I moved to EBITDAaL, you have two offsetting elements. On one end, I would argue strong efficiency delivery machine is well set to exceed another €300 million of net opex reduction in Europe with our own initiatives. However, the net is not net anymore because we have exceptional inflation coming the other way, particularly on energy and wage inflation that will compensate for that.

I would say we are not immune from the overall macro pressures, as you can see, but we are resilient, which is why in all scenarios in our guidance we are guiding for growth, on EBITDAaL 2% at the midpoint of the range and another year of return on capital acceleration, which is clearly very important.

You mentioned the role of pricing in all this. I said the pricing will be supportive in the UK. But let me say that we have pricing initiatives going on across the board in Europe. It's really critical at this point in time for the sector. We have said before that we had included CPI+ pricing mechanism in five markets, so UK and Ireland have already gone live in April, and we will see the others following in the rest of the year.

But we have also reviewed all our promotions and discounts across our markets in Europe, and in the markets without CPI+ we are working on the base in different ways. I think a good example of that could be what we are doing in Italy. As we speak, we have done a radical simplification of our back book portfolio and we are in the progress of migrating our customers to the plans which are more suitable for them, which would be both increasing transparency and be ARPU accretive for us in the end. So a range of options, and really critical moment I think in terms of delivering this through for us.

Andrew Lee: Thank you, that is really clean. Just a tiny follow-up. Just when you mentioned at the midpoint you expect European growth. I know you guys do not like dealing in tens of basis points of here or there, so I am presuming when you say European growth at midpoint that is more than 10 or 20 basis points of growth.

Margherita Della Valle: Yes. If that is what you are looking for, yes. I think what is going to have an impact around this midpoint, if I think about the range, overall is going to be a combination of macro. If you want to build the downside case, you think inflation affecting consumption, can't rule out further lockdowns for pandemic reasons. On the positive end, I would like to consider pricing. I think all the actions we are undertaking could have a further push, and also the European Recovery Fund we mentioned earlier. I think the governments are seeing the success, and they could allocate even more funding than they have just done to SME digitisation, which would be positive for us.

James Ratzer (New Street): If possible, can I come back to Germany again? I would just love, if possible, to get an update on your thinking around potential FTTH build-out plans. You mentioned some stuff on this in the presentation. I think in November you talked about two thirds of your homes passed being in housing associations. I think at that stage, you had indicated about a third might be interested, and it seems from the language now you have tightened that up a little bit, talking about specific larger housing associations being interested. So just interested to kind of update on the scope potentially that that JV might include and you talk about attractive business case. Does that imply ARPU uplift here? And you talk about potential for off-footprint expansion. So how large might that be? And I mean, I think if this is smaller in scope now, you are giving a bigger vote of confidence, are you to DOCSIS 4 going forward? So it would be great to get an update on that topic.

Nick Read: Yeah, James, important topic. Maybe I will let Margherita just touch on sort of business case drivers. But let me just talk about a little bit of the engagement with the housing associations. So, as we have said for the last two earnings releases, we have been engaged with the housing associations, really around the conversation of the new regulation coming in, in July '24, which is around the elimination of collective TV billing.

And in that process, we have been sort of expanding on our roadmap of the cable upgrade plan that we plan to do, but in the process, we also asked housing associations, are you interested in fibre-to-the-building as well?

And what I would say is very few so far have said, "I definitely want fibre to the building." I mean, we have not had an overwhelmingly "Yes, I want fibre." We have had many, many more actually say, "Now you have explained the cable upgrade plan. That will suffice for us." And there is a logic to that, because in the end we have a strong network, we have an upgrade path. They like the fact that there is no disturbance to the building or outside of the building for that upgrade path.

However, the majority still, and we have contacted now, what, 8,000 of our largest housing associations, which represents about 20% of the households covered. Still, the majority have yet to make a decision. But what they are doing is they are having a conversation with us. And what is sort of coming out of that conversation is very much you are our natural partner. At some point in the future, I may want to what upgrade my building. I like your upgrade of your cable. That might be absolutely all I need. But there could be the option of going to fibre when I upgrade and refurbish my overall building in the future.

