Vodafone Group H1 FY22 Results Live Q&A

Tuesday, 16th November 2021

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H1 FY22 Results

Nick Read

Chief Executive, Vodafone Group

Welcome

Good morning and welcome to our H1 financial results and I am joined with Margherita. You will of course have had the chance to read our results and see the videos on our website. If you have not had the chance, please do so. It gives you a very good, detailed summary of how we are performing.

Key Highlights

Financial performance demonstrates sustainable growth

We are going to go to Q&A but maybe before we do I thought I would cover really four key points. The first is the financial performance in the half demonstrates the sustainable growth engine that we are building at Vodafone. Our results are in line with our expectations for the year and the medium term financial ambition. Service revenue grew 2.8% in the first half. We had EBITDAaL growth of 6.5%. I think importantly return on capital, which is very important to us, moved up 80 basis points to 6.3%. That combination gave us confidence to move up guidance to the upper half of the range for EBITDAaL between €15.2 billion and €15.4 billion and move up our adjusted free cash flow expectation to at least €5.3 billion.

Regaining commercial momentum

Second, we are regaining commercial momentum across our European Consumer business. Obviously, in light of some of the negative pressure that we had given the pandemic over the last 18 months. Importantly we have seen our gross add performance reach about 90% of the pre-pandemic levels that we were experiencing before.

Delivered broad-based growth

Third, we have delivered broad-based growth. We continue to make good progress on our strategic execution but we are obviously always focused on a number of priorities. We single out three operational priorities that we are focused on. The first is strengthening our commercial momentum in Germany. Secondly, accelerating our operational transformation in Spain and third is positioning Vodafone Business to ensure that it really captures the maximum opportunity from the EU recovery funds.

Committed to improve shareholder returns

Then fourth and final point, we are committed to improve shareholder returns through ongoing sustainable growth, alongside targeted portfolio actions. I really think we have done a lot of heavy lifting over the last three years to structure Vodafone to capture value creation moving forward. We see a number of opportunities both medium-term but also near-term in terms of our portfolio.

On that, I will open up for Q&A. I have to say please can we have one question per analyst. I know you love to do these three-part questions but we want to make sure we get through everyone. Thank you.

Q&A

Polo Tang (UBS): Hi, thanks for taking the question. I have one question. Can you maybe just talk about the trajectory of service revenue growth into the second half? Specifically, are there any headwinds or tailwinds to call out? Can you maybe talk about what you are seeing in terms of commercial trends and competitor dynamics for the different European markets? Thanks.

Margherita Della Valle (Chief Financial Officer, Vodafone Group): One question but quite broad. I will start on the trends. In terms of what we see for the coming quarters, I would say probably a couple of more technical headwinds to keep in mind. In particular, as we move into Q3 we are now lapping a price increase we did last year in November in Spain. Then as we get into Q4 we will have further MTR reductions. We are on a new glide path from the EU. We had MTR reductions dragging this quarter. They will roughly double in Q4 but of course as we are talking about MTRs this will not have any impact in terms of EBITDAaL and cash. On the other hand a couple of tailwinds. We still have some benefits in Italy from the recent MVNO migrations into Q3. Then you have seen our commercial momentum reaccelerating and that will also obviously flow into the service revenue performance.

Admittedly these puts and takes are all relatively small if you think about it in the near-term. As we move into the next financial years it is important to talk about two aspects. In Consumer we should start to see some support from the new pricing models that we are embedding into European contracts. We discussed the CPI+ investment-linked pricing. That is on one hand and on Business, as Nick was mentioning, we will start to really see the European recovery fund coming into its own in terms of support to Business demand. Generally speaking I would say on the service revenue front we are well on track with our mid-term guidance of sustainable growth in Europe as well as in Africa.

Then I focused on revenues because that was the angle of your question but before moving maybe to the commercial trends in the markets, let me also re-emphasise the points that Nick was making earlier on the financial performance more broadly. We are also pleased to be already on track with the mid-single-digit EBITDAaL growth and having had the chance to bring both our EBITDAaL margin and our return on capital today after six months ahead of where we were pre-pandemic. I would say good financial progression overall.

