Vodafone Q3 FY22 Trading Update Live Q&A

Wednesday, 2nd February 2022

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Vodafone Q3 FY22 Trading Update

Nick Read

Chief Executive, Vodafone

Welcome

Good morning and welcome to our Q3 trading update. Margherita and I will be very pleased to take your questions but what I thought I would do is a very, very short key highlights of the results that we have announced today.

Key Highlights

Financial performance

First we delivered a good financial performance, maintaining our strong top line momentum, growing service revenue at 2.7% and continuing to grow across all of our customer segments. In Europe we grew at half a per cent with Germany producing a consistent performance at 1%. Trends across the rest of Europe were pretty consistent. I think what I point out is that this was a particularly good performance given this time last year was a stronger trading performance so a tougher comparative when you take a two-year perspective. In Africa trends in South Africa re-accelerated mainly due to Business performance and also the reintroduction of some government grants. In Business we saw double digit performance growth in IoT and Cloud & Security.

Commercial performance

Commercially our European mobile business was good, adding 333,000 net new contract customers in the quarter which is back at pre-Covid levels. However, our performance in fixed line and in particularly Germany has fallen below our expectations. This is a key area of focus for us and we have a series of initiatives underway to improve that performance. So overall I would say that our results are in line with our expectations and we are well on track to deliver the upper end of our financial guidance for FY22 which we reiterate today.

Strategic performance

Now while this is a Q3 trading update, given the recent speculation surrounding our strategic activity I feel it is important to put our plans into context. Now over the past three years we have been moving at pace around two central themes. First of all, simplifying and focusing Vodafone on converged connectivity markets in Europe and Africa through a series of disposals, acquisitions and combinations. Secondly, to drive more value from our assets and this included establishing network sharing agreements in each of our European markets, then aggregating the towers together for Vantage Towers, and then the successful €12 billion IPO of Vantage Towers last year.

Now to achieve this we have been pragmatic and open-minded in our approach to these transactions to improve shareholder returns and we intend to continue to operate in that way moving forward. We have had a clear long-term strategy to drive sustainable growth and we are determined to improve shareholder returns and we outlined three operational priorities and three portfolio priorities. So let me just touch on them.

In terms of the operating priorities we said that we are focused on improving the commercial performance in Germany and clearly in broadband, which is our major focus. In Spain you saw the announcement of our restructuring in quarter three and we moved to a fully franchised model within our retail estate and have had a series of initiatives with the government to improve the economics for the sector. In EU recovery funds we are very much focused on positioning ourselves as Vodafone Business, which is about 30% of the Group, to capture those opportunities.

Turning to the strategic portfolio priorities, we have made very good progress in terms of Egypt moving into Vodacom. It got unanimous approval by the minority shareholders and we are on track to conclude that by March. In terms of the other two activities they are primarily what we are doing in terms of further activities around Vantage Towers and moving to a potential industrial merger, continuing to advance those conversations. As we are the second one, which is in-market consolidation. Now clearly there is not much we can say about those in-market consolidation activities but I just want you to know that we are very proactive, we are very pragmatic and we are getting good engagement from our counterparties to advance this moving forward. Our goal is just to ensure that we have a set of strong assets in healthy markets delivering strong returns for our shareholders.

On that I will open to Q&A.

Q&A

David Wright (Bank of America Merrill Lynch): Nick, I just want to try and extend a little on those final comments and I appreciate that there is a lot you cannot surely say but just regarding pragmatism I think one thing you have said is that Return on Capital regionally is a focus. You even defined this a couple of years ago and we have had some momentum but it seems to me that the asset that stands out is Spain. I obviously refer to reports this morning about potential MásMóvil deals. We have also had reports of Italy and the UK and everything quite frankly recently. Is it fair to say that Spain is the standout asset for you from a Return on Capital perspective?

Then also on the whole pragmatism debate, would you be willing in any of these circumstances to exit in entirety? Are there any sacred cows in those core European markets where if you got the right offer you would be willing to sell 100%?I should probably leave it there given everyone else in the queue. Thanks.