So what I would say is I think there is a very encouraging conversation. So from the conversations and the analysis, what we said is we think that there is an opportunity over and above the upgrade plan we are going to do to our normal cable network, which we talked about highest split going to DOCSIS 4.0 over a period of time. We have said, "Shall we do a targeted JV FTTB build to the scope of about 4 to 7 million households?"

And what we will do is primarily target out MDUs, so the large housing associations and the surrounding area, because obviously it is more efficient for us to do a build of that nature. And what we are engaged with at the moment is a number of players externally that bring two things.

Number one, they bring build capabilities – so they have a build engine that can supplement us in our execution, so that we have velocity and speed of doing that programme. And the second thing is that obviously financing at low affordable cost. And we are doing a JV, because obviously this means that it's completely off-balance sheet from a Vodafone perspective.

So I think we have got a good combination, good overall upgrade path for the 24 million households covered, targeted FTTB build in a JV model. And we have got some very strong potential partners that we are currently engaged with. And we are advancing in those talks as we speak. I do not know if you want to talk about the business drivers.

Margherita Della Valle: Sure. From the financial perspective, clearly our cable roadmap is well integrated into our long range plan organically, off-balance sheet when we have been looking at what could be the best solution for those housing association that may want over the longer term to have fibre. We have concluded that there is a business case essentially built on four elements.

The first one clearly is increased penetration and responding to those customers, but there is also the opportunity to upsell towards higher value services. There is an opportunity to go off footprint. Nick was saying, we will base the rollout around anchor housing associations, but we have then catchment areas around those. And this can be on-footprint but also off-footprint. So that is new demand for us.

And then finally, there are synergies, as you know, with the mobile network as well. All in all, we have concluded on this four to seven size, but the situation will be refined further as we progress with our discussions.

James Ratzer: And one very quick follow-up. With the four million to seven million, how much of that would be new build versus existing households?

Margherita Della Valle: We need to still decide as you can see its range, but definitely there will be a portion of new build in it.

John Karidis (Numis): I just wanted to ask a few questions, short ones, about the United Kingdom specifically. Firstly, when it comes to fibre infrastructure and competitive infrastructure, do you feel that there is likely to be enough competitive infrastructure out there for you to continue to have reasonably well-priced network access? So for example, are you confident that CityFibre has the funding and the expertise to build several more millions of FTTP homes? Secondly, very quickly, can I just confirm that talk about Vodafone acquiring TalkTalk is just not credible? And then thirdly, if you were to consolidate the mobile markets in the United Kingdom, I would love to know why is it that you trust Ofcom to do the right thing – given that earlier this year, they published a think piece, in which they said that in their view, Vodafone UK earned zero return on capital employed since 2017, EE earned 20% and even Three have earned a much higher return on capital than Vodafone UK. Thank you.

Nick Read: Okay, John, let me go through the three components. So first of all, in terms of access to competitive fixed infrastructure. Actually, I really feel that we are in an excellent position where we are growing extremely fast on fixed broadband. We are, if you like, building a base that increasingly is attractive to an infrastructure player to have on board to drive the returns and economics. We have BT that obviously is building at speed. It's a regulated rate. But they are engaging with Ofcom to say "Could we offer larger discounts to encourage more people to come onto our network, like we have contingent type models in Europe?" And I am very much supporting that agenda as well.

You've got Virgin Mobile that said they want to open their network. They are keenly engaged to say "Could they get some anchor tenants?" So CityFibre is building now as well. So I think we have a number of choices. It is a very active market. Pricing is getting keener. And we are seen as an attractive anchor.

I would say secondly, in terms of TalkTalk, look, I think we have made clear what our priorities are. Our priorities are in-market mobile consolidation. And we have a big enough agenda already in other activities. So I think that speaks volumes.

And then third, in terms of in-market consolidation, and let us call Ofcom CMA. I think CMA is clearly an important factor here. I think you have to look back at the US as an example, where T-Mobile did the merger, went down to three players. They increased their investment, and then you saw the other two big players increasing their investment.

So at this time when governments are looking for strong, resilient and secure networks, is it better to have three strong networks that are resilient with scaled industrial players? I think increasingly governments, politicians, regulators are understanding the benefit set of that and the vulnerabilities of fragmentation. And therefore they want to ensure that the digital infrastructure that underpins the country is going to allow global competitiveness.