Nick Read: Polo, maybe if I could just do a build, stepping up a level rather than getting down into quarters, why do I think Vodafone is uniquely placed to drive sustainable growth in a sector that frankly has been flat to declining? I really think we have a structural advantage and it really is in three elements. European Consumer and Margherita has touched on a number of these, we are the challenger in fixed and convergence. We see that as a growth engine for us. We also see that we have got opportunities in wholesale and we are driving device lifecycle management, which I think will become more of a service going forward. How do you finance handsets and devices, insurance, etc? We are really ramping up the science behind that and you are seeing a little bit of that execution in the UK for us. That is why we are doing so well with the iPhone where we are having a disproportionate market share gain versus our natural share gain, and of course the CPI. If you just take Vodafone business, 30% of our business, we have a really good digital services roadmap. That is growing at double-digit growth rates and we have the EU recovery funds flowing into that. We should see that as an accelerator.

Then of course Vodacom continues to do very strongly. We are obviously moving Egypt into Vodacom as well, which is also strongly performing. We have obviously financial services which I really think is a standout opportunity within Africa. You have seen what we are doing with M-Pesa, VodaPay. Financial services for Vodacom is growing at over 20%. You take a number of these structural aspects that maybe are a little bit different from maybe some of our traditional competitors. As a result of that we are taking market share in UK. We are taking market share in Italy. We are holding in Spain. A slight loss in Germany because of that pandemic lockdown. A really good performance across Africa. A really good performance across other Europe. We have got good momentum.

Polo Tang: Thanks.

Akhil Dattani (JP Morgan): Hi, morning Nick, morning Margherita. I have got a question around Vantage Towers. You have outlined two key messages today. One is around eventually de-consolidating the business. I would love to understand the thoughts behind that. Is that about a view that the asset is not being fully reflected in your price or is it a bit more strategic? The second piece to that is you have also talked about an industrial deal with co-control. Is it fair to say an industrial deal would be with another telco? I guess there are only two major partners out there that you are big enough to drive co-control. If you do a deal like that, is that about scale? Is it synergies or is it something else? If you could elaborate on that please? Thanks a lot.

Nick Read: What I would say is I think we made a good early decision about separating out our towers and forming Vantage Towers ahead of the 5G cycle. The first priority is capture organic growth. They went out with a result. They are showing progress on that. We want to drive higher utilisation of our assets. They are adding new tenancies and growing well. I think there are further opportunities to come in that direction. The second aspect is I really see bolt-on acquisition opportunities whether in-market to drive more synergies or whether that is move footprint. I really think that they have a good pipeline of opportunity ahead of them. Then the third aspect for us is to say, 'Actually, I think there is an opportunity to do an industrial merger,' as you say. An industrial merger has maybe three aspects to it. First of all, yes, there are synergies to be had and they can vary depending on maybe who the partner is. I would say the second aspect is it can widen out your footprint so that you are covering more territories, more opportunities going forward. Then the third thing for me is the deconsolidation because though we are not holding back Vantage Towers at all, you would go on a couple more years and we would not want any balance sheet constraint for Vantage Towers. It can optimise its capital structure once deconsolidated and we would want co-control with a like-minded industrial player. You highlight two players. Yes, there is Orange with TOTEM. There is Deutsche. These are two really credible, really high quality operators that we have a very strong relationship with. Of course they are opportunities. Of course we do not discount others. However, importantly we want to really look at the landscape and shape the landscape across Europe now. We did all the hard work to do the separation with a view to really move at pace to shape the landscape. It will consolidate. There will probably be three large players across Europe. We are definitely going to be one of those players to capture that 5G opportunity coming through.

Akhil Dattani: Thank you.

James Ratzer (New Street Research): Great, good morning Nick and Margherita. Can you hear me okay?

Nick Read: Yes, morning.

Margherita Della Valle: Hello.

Nick Read: It is actually sunny where you are.

James Ratzer: Yes, for the time being exactly. Let us hope it stays that way. A question please regarding your potential network upgrade plans, in particular in Germany. It is an area we have a lot of discussions with investors on. Nick, thank you for the materials and the presentation you gave. I heard some of the comments you had there. It would be great to explore those in a little bit more detail, in particular around comments upgrading to fibre in Germany. You suggested that you might now look at some opportunities with MDUs with a new business model. How big of an opportunity could that be? How much footprint would that be? You talked a bit about wholesale. Again I am intrigued what new opportunities then might be in Germany with wholesale? You hinted at off balance sheet financing, I think, for the first time. I would be interested to hear what you see as the benefits from that? Is that something that is potentially to keep capex at current levels, if there is any incremental investment? I would love to hear more thoughts and commentary around all those initiatives. Thank you.

