Vodafone Group FY23 Results Presentation and Live Q&A

Transcript

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Vodafone Group FY23 Results Presentation

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Hello everyone and thank you for joining me to talk about my plans for Vodafone and our performance.

[Slide 2: A new roadmap for Vodafone]

As you know, 3 weeks ago I was appointed CEO of the company I've been part of for almost 30 years. I know this business well, and I know what needs to change. I started in a marketing position in a start-up in the mid 1990s. A start-up that then became Vodafone Italy. Since then, I've spent time leading finance, commercial and operational teams. Today though, I'm here to talk about change. Over the past 5 months, I've had the opportunity to review all aspects of our business and I'm left in no doubt. The circumstances of our industry and the position of Vodafone within it, require us to change. And by change I mean a significant redesign of where we focus our efforts and how we organise ourselves. Today, I'll set out what needs to be done: my immediate action plan and my longer-term roadmap for Vodafone. I have already embedded some of these changes in our plans for this year, but more will need to be done.

[Slide 3: Vodafone must change: The market context]

Our company operates in a difficult industry, especially in Europe. Telco returns are amongst the lowest in Europe. Whilst our capital investment demands are significantly higher than any other. With returns being below cost of capital for over a decade, industry TSR has declined, impacting investors.

[Slide 4: Vodafone must change: The performance context]

But what is more important is that, within the sector, our comparative performance has also worsened over time. The chart on the left, clearly shows that our performance relative to our major competitors in our largest markets has not been good enough. And we know that this is strongly connected to the experience of our customers not being good enough. The chart on the right shows the decline in our customer satisfaction over a number of years. Whilst it is encouraging to see the improvements we've made over the last 6 months, much more needs to be done.

[Slide 5: Vodafone must change: The performance context]

Our market position and our performance today varies by geography and by segment.

Growth in Europe is possible. We're delivering it consistently in a number markets, including the UK and 5 out of 6 of our Other Europe markets. Where we have the right combination of strong local execution and a rational market structure, earning a return above cost of capital in Europe is also possible. The challenge today is that 3 of our largest markets have declining revenue and have returns at or below their cost of capital. But within each of our markets, there is a material difference between the performance of our Consumer and Business operations.

Vodafone Business is growing in nearly all our markets in Europe. Our model delivers market share growth and good returns. Later in the presentation I'll discuss our strong position and performance in more detail.

[Slide 6: Vodafone must change: The internal context]

It is clear to me that we need to build our turnaround from our strengths. Our strong mobile networks are at our core and underpin our customer proposition. As I have just mentioned, Vodafone Business is in a strong position in Europe. And within it, we have a world-leading position in IoT, a market which continues to mature and grow. We have reorganised our African operations under Vodacom. We are the clear number 1 in every market we operate in and have the number 1 payments platform. We can also count on the strength of our teams, who are amongst the most competent and engaged in the industry. And last, the Vodafone brand is powerful. One of the most valuable and recognisable brands in our sector, globally.

But we also have some clear challenges. We are more complex than we need to be. Complexity isn't a function of the number of countries we operate in, but of how we are organised. This complexity has limited our agility, particularly in commercial areas at local level. And the feedback from our customers shows their experience has not been good enough, as I have highlighted, although we are starting to see better trends in three of our four larger European markets.

Finally, as you know, I remain very focused in pursuing local scale, in the markets where it needs to improve.

[Slide 7: Our transformation: Strategic shifts for growth]

I've drawn 4 conclusions on what needs to change.

First, whilst our heritage is firmly in consumer connectivity, our strongest opportunity is in Business, where we can grow share in an expanding market. So we need to rebalance our focus.

Second, we need to get back to basics in consumer connectivity. We need to deliver to our customers the simple and predictable experience they expect. Too be clear, I am talking about seamless connections, upgrades, all service interactions. The basics.

When we look at what our customers tell us, it is clear that what they want us to improve in the majority of markets is simplicity and reliability. Not network performance, not innovation, not value for money.