Nick Read: Thank you David. A very important question and maybe if I could sort of frame up. I think it was one or two years ago, I cannot remember the exact presentation, we laid out our portfolio criteria, our framework of how we think about it and I just want to reinforce because it is applicable to every single country that we operate in. The criteria had three elements to it. The first element was we want to have regional scale but we have to have local scale. That is important to achieve both. The second thing was, do we see the fact that we have a credible and actionable plan by management to ensure that return on capital is over WACC in the medium-term. Margherita and I invest a lot of time, especially around the February period, going through those reviews to understand on a multi-year basis what are the levers you are pulling to produce that outcome. These have to be in our control, things we can do on our business, not a whim and a prayer or we hope that something happens. The things that are in our control to deliver that outcome. Then the third thing that we say is, are we the best owner of this asset? We want to make sure that our Group derives value for that asset being part of the Group and that we are delivering value to that asset.

So we go through that criteria and there could be circumstances where a particular market does not meet that criteria. In those situations what we said is we will be very proactive. We will be very pragmatic at finding other alternative solutions. And so specifically to your point, other solutions can be JVs. It can be us moving into a majority controlling position on an aggregation. It could be us moving into a minority controlling position on an aggregation or it could be a disposal. We do not close down options. We evaluate everything with a lens of what is in the best interests of our shareholders.

David Wright: Okay, thanks very much Nick. Thanks Margherita.

Georgios Ierodiaconou (Citigroup): Good morning and thank you for taking my question. As you mentioned Nick, very strong set of results but we are Telco analysts and we always look at the glass half empty. So I wanted to ask a bit about the German broadband performance this quarter. If you do not mind, you mentioned some initiatives, would you update us on how you plan to address it? We have seen some announcements on personnel changes. Could you perhaps give us a bit of an indication whether the third quarter is a low point and the recovery will come already from the upcoming quarter? If possible can you also comment on whether this could also impact the service revenue performance in the coming quarters? Thank you.

Nick Read: Georgios let me do a tag team with Margherita so she can handle maybe the latter part of your question. Maybe I would start with the first part. What I would say is I called out the fact that improving German operation and commercial performance was one of our top-three priorities. If I look at our financial performance in Germany I think it is a good performance. You saw the half-year on EBITDA, etc and consistency of service revenue and we have seen some improvement in mobile which is good. But, the performance in broadband without doubt is below my/our expectation. So why is that and what are the actions we are taking?

I would say first of all Covid remains a factor in our performance in Germany and it is a factor in two respects. Still with obviously restrictions over the quarter that we had, retail is still nowhere near pre-Covid levels. I think it is still running at around 50% of the level that it was pre-Covid. So that is a really critical channel for us because we are the challenger in the market, taking share and therefore we need that retail performance to be in place. The second aspect of Covid is just the sheer volume increase on our networks. It has been unprecedented in terms of that volume, especially on the uplink. So we have been doing a series of upgrades to our network and they will continue. By summer we will have uplifted the capacity of the whole network by 60% versus pre-Covid levels and we will have doubled the capacity on the uplink in the major centres where we see the highest activity. We are investing hard. This takes time to roll through but we are very much focused on bringing that capacity up.

I would say then we had the new Telecoms law that went into place and it had I would say two factors for us. The first factor was that essentially it was a big, heavy lift for us in terms of IT changes and in terms of customer journey changes. Frankly, our German team put a very conservative process in place that was very cumbersome. What it did was delayed the transactions with the customer in somewhat of a painful way. Therefore what we have said is, 'Hold on a minute. We need to stand back. 'Our competitors did a simpler execution, less conservative than us let's say and I think we need to move to that execution. So what we are doing is we are now putting in changes through the IT system and the customer journeys, but unfortunately that will take quarter four to make all of the changes that we want to do.

I would say secondly is this new law essentially said that the re-contracting was not automatic on the customer anymore. That has an effect of bringing forward potential churn that we would have seen over the coming quarters. It pulls forward. Now that pull forward is an industry or sector dynamic and it would increase churn overall for all players. The challenge we have is that our retail channel is very important to capture our fair share of the gross adds and that is what we are not seeing. We are suffering the churn impact but we are not benefitting from a higher gross add uplift because of the retail constraints.

There are a number of things we are doing on the commercial front, actions that are going in place in terms of our plans, portfolio and marketing over the fourth quarter to improve performance. So all I would say is quarter four is going to be obviously a more challenging quarter because we have a full quarter impact of these things and then we would expect to see improvement past quarter four.