Nick Read: Yes James this is an important subject to us and we invest a lot of time in terms of how we are going to evolve our networks generally and Germany in particular. Every network, especially every fixed network, is very different country to country in terms of the model. You cannot read across just because there is a trend in one particular market, that that is going to happen in another. If we go to Germany specifically, what I would say is look at Germany as in two parts. You have got our off-cable footprint area and in that area we encourage fibre-to-the-home builds. That can be us as an anchor wholesale tenant. Obviously bringing a Vodafone brand to a build and committing volumes is very attractive to investors. We could be part of consortiums and make investments in that infrastructure if we think the returns are attractive and if it is targeted in the right way. We remain very actively engaged in options in the off-cable footprint. Then you go on-cable footprint so in other words our 25 million homes.

What I would say is it breaks then again into two areas. You have got the housing associations which is two thirds, let us call it, of our cable customer base and then you have got one third which is single dwelling units. We have been going through obviously an upgrade cycle on our network that we are very committed to and we are very excited about. We have obviously been very quick as part of the integration to prioritise the upgrade to 1GB speeds so we are now at 23 million households. Just to make sure that everyone understands, when we are upgrading and adding capacity we are effectively taking fibre closer and closer to every home, every housing association as we do node splitting. That is just what we do generally which is why it is a hybrid fibre network. Fibre is getting increasingly deeper. We have been doing that execution. We have been increasing the amount of node splitting we have been doing through the country and then next year we start the cycle of high split. High split starts to provide you with 1Gb upstream capability as well as increasing downstream to 3Gb speeds. Frankly as a customer you do not need anything more than that and so therefore it gives us a really good runway of capability moving forward. Then of course further out you have got DOCSIS 4.0 etc.

I think we have got a very good roadmap of upgrading our capability, clearly as part of the new regulation around TV which comes in at 2024. In other words, rather than bulk contracts you go into single contracts.

We have been going through an engagement with those housing associations and we have had an engagement, let us say, of about half of them. In that engagement it has been really interesting because that engagement has really fallen into, I would say, three buckets of reaction because what we have been doing is explaining the roadmap for TV but we have also been explaining the roadmap for our cable upgrade. What we have found is there is bucket number one which is that housing associations are saying they could be interested, not definitely but could be interested in fibre-to-the-building but one of the things they have specifically said is, 'We are not interested in taking fibre through the building. We would only do that through the natural refurbishment upgrade of the building,' which is every, let us call it, five, ten years. They do not want disruption in the building but they quite like the idea that maybe fibre goes to the basement. Of course, connecting fibre to your cable network we are excellently placed to be able to do that as the natural partner.

Then I would say that second bucket of housing associations are ones where they have said, 'I really like the upgrade path. It seems to provide everything we need. Thank you very much.' Then the third bucket are, 'Do you know what? This is not even on my roadmap or thought process at the moment. I do not consider it a priority. No one is talking about the need for any upgrade.' I would say these are the three buckets. We have to continue to engage with the housing associations and just get an idea of demand as we move forward. I see this as something that evolves. It is not a rush. It is just something that we need to engage, understand demand and then obviously as we understand more we can come back and give you more colour. I do not know if you want to talk a bit more about capex.

Margherita Della Valle: Sure. From a funding perspective our capex envelope within the mid-term guidance does not include any fibre investment as such. I am talking about FTTH or FTTB. Our capex envelope includes the natural upgrade cycle of the cable network that Nick was just describing. Gradually fibrising the network as we had capacity and following the natural technology evolution of cable. That is what is in our mid-term guidance. As we have these conversations it is possible that fibre-to-the-building business cases become attractive in certain circumstances. From that perspective, as you were mentioning earlier, we see also the possibility of infrastructure investment through JV being attracted to the opportunity. We see this a lot at the moment across Europe. Clearly Vodafone could be considered a very interesting partner for infrastructure capital for these types of builds.

Being absolutely clear if these business cases were to become material at scale you should not expect us to use our balance sheet to fund this. However, it is really early days and frankly today we are really focused on effectively marketing our current 23 million Gigabit households. The cable evolution is giving us options as we have just discussed. If something was to change then we would update you on it but that is our focus at the moment.

James Ratzer: Okay, thank you, really appreciate that.