And therefore I think the agenda has very much and the narrative has very much moved on. Of course, it needs to be supported by the fact pattern, and therefore I am not saying all combinations will be treated the same way. But I think we have an opportunity in the UK.

John Karidis: So, may I follow up very briefly?

Nick Read: Of course.

John Karidis: Thank you. Given that Ofcom is an evidence-based regulator, and they start the conversation by saying that on our calculations, they say, you, Vodafone, have earned nothing, Three has earned more than you, and EE has earned 20% return on capital employed. Doesn't that sort of concern you about how they will approach any deal that you might bring to them over the next few months hopefully?

Nick Read: But John I am not quite understanding your line of argument, because if we have earned nothing in terms of returns and Three is below their weighted cost of capital, therefore, both are in an unsustainable position as subscale players, and therefore a combination would make a stronger player in the marketplace. So I am not disputing that EE has got scale and earns a return. That is a good example of someone that has reached industrial scale in the market. So we have always said local scale matters. And then we add regional scale on top. But you can't make up for sub scale local.

John Karidis: Thank you. I'll leave it at that for now.

Emmett Kelly (Morgan Stanley): So my question please is on the Italian market. If you could maybe just give us a few updated thoughts on what you are seeing in Italy? Clearly the competitive backdrop is still pretty intense there and maybe some emerging macro headwinds. But it looks like your business is quite stable at the moment on the mobile side and improving on fixed line. So could you just say a few words on how you see the outlook in Italy for 2023?

Nick Read: Your home market.

Margherita Della Valle: Sure. I need to say we are pleased with our execution in Italy. You mentioned it, you've seen in the numbers, we have closed the year,in which, despite the competitive environment, we have at the same time increased service revenue market share and delivered stable EBITDAaL once you exclude the exceptional impact of the settlement from a legal perspective.

So, good results achieved by continuing to outperform on both service revenue and EBITDAaL, all the established players in the market.

Just focusing on the outlook from here, our growth has had the benefit of growing wholesale in the past 12 months. This benefit won't recur, and of course the market will remain competitive. But if I think about the puts and takes, we now have the benefit of the European Recovery Fund. You will hear us use these words many times today.

Spain has just allocated half a billion. Italy has allocated €600 million in vouchers for connectivity, so impacting directly the telco operators over the next couple of years, and we are performing very well there. Stepping back I think I would like to call out that in terms of key for our relatively strong performance in Italy, Business is a key factor. You know that it's a third of our service revenue there. And we were gaining market share and performing well even before the European Recovery Fund, particularly through digital, so this will accelerate. And then in the very contested Consumer environment we are also competing well with our dual brand strategy and we are now expanding into FWA.

And then if I move to EBITDAaL, I cannot leave EBITDAaL alone. You know that Italy is considered one of the most efficient operators in the industry in Europe, and we will continue to work on our efficiency levers, digitisation and the like. And that's what has allowed us to deliver stable EBITDAaL as well in this context. So I would say really good performance in Italy at the moment.

Nick Read: Yeah. And maybe just one build on the comment you made in an earlier question regarding sort of pricing and what we are doing with the base within Italy. We are actually doing quite a bold move. So of course you know companies like ours get a lot of legacy built up over time, price plans, etc. – that adds a lot of complexity to the operation. We have a really strong management team under Aldo. And he really said, "Look, we really need to try and find a way of radically simplifying down."

So he did a lot of cohort analysis of customers, price plans, products, services, etc. And what we are doing is a radical simplification by migrating the whole base onto a narrower set of plans. As we execute that through on top of the IT transformation we are doing, we will have a lot cleaner estate moving forward, and I think that will mean that we will be a lot more agile, a lot simpler business and drive further efficiencies, as Margherita said, on top of what is already a very efficient operation. So that execution is going according to business plan. We have been working on it for probably, what, last nine months in terms of the planning and the execution, and we are rolling that through.

If that is successful, which we have got confidence we will see that through, I think there is applications throughout many of our markets in Europe, where we could deploy that methodology going forward. So yeah, it is an example of how we learn as a Group, how we drive synergies and stay commercially relevant in individual markets.

Emmett Kelly: If we just ask a quick follow-up on Italy, you did decline the offer that Iliad made for your business there, I guess, because of the price that was offered. I'm just wondering, are there alternative deals, such as a JV, where you might see merit that you might consider in the future? Because it looks like the market is ripe for repair at some point in the future?