Margherita Della Valle (Chief Financial Officer, Vodafone): On the numbers, the KPIs and the financials we are focused on the reaccelerating momentum but let me go back to what Nick has just said because I think it is really important. In Q3 we only had a partial impact from the factors which have just been described because the Telco law only came into effect on 1st December. As we get into Q4 we will have a full quarter of impacts and this will be both on fixed and on mobile. Now, beyond Q4 we will then start to see a gradual improvement because you will have the mechanical effects that Nick was describing in terms of more volumes in the market that will unwind gradually and then of course our actions as well that will come into effect. So that is important for volumes.

From a revenue perspective I need to say very pleased to see the consistent revenue generation that we are having in Germany, another quarter at 1% growth with also an acceleration in mobile. If I think about the coming quarters into FY23 for Germany clearly we will have an impact from the fact that fixed broadband volumes have been lighter but it is not all about volumes. These tend to be relatively small movements. It is important to remind that we are having a good dynamic on ARPU. On fixed you will have seen this quarter around 2% growth on the whole of the base and then beyond fixed you have mobile where you have seen a stronger quarter on volumes in mobile. Actually probably a bit stronger than what it looks like. You have read 70k net adds in contracts in this quarter. In reality we have also disconnected some zero-traffic seen from the old Unitymedia MVNO. So the real underlying performance is closer to 120k, so that is supportive. Then finally we will have of course Vodafone Business, good performance this quarter and strong demand particularly in Germany at the moment from the public sector where we are also seeing some early wins on the European recovery fund side.

Stepping back, Germany is a good market for us but not just on service revenue net of all this but also as you know from an EBITDA perspective we are continuing to outperform on the synergy deliveries so good operational leverage also going forward.

Georgios Ierodiaconou: Thank you.

Akhil Dattani (JP Morgan): Hi morning Nick, morning Margherita, thanks for taking the question. I just wanted to ask a question on the broader operation outlook in terms of the revenue trends going forward and three small parts to it, if I may. The first is if you could give us some colour on the puts and takes for Q4 and beyond so we understand how you are thinking about revenues. The second is it is obviously great to see that all the UK Telcos seem to be pushing through pricing. You have obviously talked about beyond the UK so if we could get an update on that. The third thing and I guess it is kind of linked to the UK piece is that there is a lot of debate in the market at the moment around real versus nominal growth given where inflation is. So given your guidance of growth in Europe, I am sure you have ambitions for growth to continue improving but could you give us some thoughts around that real versus nominal question?

Margherita Della Valle: I take the three in turns so starting with near-term service revenue performance into Q4. I would say see it as very small puts and takes in the near-term. If I look at the markets I would say in Europe you will have Spain which will have a new MTR reduction and also will lap the price increases that we did in November last year for the first time for a full quarter so that will be a drag. On the other hand you are seeing the UK results continuing to accelerate with very strong commercial momentum so that will be supportive. Then beyond Europe in South Africa we are lapping a big quarter last year in terms of service revenue growth. You had the Covid measures and then you had the Cell C roaming. A little bit of puts and takes in the near-term into Q4 but nothing particularly significant overall.

As maybe you were asking about CPI+ pricing mechanism and how all this is going to play into next year. Trying to summarise, on the pricing mechanism we are pleased with the progress. We have embedded into our contracts in five markets now the CPI+ mechanism and as we get into calendar 2022 clearly the time has come to activate the mechanism. We will see two markets within these five that are going to go live first, UK and Ireland. Then you should expect more to follow. These pricing dynamics are expected to support service revenue into FY23.

Maybe more broadly you are asking what sort of real growth we will have in FY23. Again a few puts and takes. We are sitting down to do our target setting now in the coming weeks but if I can share the outlook elements of growth in Europe into next year particularly. I would say, if I can get out of the way once again what is a little bit technical we will continue to have roaming tailwinds offsetting MTR headwinds. Exactly like this year. We will then have of course the lapping of the MVNO revenues in Italy starting from Q2, another I would say more technical drag. However, from a business perspective we will have the support of the pricing actions we have just described. We will see the fact that commercial momentum this year was affected by Covid. The discussion we have had just now in Germany on fixed but equally recovery in mobile. And then the final element which I think is really important for next year is the European recovery funds. This will start impacting revenues materially now and we are very pleased with the progress, particularly Italy, Spain but early signs also in Germany. I hope we will have a chance to explain this in a little bit more detail later.