David Wright (Bank of America Merrill Lynch): Okay guys, hopefully you can see and hear me. It is nice to be on video instead of that picture from I think it was 2005. I am going to ask a slightly different question. I always get very nervous Nick when anyone says 'that is all

the speed you need' but I am going to stay away from the fibre questions for now. The other thing you have mentioned in your presentation is the potential for pursuing strategic in-market consolidation. I guess the question there is, could you also consider that off balance sheet or for instance, do you, when you look at the actual ServiceCo is it a priority for you to keep the ServiceCo consolidated or could you actually consider an off balance sheet solution in an in-market consolidation opportunity? Thank you.

Nick Read: David I think we have demonstrated that we have always been pragmatic when it comes to in-market consolidation because ultimately the most important thing is you unlock the synergy, you unlock the scale required. I think we demonstrated that in the Netherlands. We have demonstrated that in Australia. We are always pragmatic. You could say we have been here before on in-market consolidation as a topic. Why are we dialling in to this? It is really important to understand we have just been through a pandemic. In that pandemic the engagement I have had with governments, with regulators has been super-high compared to ever before. In terms of them really saying, 'Thank you Vodafone for being there for us, helping society remain connected,' of course our peers were doing that as well. The sector was more appreciated, I would say.

However, at the same time they are really understanding that we are critical national infrastructure. For them to truly compete on a global basis by market they know that they need inward investment in next generation technology. Whether it is the upgrades we were talking about on our fixed or 5G they want to see that as fast as possible. In that conversation I would say what holds back investment is the return on capital within some of these markets. We need to accelerate return on capital to an acceptable level and then inward investment would come into the sector.

When you start to have that conversation they say, 'Well, what are the levers that you need to see improved?' I said, 'There are four.' There was spectrum and we have seen significant progress in spectrum recently, whether it is Spain, Greece, UK. Taxes. We are seeing taxes come down on the industry so you are seeing that in Spain again. Or whether it is network sharing and deployment. I can go through lots of examples. I will not do it now unless you want me to. Lots of examples of progress being made but the fourth topic is consolidation. What I point to is America sits there with three scale players on average with 95 million customers each. China, three players at scale, 400 million customers each. India, three players. Netherlands, three players. But some of our markets in southern Europe are at 5+ players.

What I am saying, and this is why return on capital is so low, what we need to do is consolidate going forward without punitive remedies. I think that there is a real understanding now of returns. The importance of returns linked to investment, which is what they want from a policy perspective. Therefore I think there is more openness to engage on the topic of consolidation.

David Wright: It feels like the regulator is never going to say, 'Hey guys, come on, the doors are open, go do your best.' You are going to have to provoke the regulation of that. It is going to need a brave telco to say, 'Okay, we want to do this. We want to go four to three,' whatever it might be. You are going to have to provoke that reaction, if that makes sense.

Nick Read: We are a brave telco. We are going out there with a very strong message because I think the climate is there to have a real conversation, an honest conversation with

governments, regulators and the European Commission. I think that there are other players suffering out there. Let us face it, the market cap of the whole sector is down. I think that there are a number of players that would say we would like to find a solution to drive shareholder value. Of course, I can say we are pragmatic. I can say we are reasonable. I need the other side to be pragmatic and reasonable. That means reasonable on valuations, etc to try and unlock the synergies and the potential going forward. We will actively engage on that basis.

David Wright: Thank you very much, guys.

Andrew Lee (Goldman Sachs): Morning Nick and Margherita. I had a question on operational gearing. You obviously delivered 30 basis points of European organic service revenue growth and 1% of German organic service revenue growth. However, you delivered 5% of underlying European EBITDAaL growth ex the Italian one-off and 7%+ of German EBITDAaL growth. I know there are some German synergies in there but I wonder if you can talk us through the steps between revenue and EBITDAaL growth and how sustainable this seemingly high and attractive operational gearing is. Thank you.

Margherita Della Valle: If I maybe start from the end, Andrew. In terms of sustainability you know that have consistently delivered pre-pandemic margin expansion and significant operational leverage. You have seen that our mid-term guidance, which is effectively predicated upon exactly the same type of equation going forward. As you point out we have already started delivering this in the first half of this fiscal year. In terms of moving parts between revenues and costs this is a little bit of a special year because we are lapping the COVID crisis of last year. There are a number of moving parts that affect half one that will look different in terms of how the second half of the year will look. If I try to paint a little bit the picture for you of how this translates clearly in half one we had the benefit of higher revenue growth, good margin revenue growth because we were lapping the COVID crisis last year in Q1. We called out there were a number of one-offs so this was supportive to service revenue growth. We also had a roaming tailwind that, to be fair, will last for years to come but stronger in half one because of the roaming seasonality. Then we had the benefit of the Italian settlement in the numbers which is €100 million of effectively straight EBITDAaL with obviously no revenue implication.