Third, we need to step up the speed and decisiveness of our execution. We will free up time and resources to focus on our commercial competitiveness by reducing internal complexity.

And fourth, we need to focus our resources on a portfolio of segments, products and geographies that is right sized for growth and returns over time.

By executing these four shifts we can become a simpler, customer-driven organisation delivering value creation.

[Slide 8: Our transformation: A new roadmap for Vodafone]

And from these shifts we are building a new roadmap for Vodafone. In a nutshell, we have 2 distinct targets, recognising the quite different positions, drivers and opportunities for our Consumer and Business segments. In Consumer, we will be a best-in-class telco in both Europe and Africa, which is where we belong. And building on our already strong position, we will become Europe's leading platform for Business. To achieve this dual target, we need to execute single-mindedly. And to keep us all focused, we have 3 easily understood priorities: Customers, Simplicity and Growth. I will

expand on these later.

[Slide 9: Our transformation: Structuring for future]

But first, we need to re-shape our structure, to ensure we can focus on successful operational execution. We will transform our Group Functions into two distinct organisations. HQ corporate services and shared operations. Our corporate services will be as lean as possible.

Our shared operations across networks, IT, back-office and procurement have delivered significant efficiencies for Vodafone over time, through scale and automation. To maximise their potential we need to ensure that all of these services are operated on fully arms-length commercial terms. This will ensure the right level of transparency and competitiveness. And we will be open to delivery by third parties, if that provides a better, faster or cheaper alternative.

At the heart of our structure our markets now have full accountability for capital allocation and commercial decisions, such as pricing, channels and marketing. This is one of the first changes I introduced. To realise our potential in the B2B market, we will further build the product and sales capabilities needed to accelerate growth in our Business division. Finally, the governance model for some of the businesses we invest in, can be improved. Investments like Vantage Towers will require a more private equity style governance, run by a small team of financial and operational specialists. These are significant changes to Vodafone. But essential to improve our speed of decision-making and strengthen our execution.

[Slide 10: The action plan: Near-term actions]

We have established a first action plan around our priority areas of Customers, Simplicity and Growth. There are a number of actions listed here, but I want to pick out a couple.

Within Customers, in Business we have a strong and expanding portfolio of connectivity products and digital services, and we will invest more to ensure our frontline team is fully equipped for the full range.

Within Simplicity, on top of the structural changes highlighted earlier, we want to ensure full clarity of accountabilities for all of our people. With responsibility and delegated authority, comes accountability. So, we have already changed our incentive structure across the company to take into account individual performance.

I'll talk more about growth later.

[Slide 11: The action plan: Early execution examples]

I said that we need to go faster and deeper in our execution. And here are some early examples of how the action plan is being delivered. Starting from the middle column. We are simplifying how we operate in our headquarters, but also the in markets. For example, we can simplify our consumer commercial operations, in sync with the simplification of our customers offers. As a result, we've now planned the reduction of 11,000 roles across Europe and Group. With programmes already announced in Germany, Italy and our HQ. These reductions will increase our agility as well as free up resources to reinvest in customer experience and brand. To support competitiveness and growth. Essentially, we have actions in place to almost double our annual rate of efficiencies in Europe and we'll leverage this to invest more in growth. We will not change our 1 billion cost reduction target by FY26. Also, we have had ongoing challenges with our operations in Spain. So we have commenced a strategic review, with the goal of maximising shareholder value over time. Our early progress with

our priorities is encouraging.

[Slide 12: The action plan: Evaluating our progress]

We have now set out a simple scorecard that you will be able to use to assess our performance as we undergo our transformation of Vodafone. We will use these measures to judge our performance and I look forward to sharing a regular, honest appraisal of our progress. As you know very well, this will not be a quick fix, but I am very clear on what we need to do.

[Slide 13: A new roadmap]

Before moving to our financial performance for the year, let me recap. Vodafone must change. We need empowered and agile markets focused on the customers. We need to scale up Vodafone Business. We need to take out complexity and simplify how we operate.