Net of all these puts and takes, technical and non-technical, I really see us as well set to continue to deliver sustainable growth in Europe and Africa into FY23.

Akhil Dattani: Great, thanks a lot.

Maurice Patrick (Barclays): Hello guys, maybe a question on consolidation related to feedback you have had from the various stakeholders. When you made the pitch in November Nick around the need for consolidation it seemed like you were raising that agenda to more than just us, the audience of investors and analysts. I am sure you had a chance to float your views with people like the EC and Margrethe Vestager et al. Just curious as to how those conversations have done, what kind of feedback you have had and if you think there is a chance we might see some sort of positive noise ahead of the result of the EC appeal. I think it is due this summer, around the Hutchison merger. Latest thoughts in terms of feedback you have had on your conversations around potential M&A.

Nick Read: What I would say is though we talked about it in November this has really been a conversation that has been building I would say over the Covid period, over the two-year period, because that is when the conversation has really changed in terms of the dynamic. We did a very professional response to Covid with our five-point plan. That was recognised by governments. They started to proactively engage at different levels than we have ever experienced before. I think I have said previously, I have had multiple calls with governments in terms of our response, how we could support and what they needed to do. And I think it opened up a different stream of discussion and the different scheme was they wanted more critical national infrastructure, next generation, connectivity expanded as fast as possible. What could they do to help facilitate that? That gave us an opportunity to talk about the low returns in the sector and if they want to attract investment we have to improve the returns to an acceptable level. And I went through those arguments about the fact that we are a highly fragmented sector across Europe, over 100 players, US three, China three. All the arguments you have heard before. But what it did was it allowed us to have a little bit of a framework of policies that we have engaged in, I would say for the last two years. It was around spectrum and I think you have seen good progress on spectrum. Frankly all of the auctions, if I put Portugal to one side, have been outcomes whether it is Spain, Greece or UK in terms of just lowering the cost and understanding we need a certain size of spectrum and Spain going to that unprecedented level of doubling the duration of 40. We also talked about specific taxes for the sector. Spain again responded by lowering taxation on the sector.

Then the third was how do you focus the EU recovery funds on the goal of accelerating digitalisation in Europe? How do we stay competitive globally? We really influenced the focus beyond SMEs because SMEs in Europe are way down in the level of digitisation on their business model versus others. The second was health because the health industry needs to be modernised and digitised and then public sector transformation. We have been very targeted, very thoughtful about those engagements and within that the final one was consolidation. My argument is this is nothing to do with competition, pricing. It is to do with we need industrial scale locally on top of our regional local scale. If we do not have that we do not earn the acceptable returns.

The case has to be by country and I think that has really resonated with every Member State politician that I have engaged. They understand the logic. They look at marketplaces. Let me pick UK, Spain, Italy and I would argue now Portugal that is now added two new entrants when they really meant to add one, as examples where you have got four MNOs and very big scale MVNOs. So it is already hyper-competitive and all we are talking about is going from four infrastructures down to three infrastructures to have the right economics to earn a return at the pricing levels you see in a number of the markets.

So what I would say is I think that the argument is not about do we not want competition. We want competition. We are the challenger against the incumbent so we are pro competition but what we are saying is please balance a new balance of competition versus encouraging investment going forward. I think that that is a very positive narrative for politicians and for Brussels. Of course it will always come down to the fact pattern being presented for that country but what I would say is I think the countries will lean into the agenda and the sector is leaning into that agenda. Therefore it is not about we need rule changes. This is not about rule changes. Commissioner Vestager has already said that she has enough flexibility depending on the situation of a market and I think that there is a new reality now within the marketplace, a new economic context that allows a different judgement moving forward.

Maurice Patrick: Thank you, very clear.