Nick Read: I agree with you. I think there are too many players in that market. Pricing is at an unsustainable level. You are talking currently in mobile for one gig €0.15 on an average usage. And then you look at Iliad's convergence fixed pricing, and you don't make any money on that. So you stand back from that and say things will have to change. People are going to have to force to collaborate, combine, do versions, and we are very pragmatic and open and have been, and we remain actively engaged with players to find better routes to more sustainable returns in that market.

Polo Tang (UBS): I just have one question just about Etisalat. Were you surprised that they took a 9.8% stake? And from your conversations with them, would you think their intentions are for Vodafone?

Nick Read: Well Polo, I got the call on Saturday from Hatem. And he explained that he had taken the 9.8% position. And in that call, it was at pains to go through the rationale, and all the elements of the communication that would be going out. I mean, he really wanted to stress the fact that this was a passive investment, supportive of the Board, management strategy in its execution, that all the things we were doing on portfolio were the things that they believe were the right things to do.

Clearly, we know them, they know us as industry players. And therefore I really think that there is an opportunity to develop commercial collaboration, moving forward. I am sure there is areas in procurement, in R&D, technology that we can do in maybe shared service centres, there is opportunities, and we will explore those opportunities. And look, we look forward to developing a long-term relationship with them.

Nick Delfas (Redburn): Just two questions on hedging. At what point would you decide whether to hedge for H2 – not that I envy you that choice. And secondly, on Turkey. You had about €300 million of op free cash flow in FY 2022. Are you able freely to convert that to euros or sterling at the moment, and do you anticipate any difficulties in FY23?

Nick Read: Both for you.

Margherita Della Valle: Yes, energy. We are at the moment 75% hedged on FY23. And effectively we have always had rolling hedges over time, and we found ourselves pre-Ukraine crisis very well covered, I would say, all the way to December. But of course, hedges rolling off after that.

Since the Ukraine crisis, we have not changed much in terms of coverage, and you are right. It's not an easy decision to make on when and how to intervene. We are monitoring that very closely, but I would say the bulk of our effort now is not going on to the hedging strategy. It's going on to alternative mitigation options. You may have seen us recently announcing a big PPA in the UK with Centrica on solar. We can get really good condition on long-term stable pricing for renewables. And we are stepping this up all across Europe.

And then the second aspect where we are really focused on is the interaction between energy initiatives and the European recovery funds, and whether there can be support for structural energy consumption reductions, and of course, everything that goes together with the general sort of taxes and subsidies around energy. We think this is more important structurally. So that is for the energy side. Clearly, it would be a headwind in this fiscal year, we are sizing it at current pricing at just under €200 million, so materially in our overall equation.

Turkey. Management of Turkey, clearly, always from our side, we look at it in hard currency. You know our principles. You need to grow revenues ahead of inflation and cost below inflation. And we have been pretty successful if you look backwards to – another big case would have been Egypt a few years ago – in ensuring that we come out of the crisis with a better cash flow position than the one we went in.

Turkey has been able to maintain operating free cash flow stable. This year, we do not have particular issues on a technical front to your specific point. But we are really all hands on deck to ensure that, also looking forward, we can drive the strategy I was describing. So if I take just the example of pricing, which is really critical, you will have seen us raising prices in Turkey three times in six months. The last time was March 30%. So very active in ensuring that in the let's say mid-term, we come out on the other side with stronger cash flow generation.

Nick Read: And it's probably worth just noting, of course, it is quite beneficial that the other two major players are government-owned entities, because then they take a view of the overall industry and what is healthy for the overall industry, and I think that has healthy for us.

Nick Delfas: So just to follow up on the hedging. So €200 million is the headwind without Q4. So if you have roughly €200 million a quarter of costs, then it is inflated by 100% for Q4 FY23, that would be in addition to the €200 million? And that is the uncertainty that you have tried to bake into the guidance I suppose.

Margherita Della Valle: Yes. So the central case includes the two hundred. And if you take the forward rates of energy at today, that's the effect you have on the full year.

Nick Delfas: That's the two hundred, okay, understood.

Margherita Della Valle: If prices were to go up further, that's where the range that comes into play or go down, because I think over time you could also see that.