[Slide 15: FY23 financial performance]

Overall for FY23, our results are in line with expectations, but below the potential of what I know we can deliver. Group service revenue continued to grow, at 2.2%, but in the second half of the year, organic service revenue growth stepped down, with Europe declining. The main driver has been the commercial performance in Germany, our largest market, which simply has not been good enough. Our EBITDAaL margins declined, reflecting our performance in Germany, together with increases in energy costs and broader inflation. On an absolute basis, FY23 EBITDAaL was also impacted by significant currency devaluations. Our pre-tax returns were 6.8% - excluding Vantage Towers -, above pre-pandemic levels but still below our cost of capital.

[Slide 16: Germany financials]

Turning to our largest market. Service revenue in Germany continued to decline, by 2.8% in Q4. Broadband customer losses throughout the year are costing us growth. In mobile, service revenue has deteriorated, in part reflecting a tough prior year comparator, as well the impact of a multi-year IoT contract renewal. EBITDAaL declined by 6.1%, due to lower revenue, higher energy costs, and some one-off benefits in the prior year.

[Slide 17: Germany commercials]

In the last quarter, I talked about our plans to re-engineer our commercial model in Germany. I've already highlighted that we're undergoing a major restructuring to simplify the business, and are re-investing to improve customer experience. In Broadband, we now have a great product. We have reset retail prices in mid-November, and in March started communicating a segmented price increase to most of our existing customers. We have gone first, and this will continue to impact customer additions, but will be accretive to value. We've also taken the first steps to improve our commercial effectiveness in mobile. In February, we launched a new partner card campaign, in April, a new promotion line-up, and have just announced a new family plan that will be available in June. We're also migrating legacy customers onto new, simpler plans. Turning to TV. This year and next, we'll also need to re-contract our 8.5 million housing association TV customers, ahead of the July 2024 deadline. We're progressing well with re-contracting Housing Associations, and we've just started reaching out to the first end customers to sign them up into individual TV contracts. Our team in Germany has a lot of work to do, to scale up the execution.

[Slide 18: Vodafone Business]

Turning to Vodafone Business, which generates almost 30% of the Group service revenue. In FY23, our performance accelerated throughout the year, to deliver 2.6% growth. A key part of this growth has been digital services, which continues to grow double-digits. But this is only the beginning. Our addressable market has now reached €140 billion. The majority of which is Corporates and SMEs in our 4 largest European markets. Our performance and capabilities underpin my confidence in increasing our focus on Vodafone Business to accelerate growth.

[Slide 19: Europe]

Moving to the rest of our Europe markets. In Italy, service revenue continued to decline, reflecting price pressure. Our performance in Business accelerated, with strong growth in digital, and good demand for connectivity. Excluding a prior year legal settlement and excess energy costs, EBITDAaL declined 5.8%. The UK continued to grow strongly, due to our good commercial performance, pricing actions and Business acceleration. EBITDAaL growth was impacted by higher energy prices, with unit prices almost tripling year-on-year. Service revenue growth in our smaller European markets continued to accelerate, supported by pricing actions and good commercial performance, which allowed us to grow Adjusted EBITDAaL by 4.7%. And in January, we completed the sale of Vodafone Hungary for 8.4x EBITDAaL. In Spain, service revenue continued to decline, although trends improved in Q4, benefiting from January's CPI price increase. Adjusted EBITDAaL remained broadly flat, supported by one-off tax benefits and our efficiency measures.

[Slide 20: Africa & Turkey]

Looking at our African markets. Service revenue growth in South Africa was supported by good prepaid growth and strong financial services, but slowed in Q4 due to Business. EBITDAaL growth was impacted by higher technology opex, as we invest in improving our network resilience as well as broader cost inflation. Egypt continued to grow strongly, reflecting high mobile and fixed demand. But a significant currency devaluation impacted our in-year results. In Vodacom's International markets we continued to deliver double-digit M-Pesa revenue growth and strong data consumption, but suffered some disruption in the second half of the year, caused by natural disasters in the DRC and Mozambique. Finally, in Turkey, service revenue is now growing faster than inflation, reflecting our repricing actions.