Andrew Lee (Goldman Sachs): Morning guys, thanks for the comprehensive answer on consolidation. It is as far as you can go right now. I had a couple of questions on two other changing events that are going on in terms of operations. Margherita, you hinted at the European recovery fund and maybe if you could give us a bit more detail about firstly the timing and the impact of those recovery funds because it is quite hard for us to get a sense of the materiality there. Then secondly on the cost side, I know this is a revenue reporting quarter, but across your peers we have seen quite a few delayed cost efficiencies and some misses on OPEX guidance over the past couple of days. I wonder if you could give us an update on how your cost control is going given cost inflation. Has anything changed in terms of the scope for cost efficiencies in the longer-term from your perspective? Thank you.

Margherita Della Valle: European recovery fund first. We have really worked a lot on this, both in terms of investing in our digital services offer to make the most of the opportunity as well as working with the governments across Europe to ensure that digitisation of businesses was a key part of the agenda. I need to say it is good to see now two major programmes kicked off in two of our biggest markets. We have Italy and Spain now going live in these weeks so let me just describe those two programmes.

In Spain first, €3 billion has been allocated to SME digitisation and of this half a billion for the companies between ten and 49 employees are going live effectively now. These will be subsidising digital toolkits for these companies. The money will be effectively spent over the coming year. More tranches, so half a billion now and more trances for the full €3 billion will be distributed in the coming year and beyond. In terms of how this impacts us and our revenue performance in Spain, we will be a key aggregator of digital services. We will have toolkits at the ready for our customers to effectively subscribe through the website on this model. We are not going to be the only player. There will be other Telcos and also other players outside Telcos. However, because of how we are positioned in terms of our markets in Business in Spain, a third of the revenues are Business in Spain as well as in Italy and we have really strong assets. We are gaining share. We think that also in terms of these allowances we will have a good share in our numbers going forward.

Italy, this probably in terms of P&L will start flowing more in terms of our own results around the summer. The programme that is kicked off now is also for SMEs but it is focused on connectivity vouchers. Pure connectivity not broader digital. €600 million again being distributed over two years in this case and again well-positioned for the fund to get advantage of that. Then finally we start to see Germany moving on a different level. We are not talking vouchers there. We are talking about public sector tenders on 5G digital services and the like in which we are also starting to see some wins for Vodafone. So I think you should expect this to be material into FY23 for us and it plays to our strength and the investment we have made in Business.

Nick Read: Before you go onto the second, I think one build I would say is that being really the only genuine pan-European player a lot of the governments are asking us what other countries are doing, what is best practice and what is accelerating. So the mechanisms of how they do these schemes we are really facilitating a lot across the countries. We love the scheme in Spain. Frankly I give Spain's government full credit for how they are executing this because the mechanism is really good to get the funds to speeds quickly on the services and that is something that we are keen to replicate in a number of other markets and we are seeing traction on that. So again, it is another reason to have a slightly higher dialogue with the various policymakers.

Margherita Della Valle: Inflation and OPEX, moving from revenues to cost. I think it is a really good point that you are raising here because we are seeing, as is everyone else in the industry and beyond, inflationary pressures building into next year which are stronger than what we would have seen in a normal year. Probably to bring this to life I would say the key examples for Vodafone would be one hand employment costs. It is 15% of our service revenue and clearly we are seeing pressures for increases there. The second aspect, like everyone else, is energy. To actually give you a sense of scale, if energy prices were to remain where they are today just for Europe in Vodafone next year we are talking about a cost increase of €150 million. This is with our most of the year being hedged so we are talking about an impact which is part of the second half of the year. So it is material. As you know, we are starting from a really strong position on cost management. We have talked in November about Vodafone continuing to progress in efficiencies, top quartile, moving to the top of the top quartile. We are in a good position there and we also are really working hard to push further our key cost efficiency levers which are always the same ones. Essentially, as you know very well, we are leveraging our scale to drive shared service operations and then digitise these operations at speed. The big driver of further efficiencies coming into next year is going to be the transformation we have just done this year in technology. You know we have integrated all our European teams in technology and therefore we can expect an acceleration of efficiencies from that. But equally, it is going to be a more challenging year than usual in terms of the pressure and the headwinds for inflation against that.