As we move forward, what you will see in half two is you will not have the same push in terms of revenue growth and roaming margin in particular. You will not have the recurrence of the settlement which of course was a one-off. On the other hand what you will start seeing playing through in the second half is our operating cost reductions. You have seen that in half one we have not had any incremental opex reduction year-on-year. This is because last year clearly we intervened very quickly on cost as COVID struck and we had a big step down of €300 million in half one. Some of this has reversed actually this year because we have spent more clearly than last year in things like advertising, sales and the like. We are well on course to deliver our target of over €200 million opex reductions for the full year but this is now going to be all geared towards the second half. A different make in terms of revenues and cost element but still starting from your earlier point good operational leverage to continue into the second half and into the future year according to the guidance.

I think you have seen our EBITDAaL growth profile implicit in the guidance we have just restated this morning and so you will have seen that we will continue with good EBITDAaL growth into

the second half and again beyond according to our mid-term ambitions. Operational leverage will continue to be a significant feature.

Andrew Lee: Thank you.

Sam McHugh (Exane): Morning everyone. I wanted to follow up on the M&A stuff if I can, please. I think Nick you called out the UK in the press at the weekend. Given you have all implemented CPI+ price increases to a degree you have all reintroduced roaming charges in the space of about a month of each other. The industry still has 10-20% free cash flow margins. In that context how do you convince the competition authorities that you need consolidation with no remedies when you have got such tight oligopolistic characteristics? Is there anything in the discussions you have had that would suggest that they would be more open with that kind of market structure? Thanks very much.

Nick Read: Sam, I feel very strongly against the oligopolistic comment. I think it is a super-competitive environment and remains a super-competitive environment. You have got some massive brands, BT, EE, Virgin, O2, Sky, ourselves, TalkTalk, 3. That is a big market of players. In the end what is really important is that you have to have scale locally and then we have the additional benefit of scale on a regional basis. I think if we can bring the two together we earn decent returns and those returns mean that we can continue to invest and provide the infrastructure that governments are looking for. The case is clear. Returns are below market WACC in the UK and therefore need to improve. Therefore they understand that and I think that they understand there is enough competition even if there were one or two players less in the marketplace. I do not think it is a difficult narrative.

Sam McHugh: Thank you Nick.

Emmet Kelly (Morgan Stanley): I have a question please on Vantage Towers just as a follow-up on Akhil's question earlier on. If I look at the statement that you made on the presentation you talked about monetisation over time. Could you maybe just say a few words about how we should think about that monetisation? How that might manifest itself and also maybe some of the lessons that you learned from the Verizon Wireless asset sale back in 2014 in terms of how that monetisation happened and how that as for shareholders and for the Group? Thank you.

Nick Read: In terms of Vantage Towers itself I think we are really well placed at this moment in time to really explore an industrial merger and that is our preference. Through an industrial merger of course you always equalise size with co-control. Obviously if we start at 82% there is a monetisation opportunity because we can bring down our stake, equalise with someone else and still have co-control of Vantage Towers. We did something similar if you remember in INWIT with TI in Italy. Imagine that sort of model is an opportunity for us. Of course, an industrial merger might not happen and in that case we do have the ability at 82% to bring down our stake further. We would obviously want to stay in control of Vantage Towers for a moment in time and we can bring a degree of monetisation. We would definitely do some. We have a lot of interest from strategics. We have a lot of interest from infra funds. The demand is definitely there. It is just us sequencing the right actions and we have an order of priority of what we would really ideally like to do.

Of course, proceeds of, that we receive in if you are comparing with a Verizon experience and our focus by far, number one is deleveraging. We would use those proceeds to de-lever. We

always said that from a capital prioritisation perspective, number one we want to invest in our networks and growth platforms. We went out in May. We told you where we wanted to invest so you all know where we are investing. The second is deleveraging and then the third is return to shareholders.

Emmet Kelly: Super, very clear, thank you so much.