[Slide 21: Financial performance]

Now, turning to the financial performance of the Group. Adjusted EBITDAaL declined by 1.3% in FY23 including a 0.7 percentage point impact from the legal settlement in Italy in the prior year. Adjusted free cash flow for the year was €4.8 billion or €5.3 billion on a guidance basis.

[Slide 22: Capital allocation]

Our capital allocation principles have not changed. We continue to invest in our networks as well as new products and digital services, with a 17% capital intensity post Vantage deconsolidation. We've now deleveraged to 2.5x net debt to EBITDAaL, on a pro-forma basis for our recent disposals.

[Slide 23: FY24 financial guidance]

And finally, turning to our financial guidance for FY24. Once we allow for the changes in our portfolio following the disposals of Vantage Towers, Hungary and Ghana, and recognised the movement in currencies, our re-based EBITDAaL for FY23 is €13.3 billion. We expect to hold this broadly flat. In FY24, we expect Adjusted free cash flow to be around €3.3 billion, reflecting lower EBITDAaL and

dividends, and working capital phasing. This new Free cash flow position is a base from which we can now sustainably grow.

[Closing]

In closing, let me reiterate. What is going to change is the level of ambition, speed and decisiveness of execution. We need empowered and agile markets focused on the customers. We need to scale up Vodafone Business. And we need to take out complexity and simplify how we operate.

Vodafone Group FY23 Results Q&A Live

Margherita Della Valle

Group Chief Executive, Vodafone Group Plc

Introduction

Good morning everyone and thank you for joining me for our full year results. Our challenge today, as you see in our results, is that three of our largest markets have declining revenue and our returns are still below our cost of capital. Our performance relative to major competitors has also not been good enough. This requires Vodafone to change.

By change I mean a significant redesign of where we focus our efforts and how we organise ourselves. We need empowered and agile markets focused on our customers. We need to scale up Vodafone Business and we need to take our complexity and simplify how we operate. To support our transformation we also need to focus our resources on a portfolio of products and geographies that is right-sized for growth. I have set out my roadmap for Vodafone in a video presentation that I hope you will have time to watch.

We will deliver our transformation by focusing on three priorities: Customers, Simplicity and Growth.

Starting with customers, our focus has to be on what customers actually want: the simple and reliable service they expect. Doing the basics well. I devolved commercial authority fully into the markets in January, so decisions can happen faster and accountability is clear, with customer experience now a key element of our CEO incentive plans.

On simplicity, we will undergo a redesign of how our Group operates by making a clear distinction between headquarter corporate services, which must be as lean as possible, and shared operations which we will operate on an arm's length basis on commercial terms. As we simplify our Group centre but also our market operations, we have planned the reduction of 11,000 roles over the next three years. You may have seen announcements in Germany, Italy and our HQ recently. This simplification will increase agility in our markets. The resources it will free up will be reinvested in customer experience and in brand to support growth. Which is my third priority.

The turnaround of our operations in Germany, in particular, is essential to our growth. We have delivered a number of improvements to our commercial model over the last few months but we have more work to do to restore competitiveness.

To grow we will also scale up Vodafone Business where we have a strong position in a large and rapidly expanding market. Our service revenue exit rate was around 3% in Q4 with all European markets growing in FY23 except Spain. We are already investing in deploying new SME customer journeys and enhancing our sales management with new incentives to drive penetration of digital services.

Before handing over to questions let me reiterate. Vodafone must change and we will change the level of ambition, speed and decisiveness of execution. Thank you.

Q&A

Andrew Lee (Goldman Sachs): Good morning Margherita. I just had a question on your strategic plan which is very clear and I think hits all the right notes in terms of ambition. But I guess the key question that we are getting from investors is, how quickly can we see evidence of execution on that strategic plan. Particularly where the inorganic actions are implied? Obviously that question touches on the outlook for in-market mobile consolidation deals but also on a decision on or sale of Spain which is now under strategic review.