Now, we are sitting down in the coming weeks to actually plan, as I was saying earlier, next year. What I can tell you is that first of all we are well on course for the remainder of the year. You remember we have to deliver another €200 million net OPEX reduction in FY22. Fully on track to deliver this. It will position us as having cut net to the bottom line over 16% of European OPEX, so quite a result and of course supporting us confirming that we will close EBITDA in line with our firm guidance at the upper end of our original target range. Beyond this year we will do the final numbers in the coming weeks and of course update you in May. What I can say now is that we continue to see us well-positioned to deliver the continued step-up that we have put in our mid-term ambition in terms of continuously growing returns. However, the precise element of that we will share in May as part of our guidance.

Andrew Lee: Thank you.

Jerry Dellis (Jefferies): Good morning, thank you very much for taking my question. I had a question related to Germany please. You mentioned three months ago the possibility of investing in fibre to housing associations and that could be a useful mechanism for maintaining the collective contract arrangement into the medium-term. I would just be interested in your thoughts on that now that you are armed with some early insights of the impact of the German Telecom law in other areas. You mentioned that one of the issues that you have been feeling in broadband this quarter is related to the IT systems and there have been some glitches as it seems to me in terms of customer retention. I do not quite understand what it is about your IT systems that have sort of created these challenges. I would be grateful if you could explain that briefly please. Thank you.

Nick Read: Jerry, maybe I start with latter and then talk to the former. It is very simple. When I say that our team did a conservative process it was a painful process for the customer and it requires customer confirmation. We were requiring the customer to confirm back in an email to us and that is a painful process because you imagine we have gone through the whole call, we have had the transaction and then we send them a link to then confirm back to us. It is too many steps. Whereas others have done things like record the conversation, send the file as confirmation. There are many other ways that you could be less conservative in your application of the customer confirmation. That was one part.

Then the second part was our IT systems the execution itself was not as let's say stable as we would have liked. And therefore we had challenges. I would say we are improving the customer journey but in improving the customer journey you have to then rewrite the IT code for the new journey. In the big systems of Telcos that takes time. It was our management. I am sure the other competitors will not mention it. I am saying it is our execution. We understand the issue and we are rewriting the code. We are rewriting the journeys. We know what we need to do. The team are on it but it just takes a bit of time through Q4.

I would say on the former question if I understood it correctly, I commented about the fact that we are engaging with housing associations. At the time of November our engagement was just under 50% of the housing associations. Clearly we have had the festive period, Covid and various other things so I would not say it is overly advanced to now but by the end of March we are aiming to have contacted two-thirds of the housing associations. So I think we can give a lot more colour when we get to May. It still is really into three buckets which is first of all the housing associations that could be interested in having fibre accelerated to their building but are not interested in changing the wiring in the building until they do a refurbishment and that is normally a 5-10-year cycle. There is another group of customers that are saying just tell us about the upgrade of the cable network because we do not want disruption either in the building or outside the building. And then the third are saying this is not even on their register, it is not something that is important. When we understand that to the bucket, that is the first bucket where we say okay if it is sizeable enough we may then say we do want to accelerate fibre to the building in some zones, areas, etc. If it was sizeable enough all we were pointing out was there is plenty of infra funds sitting out there that would love to coinvest in that model and we would do it off balance sheet.

Jerry Dellis: Got it, very clear. Thank you.

Carl Murdock-Smith (Berenberg): Morning guys and thanks for the question. I wanted to ask on the CPI+ dynamic, can you remind us, which are the other three countries are where you have embedded CPI+ dynamics? As we move forward in the next few months one of the very interesting things I suppose is how much of these price increases will stick versus how much will have to be reinvested into retention and acquisition? I was wondering if you could talk a bit to that in terms of your assumptions. Also, have you seen anything in the market as yet? Obviously we have started getting the communications happening of these increases happening in the UK so are you seeing any changes to the kind of special offers in the market? Thank you.

Nick Read: Carl, maybe I just touch on the UK because it is a live example being executed now and then Margherita will touch on others. In terms of the UK, you know clearly BT, EE, Virgin, Three, have all communicated already to the customer so those communications have gone out. Our communication is planned for March so that is when we will be engaging with customers. No change in our plans in terms of execution. Clearly, when you think about the, you are really alluding to what we call the front book/back book dynamic. You are repricing the back book that sits on our base and therefore what could undermine is potentially front book promos. What I would say is just bear in mind that, using the UK as an example, a third of that commercial activity that we do in any given month is actually new customers coming into Vodafone. And actually two-thirds of it is us just doing renewals on the base. That renewals process has that formula within it.