Georgios Ierodiaconou (Citigroup): Good morning, thank you for taking my question. It is also on Vantage. I wanted to maybe hear from you what your plans will be medium-term in an ideal scenario on the structure of the asset. You highlight on slide six that you have a lot of radios that are now being run by Vodafone. There is obviously cloud capabilities and other things that perhaps belong more to Vantage than the Vodafone Group. I am curious to understand from your perspective in the event of deconsolidation whether you see more opportunities for those kind of predictable investments to be done on your behalf by Vantage instead of the communication operation itself. If I could just ask a clarification on some of your previous comments on whether any consolidation you see there is a preference between in-market and footprint expansion? I guess you could get both but what would be your preference in seeking a partner for Vantage? Thank you.

Nick Read: What I would say, unless I have misunderstood the first part of the question, Vantage Towers is about passive infrastructure. It does not own the radio. We own the radio of our equipment. We have no plans to change that model. One of the things Vantage Towers could do is obviously fibre-to-the-site. Previously we would have done fibre to the site. They could obviously do fibre-to-the-site. We would be open to those types of opportunities. Of course you have got small cells and other types of models that Vantage Towers would be open to going forward that maybe we might have done in the past and now Vantage Towers can do. I think there is a number of things that we could explore with Vantage. It is another reason why co-control with another industrial partner we think is a good long-term model for us, for all of these reasons.

I would say in terms of the right partner I think it is finding a partner that shares your vision of what the growth opportunity is for Vantage Towers going forward. It might be a partner that has in-market synergies, in which case that is great but I think what is more important is do we share the same vision of the opportunity and the expansion opportunity? We believe in growth. We think there is a lot of value to be created through Vantage Towers and we want that exposure to that growth. I think the most important thing is shared vision and then secondly, fine, if it brings new markets then as we develop new platforms and new opportunities for Vantage of course you have a bigger geographical platform on which to do it.

Georgios Ierodiaconou: Thank you.

Stan Noel (Bernstein): I have got a question about Germany. This quarter you did a large number of convergent customers. I think it is more than 300,000 net adds in Q2, that is probably six to ten times more than in any quarter over the past couple of years. What specific commercial activities have been driving these numbers? What level of discounts are these new convergent customers getting?

Margherita Della Valle: Just a telegraphic answer. No discounts, and what we are doing is simply adding benefits to the customers who have bought fixed and mobile with us. It is additional traffic that they can enjoy. Of course, we are protecting the ARPU without any

discount. A classic, I would say, of the convergence playbook. You will see further growth in the coming quarters. We are taking the opportunity of the post-pandemic normalisation of the market to really drive convergence now at scale, again, without discounting.

Maurice Patrick (Barclays): Just a question about the level of your ambition in UK broadband. I noticed you only have added 22,000 net adds in the quarter despite being a challenger, but you have announced a deal with CityFibre and Openreach to extend your fibre reach. I believe in the analyst call at the weekend you talked about maybe a desire to co-finance or co-invest or invest in fibre with Virgin Media. Maybe a few thoughts in terms of your level of ambition to actually invest in UK fibre infrastructure despite the plethora of networks out there? Maybe sort of linked to that, do you have plans to accelerate your broadband net adds in the quarters and years to come?

Nick Read: What I would say is I think there is a little bit of a phenomena where the pandemic happened, accelerated a lot of people making choices on their fixed broadband. There maybe a degree of, if you like, pull forward of activity. Therefore, as we have come out of the immediate pandemic, you are seeing a lower switcher market. In the UK, specifically, it is down about 15% from what it was before.

I would say generally when we look at the statistics around our gross add performance, our market share is where it was before. We are pleased with the gross adds. It is just slightly smaller market at the moment. I do not know if that is temporary and then starts to expand again.

I think you are right to say, I am very pleased we have leveraged the wholesale market and have struck a deal with Openreach and also CityFibre. Now we have available the largest footprint of fibre-to-the-home in the UK. We are more than happy to add to that in terms of other people if they were happy to wholesale. If Virgin wanted the wholesale and the terms were attractive enough for us to some volume on them, then clearly we would do that.

We are always open, as I have said before, about Germany. If there is opportunity of fibre builds, that have good economic return for our shareholders, of course, we will think about it. If I look at the UK, though, I think there is quite a lot of infra fund money coming in very cheaply, and therefore whether our equity is really required, I would question-mark.

Now, what people are really attracted to is having the Vodafone as an anchor tenant to some of these builds to ensure they are protecting the IRR. That is an opportunity for us. Of course, what we want is multiple opportunities, and therefore, we get the right economic terms so that we can drive convergence in the market.