Margherita Della Valle: Thank you Andrew. Major changes coming for us and as you know in telcos we are a momentum business. Time wise I think it will take time to see all the benefits from the transformation flowing through in our results. The first thing you will see there is the impact of our simplification. As you have heard, we are taking out layers to make our HQ leaner and we are also transforming our shared operations. Plus, in the markets we are really reviewing how we run our Consumer operations. This simplification will make us faster in how we go to market and that is the main objective but they will also drive efficiencies. The other thing you will start to see happening, already in these months, is that we will be able to reinvest these efficiencies in customer experience and in brand, as I was mentioning earlier.

These are big changes for us. I am not sure how much of that of course is already understandable externally but it is not just about numbers. It is really about how we operate. The fact that now the markets will be fully autonomous in taking decisions related to their customers and their commercial strategy will make us faster. I will never stress enough both externally and internally the importance for me on focusing on our customers, and focusing on what our customers really want. Simplification first with reinvestment but of course we will need to do more, as you mentioned, both organically and inorganically.

I understand the question on timing. Let me share how we look at things; if the returns are below cost of capital in any market, it means we will have to look at structural change options there, but it is very clear to me that each and every transaction, each and every opportunity, will have to be assessed on its merits. I am sorry but it does not make sense to me to set any arbitrary timelines on the inorganic side. Let me just reiterate, it is a priority so organic and inorganic change are both a priority to drive long-term shareholder value.

Andrew Lee: Thank you.

Polo Tang (UBS): Hi, thanks for taking the question. I have a question on Germany. Trends have weakened notably in Q4, both in terms of financials and subscribers. Now, you have recently put through 10% price increases on broadband. What is the risk that subscriber losses accelerate from here and that you have to start discounting to retain or stabilise your base? What gives you the confidence that Germany is at a trough and that things will improve from here? Can you maybe touch on NPS trends in Germany and how you think about the trajectory of German service revenue growth from here? Thanks.

Margherita Della Valle: Thank you Polo. Will try to take all these points and in general give you the perspective of what is happening in Germany. Starting from the service revenue trajectory, you should expect to see a step-change in growth in Germany already in Q1 as we are going through it now. This will also enable the reacceleration of growth within Europe. It is not the only component. Other markets are also improving but Europe will reaccelerate now. The same is true, by the way, for the Group overall because the one-offs we had in Vodacom in Q4 will not recur. Expect, first and foremost, a reacceleration from here at a Germany level.

In terms of then the moving parts, I think we have said it before but our execution in Germany has been consistently disappointing as we were going through the challenges of the pandemic, the telco law, you have heard this before. It also fair to say that from a competitiveness perspective we have been a little bit left behind by the evolution of the market, as we were busy addressing our internal issues. The market, in particular in mobile, has evolved towards new propositions around family plans, loyalty programmes and we have not really been part of this conversation so far. Which is why, as you mentioned, we are making some changes. So we are really taking action to reengineer our commercial model in Germany very broadly around pricing, around products and around channels. We are really pulling all the levers.

First, let me cover pricing. Fixed broadband - you mentioned our price increases. The way we are looking at it is that we have seen a significant quality step-up in our cable product as we have accelerated our investment in fiberisation in the market, there is a slide also talking to that in the presentation. We now have a fixed broadband service which has just been voted by an external benchmark as the best in the market. This has allowed us to reset the pricing to the level where it should have been. We have first changed the retail pricing in November, as you know, and now we are going through an execution on segments of our customer base of repricing - this will keep us busy for the first half of the year.

Clearly, there is and there will be a trade-off between pricing and customer numbers, and you should expect to see some additional churn from the execution of the back-book repricing on the base. However, of course this will be accretive to value and supporting our service revenue trajectory.

Then more broadly in terms of competitiveness in mobile, there is much more to do but you have seen us active in the market with borderline campaigns on partner card in February, reset of our mobile promotional line-up in April, we now have family plans coming out for June and there will be more propositions coming through over time. All together these actions will support the reacceleration I was talking about before.