David Wright (Bank of America Merrill Lynch): So it's just a question really on the guidance, and specifically the mid-term guidance that you have reiterated in the presentation. And I guess what would be quite useful is to just understand that the kind of timeline around that because if it was given at full year '21, and say it was a three-year outlook, then you have done 5%. I think the guidance for full year '22 is sort of 2%. So to get back to that kind of mid-single level, you are going to have to do the high-single digit. And even if we were to extend it another year or so, it feels like you need to achieve a high-single digit run rate, especially given some of those hedging pressures are also going to be present be in full year '24. But I guess I am just wondering how you bridge that gap to the high-single-digit EBITDAaL growth? Which is the asset that kind of gets you there? And I you know speak with Germany obviously, a little slower this year, some TV headwinds, etc. So if you could just outline that guidance more specifically?

Margherita Della Valle: Sure. So starting from the logic of our mid-term ambition, starting point FY21, time horizon as we said last year was three to five years, in terms of, what, mid-terms mean, and then we were very clear already last year that it was not meant to be a sort of year by year reference point, but the progression would not necessarily be linear.

In terms of how do we stand against that today and your question on bridging, well, first of all we have just closed the first year in line or exceeding the progression that we have set for ourselves. Growth in Europe and Africa, mid-single-digit EBITDAaL growth. And return on capital, you have seen the big step up that we have had in year one, which was 170 basis points. Clearly, FY23 is likely to be slower if we take the midpoint of the EBITDAaL guidance that we have given, which is around 2% for the reasons we have just discussed, including energy.

However, let me also take the opportunity to flag that if you look at our free cash flow growth, the circa €5.3 billion expected into FY23 is actually underlying representing a 10% increase over the two years. So if you think about the mid-single digit free cash flow growth at the midpoint of our guidance, we are there. Why that is? It's because as we have flagged earlier this morning, we had a deferral of a €200 million payment across '22 and '23 in taxes in Germany. So underlying effectively, we will be moving from €5 billion to €5.5 billion, which is bang on the midpoint of our mid-term ambition.

And then, as we look at return on capital, again, now we are at 7.2% pre-tax guiding for a further increase above that. So I think we are well-positioned to continue in that trajectory.

Nick Delfas: Yeah, but I understand the free cash flow, but how do you get to the high single digit EBITDAaL?

Margherita Della Valle: I think that there is a range of, how can I say, options on how the outlook may turn on EBITDAaL for the years beyond FY23. This year, we have had this impact for example for inflation. You need to assess will that last forever or will at some point, for example, the energy price switch and move into the other direction. I think here we are talking about the mid-term. And we are also talking about ranges.

And therefore, first, we need to see how we close '23? I think we have a range around that already. And then we need to see how it evolves longer term.

Nick Read: And of course, we got pricing, we got EU recovery funds, we got further digital transformation. There is many levers that we have delivered in FY22 that we will be very focused on how to use as well.

Nick Delfas: Can I just sneak a quick one? I was just very intrigued yesterday, I think, as were most investors by this shift from Vantage into this hybrid reseller model in Germany, potentially on the built-to-suit. And I am just wondering was that a push by you guys to kind of keep the foot down on 5G? And essentially, they kind of weren't able to deliver that. So they had to move to the reseller model. Is it sort of Vodafone driven that they have had to slightly shift that strategy?

Nick Read: So it is very much a case of Vodafone has coverage and performance obligations that came with the spectrum. And that's where the 5,500 towers came from, or BTSs came from. What we are already doing was saying to Vantage "Look, you will have the option to go source them up to 1,200, if you need to moving forward." So it is optionality. It is not an obligation. They don't have to do it.

Obviously, it depends on the ease at which they can find locations and do builds. Obviously, you know Germany is notoriously slow as a country to get permits, approvals and build through. It takes nearly two years. The government and ourselves are working to bring that target down but we just want to give them operational flexibility to do it.

So given that was the last question, thank you very much for joining Margherita and myself. We had a good financial year in FY22 with strong growth in many of the parameters, and importantly, return on capital employed. Our guidance points to growth moving forward even with a challenging macroeconomic backdrop. And we are very clear on both our operational priorities and our portfolio priorities remain firmly focused on executing through. So we look forward to updating you in future quarters on our progress. Thank you.

[END OF TRANSCRIPT]