Then on the third, yes it could be susceptible to promos. We have to see how the market develops. What I would say is we are coming out of Black Friday, we are coming out of January promos and we are seeing in a number of competitors throughout the UK price increases of the front book because of the actions they have taken on the back book. So what I am saying is: it is a market dynamic. You have to move front book pricing in line with your back book depending on where you are, if they are in parity or whatever. I think operators are well aware of that and we will have to see how it evolves. It is not something we control. It is a market dynamic but obviously we want a healthy marketplace and we need to improve returns. I think that is why the UK market, the players put through the changes and we will see how it evolves.

Margherita Della Valle: In terms of the perimeter across Europe at the moment we have live UK, Ireland, Portugal, Hungary and Albania. We cannot comment on specific markets but we have another major market which we are working on with a mechanism which will be a bit broader than CPI+ but with always in mind the same logic which we think is the necessary logic for the industry. As we see the need to invest more and also as we discussed earlier with Georgios the fact that our own cost base is increasing.

In terms of how this will feed into the service revenue trends into FY23, back to what we were discussing earlier, we will continue to have on pricing the traditional pressures that we have seen also this year, particularly in Southern Europe, in terms of heightened competitiveness in Consumer, particularly at the low end. We do not expect this to change and you know where the market stands. These movements will give us a chance to start working in the other direction, again something the industry really needs. The activations UK and Ireland going live in April. As far as the others are concerned it is again also a market consideration.

So it is difficult for us today to tell you a precise scheduling but definitely the right approach for the industry that we are leading.

Nick Read: A final build on Margherita's point, it may be that the incumbent chooses not to do a CPI+ type model and do some other form of price increase in a different way. If that is the case, fine. It is going in a healthy direction. All we care about is how do we improve and produce sustainable returns and a healthy sector.

Carl Murdock-Smith: That is great. Thank you very much.

Robert Grindle (Deutsche Bank): Good morning, thank you. Something interesting is going on in your mobile data traffic growth which has been easing post the early pandemic but slowed more materially in Q3. Absolute petabytes declined sequentially in Europe. Are we just seeing less working from home here? MSR growth is accelerating so prices must be improving faster than volume is slowing so that should help capital intensity. Are you seeing less congestion in the network or less pressure on volume-related capex leaving more headroom for new services? Sticking with the mobile network, I see that Johan and team are getting into open RAN chip architecture design. Is that something beyond specification and testing or is it just about improving the ecosystem for open RAN? Thanks.

Margherita Della Valle: If I start on the traffic trends, absolutely true we have seen a moderation of the traffic growth. Actually in mobile as well as in fixed but I think you should step maybe away from the sort of quarter-on-quarter elements that include a degree of seasonality. I would say the best way for me to look at it post-Covid is the compound of the last two years' growth rates. If you look at it in this way cumulating Q3 this year and Q3 last year you would see that traffic at least for us in Europe in mobile has increased about 80%. It still is a run rate of 40% on average per year year-on-year so not very different from the run rate we were having before. A similar reasoning for fixed which has been up 70% on the two-years cumulated in Europe. If you look just at this particular quarter then you have certain dynamics in terms of how the various Covid lockdowns and local restrictions played. In particular just on Q3 versus last year it is a real slowdown because last year we had peaks in variable usage driven by the sort of the Christmas lockdowns of 2020 that impacted traffic. All in all I would say also linking into your capex potential implication I do not see a major movement there.

Nick Read: On open RAN I think it is fair to say that we really believe in open RAN. We have been doing a lot of frontrunning on the thinking of open RAN and what we are trying to do is drive a bigger and bigger ecosystem around open RAN. We think that this is important for diversity, resilience of networks. Moving forward, if we are going to have fewer and fewer vendors we need to find another route to create sort of more diversity. I think we are making very good progress. You know that we signed an MoU with the other major European players in terms of development of open RAN, the standards and the vendors we are engaging with. I had a meeting with a number of them, was it last week or the week before. This was a topic on the agenda in terms of the next steps of what we were doing and actually we were seeing a demo of open RAN, making sure that we had full interoperability between the components and the operators, so in other words like a shared RAN execution. I am very pleased with how it is progressing. We have also just opened in Malaga this Monday a new R&D centre that is 600 software engineers and specialist sales people. Within that there are 50 people dedicated to open RAN development. That is where we are centring. We are also going to do one in

Dresden as well. We are trying to provide places where new vendors, new software providers can come and engage with the industry effectively on open RAN. We have just done the first-ever commercial launch in the UK so the first site is in Bath, just in case you want to go there for lunch. This is part of the first commercial launch in Europe of 2,500 sites. I would say we are pushing ahead very actively. We are trialling interoperability in Germany and Ireland. We are also trialling down in Africa as well.