Just checking that I have addressed all your points. NPS on cable, we are now well above the pre-pandemic level of our NPS and it actually keeps increasing. We are pleased with our trajectory there.

Polo Tang: Thank you.

Georgios Ierodiaconou (Citi): Good morning and thank you for taking my question. It is another follow-up on Germany. I hope you do not mind. I am curious to be a bit more specific about the trend of customer numbers in the coming quarters because my understanding is the price increases were

notified around March. There is usually a bit of a delay in the customers notifying and then churning away. Should we expect the next couple of quarters to be weaker than what we have seen in the fourth quarter of last year? Maybe just to follow up on that, in anticipation of the changes in the rental privilege next year, are you aiming to take action for customer numbers to start growing strongly ahead of that? Perhaps to offset the headwinds you may have on the top line in the next 12-18 months when that regulation kicks in? Thank you.

Margherita Della Valle: Thank you Georgios. On the customer numbers now you are absolutely right - things will get worse before they get better because we will see in the first half of this year the incremental churn that we will get from the base repricing. I need to say we are quite pleased with where we are. We have done trials before our execution and the churn level we are seeing at the moment on our cable customers, we are talking about low single digit, which is well in line with the trials and better than the business case, of course they will affect the net add numbers. In terms of therefore fixed broadband net adds, which I think is your focus, also thinking about the future of TV, you should wait for the second half of the year to see the customer numbers reaccelerating. But of course, all these moves, let me reiterate it once more, are value accretive and we will see the impact on our service revenue trajectory.

Nick Delfas (Redburn): Thanks very much, just a question on the dividend Margherita. I am interested in how you and the Board think about the dividend for FY24? What are the parameters that you are going to watch to judge dividend sustainability?

Margherita Della Valle: Thank you Nick. As we had anticipated, the Board has reviewed our overall capital allocation at the completion of the Towers transaction and we have reviewed all our three priorities: leverage, capital investment and returns to shareholders. As far as leverage is concerned, we are now at around 2.5x and this is the level we are comfortable with in the context of our overall environment from a broader macro perspective. Also from a capital investment perspective you have seen us now in the post-Vantage world at around 17%, that is also where we are comfortable to be. As a result, I have reconfirmed the dividend at nine euro cents. Now importantly, let me say, that if the shape of the Group was to change materially in the future, of course the Board at that point would have to re-evaluate our position.

Nick Delfas: Can I also ask the question in a slightly different way? How much extra energy cost are you bearing in FY24 versus what you might think is going to be the case in 2-3 years? I know judging energy 2-3 years out is difficult but maybe, what is the extra energy cost in FY24 versus FY20 or FY22?

Margherita Della Valle: Sure. Versus pre the Ukraine war we are talking about just under €700 million in Europe in FY24. If you do FY24 versus FY20 "pre-Ukraine". We know that then the peak is going to unwind and by FY26 we will have recovered the €400 million increase that we expect in FY23 against FY24. Of the €700 million, €400 million will be unwound. Now, hopefully there is more to come but I think there we become a bit more speculative as we look longer term. However, that is what the curves tell us today and, as you know, we have now resumed our normal hedging strategy, so 90% of the energy costs in FY24 is locked in. Beyond that we have a good level of PPAs to rely upon.

Nick Delfas: Great, thanks very much.

James Ratzer (New Street): Good morning Margherita and also many congratulations on your appointment as permanent CEO for the Group. I was wondering if I could focus this morning on Germany. Now you have been appointed permanent CEO I was wondering if you could reiterate formally your views in particular on the capex outlook in Germany. There continue to be a lot of questions about whether you might need to invest more in fibre in that market so it would be great to get your views on that now you are in the CEO seat. Specifically within the MDU market, you mentioned in the presentation that you have started now some initial transitions from bulk contracts to individual billing. It would be great to hear any feedback you can give on the transitions you are getting so far and success you are getting on converting people over to individual billing relationships. Thank you.