At the moment, we are really pleased. I mean, if you take the UK performance, we are taking revenue market share, both on consumer and enterprise, excellent iPhone launch, great proposition in 'Flex', if you have not seen it; very, very creative, something that we really think has many benefits, including increase in the tenure of customers on our contracts.

Margherita Della Valle: If I may add one point, you have seen us presenting the latest edition of the usual industry benchmarking that we share in the UK position on relative efficiencies now one of the top three operators across the whole of Europe. We have two operators in the top three now. One is Italy and the other is the UK. They have done a fantastic job on efficiency in the last couple of years.

Nick Read: However, Ahmed *[Essam]*, your budget will still be challenging!

Nick Delfas (Redburn): Just a quick question on M&A again. You talked about bolt-ons or mergers. You talked about off-balance sheet joint ventures. Could you just specify relatively large deal for quarter three, are we definitely talking merger; are we talking acquisition possibly running in the multiple billions? If you could just clarify that.

Nick Read: I think I would sense to look at merger opportunities of different varieties because merger opportunities takes away some of the complexities of relative valuations, synergies, etc. You tend to get more focus on the size of the price, if you like, the synergies and building a stronger business, does not always have to mean it is a 50-50. It is combinations. As I say, we are pragmatic.

Nick Delfas: In terms of overall M&A war chest, if you like, for bolt-ons, what kind of size are we talking about within your deleverage plans?

Nick Read: Now, do not get carried away. So let me give you an example of what bolt-on could be. IoT is small business that gives us capability that maybe would take us two years to build ourselves, accelerates the ability. I will use the IoT as an example is we are globally number one on connectivity, 136 million devices connected growing at two million a month. Really strong connectivity platform that we want to scale.

However, then what we want to do is develop end-to-end services by sector. Automotive, we are already strong. Insurance, we are strong. Health, we are strong. We want to build capability. Sometimes there is a small player out there that gives us capability in a sector that then we build onto our platform and suddenly we get, if you like, a turbo charge position. It is those type of things that we would be talking about.

Margherita Della Valle: Just to add that, this is happening obviously within a context for capital allocation, whereas Nick was reminding earlier, our number one priority is to continue to progress on deleveraging. You know that we are not yet at the bottom end of our desired leverage range, and therefore that remains top of mind.

Adam Fox-Rumley (HSBC): I had a question on Spanish restructuring and some of the wider implications. The Spanish restructuring that you referred to, I think, is mostly within the commercial channels and it was interesting to also hear Margherita's comments in the prepared presentation around the structural changes in which the stores are being used post-COVID. I was wondering if kind of in combination that changes your view on the European store footprint? In particular, the primacy of or otherwise of owned versus third-party channels. I seem to recall that the Spanish closing was reported as being more owned stores, but those are usually held up as the ones that operators are more interested in keeping. So any comments around that would be helpful.

Nick Read: Let me maybe say a few comments and then if there is something specific. Look, when we are looking at our channels, clearly our starting point is digital. Our app and then obviously our online channels, etc. We want to make the very best digital experience; that is number one.

Then what we do is on the retail estate, we are constantly modelling through big data analytics how an online execution is complemented with retail. What I mean by that is store sizes change, locations change. There could be express kiosks rather than standard format. We are

constantly evolving the retail estate. Over the last three years, we have reduced the estate by 15% but we are also reconfiguring the estate so it is more effective. We are not really losing volume when we do that.

Then when we look at other channels like Spain, as an example, there can be other, let us say, door-to-door or other types of channel, push channels that are more supportive of fixed broadband penetration or convergence penetration. We look at obviously customer lifetime value. We look at paybacks by channel, optimise depending on the need of the market. That is what we have been doing in Spain, more digital, optimising retail, maybe widening some specific channels for commercial performance.

Then what we also did in Spain was introduce Lowi, our second brand into our retail estate, which has seen an increase in footfall within our stores and conversion both on Lowi but also on the Vodafone brand as well. We have seen a good performance off the back of that.

Margherita Della Valle: Nothing specific.

Nick Read: Sorry, Adam, did I answer everything you wanted on that?

Adam Fox-Rumley: Yeah.

Nick Read: On behalf of Margherita and myself, thank you very much for taking the time to join us. Hopefully, you have seen in the H1 results that we have very much demonstrated sustained growth and driving shareholder value in the structure that Vodafone has. We look forward to seeing everyone on the road show or at the next event. Take care.

[END OF TRANSCRIPT]