Robert Grindle: Thank you.

Nick Read: What I would like to say is more European players. At the moment there is a lot of US people involved in open RAN and what I was encouraging with my counterparts, in Brussels and in Member States is we need to develop a European ecosystem. It goes back to my point about having an opportunity in the Digital Decade of resetting what Europe and produce and I am very passionate at trying to create that alternative ecosystem as well. However, that is a long one-hour presentation for another day.

Jakob Bluestone (Credit Suisse): Great, thanks for fitting me in. It is on consolidation so it may be a very short answer, in which case we should be fine in terms of time. I wanted to follow up on what you were saying in response to Maurice's question earlier around the engagement with particularly anti-trust authorities as opposed to just with sort of broader authorities. You have talked about how policymakers understand the importance of in-market consolidation but just listening to some of the more recent comments from Vestager in particular you are still saying that competition drives investment, not consolidation driving investment. Also, we have seen in the UK with the reaction from the CMA to the Cellnex/Hutch deal, I think it is fair to say it is not a walk in the park getting a deal over the line. Could you maybe comment on specifically with anti-trust authorities are you still confident that they too have shifted their sort of Draconian stance or is it just politicians more broadly? Also, if some of these various reported transactions do get to that stage, do you think we will see a different model of remedies from what we have seen in the past? Thank you.

Nick Read: Let me try and give some colour. I saw Commissioner Vestager's comments yesterday. My view is she is saying competition is healthy. I do not disagree. So I am violently agreeing. I am pro competition. We need competition. But there is a difference between competition and hyper-competition that damages and constrains inward investment into what is critical for Europe to achieve its Digital Decade objectives. What she also was saying was that there is not a magic number. It does not need to be four, five, six. There is no magic number. In the US there is three, in China there is three. As I say there is over 100 in Europe. I do not think 100 is the magic number for sure. You can decide whether three is but what I am saying is that I think there is a reconsideration going on of rebalancing 'I want competition but I do want investment'. 'I want investment' was never part of the conversation before. I would say they are actively balanced now. I think there is a new balance and there is a new economic reality of where we are post-Covid pandemic and the desire to stay globally competitive. There is a lot of political pressure to say we need investment, we need this infrastructure to be competitive. It is a highly competitive sector already and therefore having industrial scale is a valid argument. So to me when you talk about what are the arguments, it is not pricing. I hate the word market repair. It is not ever used by me. I am talking about industrial scale to get the economies right to make the investments but still earn a return. That is the central argument. I would say from my engagement with the Commissioner she says, 'I hear your argument. Of course I will need to see the individual facts of a market but your argument is not invalid. I can see the points you are registering. 'What I would say is do not see the world today as what the world was like back in 2016. It has moved on. 5G is a new cycle with a completely different economic basis and therefore it requires a different fact pattern and different consideration. I think that is resonating.

On your point of CMA, I have not personally engaged with them directly. I think the comment they were really making about the Cellnet transaction is they were worried about a duopoly. Yes, I worry about duopolies and I worry about monopolies. I agree but we are not even remotely close to that scenario in any market in mobile across Europe so to me that is a bit of an irrelevance to the debate.

Jakob Bluestone: Thank you, that is very helpful.

Nick Read: As you can tell, I have strong views though.

Jakob Bluestone: We all do.

Nick Read: On that I would like to say a personal thank you for taking the time and energy to spend with us. Look, I am pleased with our Q3 results. We continue to have service revenue momentum. We got three very clear operational priorities. We got three very clear portfolio priorities. We are active, engaged, pragmatic to deliver shareholder value. And I look forward to, we look forward to updating you on further progress moving forward. Take care.

[END OF TRANSCRIPT]