Margherita Della Valle: Thank you James. I will start with the capex outlook. I was reconfirming earlier our capital intensity more broadly for the Group is now around 17% post-Vantage. Within Germany, specifically you see that within this envelope we are constantly accelerating the fibreisation of our cable network, as we do node splitting. Our run rate today of capacity addition is 2.5x of what it was two years ago. We have had a significant acceleration there and we are also keeping evolving our technology roadmap. In cable we have just executed a trial in Germany of high-speed DOCSIS that, as you know, has the potential to bring us to speeds up to 1GB/second uplink and 3GB/second downlink. We really see cable as competing effectively from a technology perspective with fibre over time and of course we have set up our JV for the dedicated fibre build of seven million households over time. We think we are where we should be in this space. That is the first part.

Housing associations and where we are on the process there, it is a two-step process. First we are re-contracting in framework agreements with the housing associations and then we market directly to the customers to transfer their bills across to Vodafone. We are well into now the first part of that execution and it does reconfirm that we are the partner of choice for the housing associations themselves. However, we have only just started now the individual customer bill transitions. We have done a couple of trials so far. The first one which has completed has delivered a 65% redemption rate from our basic TV customers transitioning to the individual billing. We now consider this as probably near perfect execution because this 65% also coincides with the estimates we have of how many customers are actually regularly using the service within our 8.5 million household base. It is fair to say that this was a trial which was done with plenty of lead time, significant resources and we have another one ongoing which has not completed, which is currently delivering only a fraction of that number. It will be a big, complex execution for us.

In terms of financial impacts, we are talking about a baseline of €800 million of revenues in Germany from the MDU customers in the housing associations for basic TV. The main impact on this will be in FY25 because the law changes in July 2024, so it does not touch us this year. However, you may have heard us commenting this morning on the fact that some impacts will be visible already in FY24. It is important that I call this out because three things will happen. The first, as you have seen in our cash flow guidance, is that we will have a change in working capital because the housing associations were

typically paying services in advance for a full year. The second is going to be on customer numbers, we will start to see migration at scale in Q4 from January and as we do this we may see oscillations in customer numbers because there may be lead times between when you disconnect the housing association and you actually reconnect the individual customers. Then finally we have already put into our budget for this year significant resources in Germany to actually execute the transition: people, processes and commission. This will impact our EBITDA in Germany this year by about €0.1 billion, but as I mentioned the main impact is FY25. For Vodafone overall it is worth noting that this is going to be a material headwind in FY25, but we will have the unwind of the energy costs we were talking about before which is why when we have given guidance today on EBITDAaL and cash flow for FY24 we have been clear that this guidance has been rebased to a level we will now deliver sustainably growth from in the mid-term.

James Ratzer: Thank you, that is really helpful. Good colour there. Just one thing on the TV migrations, the 35% you say you have lost on these initial trials. Have any of those been with loss of broadband customers or is it just pure TV only?

Margherita Della Valle: TV. I am referring to TV.

James Ratzer: Great. No, that is really clear, thank you.

Emmet Kelly (Morgan Stanley): Good morning Margherita and good morning everyone. My question please is on the phasing of EBITDA growth in FY24. There was clearly a difference in the phasing last year: I think it was -3% in H1 and broadly flat in the second half of the year. Could we expect different phasing again in FY24, so a difference between H1 and H2? Could you maybe just refer to some of the individual countries within that mix, like you did last year in terms of Germany, Italy, UK, Spain? Maybe just a couple of drivers there. Thank you very much.

Margherita Della Valle: Thank you Emmet. There will be a significant difference in phasing, you are right to point this out. We are guiding to broadly flat EBITDA for the year but actually half one and half two will look different mainly because of energy. You know that energy has weighed heavily on our EBITDA performance this year in the second half. Particularly in Europe, we have had a drag of four percentage points and this will continue into half one because all the impact on energy in 2023 was half two related. We had hedged before the war all the way to basically December and then we had all these big impacts in the last quarter. Now you will see that in between half one and half two you will have a significant energy drag in half one and then we will normalise in the second half.

Emmet Kelly: Thank you.

Sam McHugh (Exane BNP Paribas): Hi Margherita, just a short follow-up actually on one of the questions earlier about capital allocation. We have not seen any explicit mention of the medium term ambitions of mid-single digit EBITDA and free cash flow growth or the 2.5-3.0x leverage target. Are these still the mid-term objectives in terms of leverage and free cash flow growth? Are they the right leverage targets given that you do not consolidate or own your towers and you are losing some of the fixed infrastructure in Germany as well? A bit more colour around that would be super helpful. Thank you.

Margherita Della Valle: Thank you Sam. As you remember in November we called out the fact that the original mid-term ambition in the current macro environment, energy and the like, was not going to be achievable in the same timeframe. Since then obviously we have seen a change in perimeter of the Group with the transactions in Vantage and in Hungary, so we are restarting from there. The ambition of course continued to remain to deliver returns in excess of cost of capital and actually I was calling out earlier as part of the transformation we will discriminate, if you want, more strongly between the markets in which we are returning cost of capital or the segment in which we have good returns, like Business, and make sure that we allocate our capex accordingly and consider inorganic structural actions where the returns are not there. We have a clear ambition to deliver returns in excess of cost of capital.

In terms of other financials I go back to what I was saying earlier: we have rebased FY24 in EBTIDAaL and cash flow generation as a base from which to sustainably grow in the mid-term. On leverage we have not got a new range but feel that 2.5x in the current environment in terms of rate is an appropriate position to be in, so the lower end of the original range. That is the picture we are painting this morning.

Sam McHugh: Okay, so more of a focus on the returns and improving versus the explicit targets.

Margherita Della Valle: Yes.

Sam McHugh: Super, thank you.

Carl Murdock-Smith (Berenberg Bank): I wanted to ask about the dual targets, on slide eight of the presentation this morning, around being a best-in-class telco in Europe and Africa and being Europe's leading platform for Business. On the first of those in terms of Europe and Africa, I was just wondering if you could expand on why they are natural bedfellows and how strongly do you feel that Vodacom and the European operations naturally should belong to part of the same group? Thank you.

Margherita Della Valle: In terms of our position in Africa, it is very clear that it is one of our strongest assets and you know that it is a strong contributor to our growth and returns. We are leading there in all the markets in which we operate. We have the leading financial services platforms also in all the markets in which we operate. It is a strong contributor to creating shareholder value for the Group as a whole. We have chosen to effectively focus our efforts on these two regions, Europe and Africa, and in both I think it is absolutely fair for us to say that we belong to the category of best-in-class operators. For me Carl that does not mean anything more complicated than saying that we should be delivering a good quality service for our customers. Do not read anything else into it in terms of co-perimters and combinations. It is about doing what our customers want and being successful in our execution. I think we are doing very well already in Africa. We are doing very well in some markets in Europe where we are growing but not all markets in Europe.

Maybe you give me an opportunity here to explain a little bit better what I mean in terms of delivering good quality simple service because we did not have the chance to touch on this. I believe our industry has really changed in the last few years. Our products to the customers have become much simpler in Consumer, simple bundles of connectivity, fixed mobile, converged. What our customers want has also

changed significantly. We have plenty of data, as you would expect, on that and if you look in particular around what we call our detractors, the ones that rate 0-2 in their interactions with Vodafone, the unhappy ones, what they want us to improve is really this simple service I was talking about. I know it seems basic but I think it is quite important and I think sometimes overlooked in telcos. They want to have a good experience when they upgrade, they connect, they call the call centres. It is not about network performance. It is not about innovation, and it is not even value for money. The majority of our markets if you are looking at the stats you would see a very big difference in what people want more of or better of. I think that is what we need to focus on and it is in our DNA to work on it in Europe and Africa.

Carl Murdock-Smith: That is great. You mentioned deep detractors there and the importance of reducing that. On slide 12 you have given the 12 metrics that you are focused on and you have committed there in the webcast this morning to update us on that. In terms of that, is that a commitment that in the Annual Report every year you will provide KPIs along each of these 12 metrics or will it be more regular than that?

Margherita Della Valle: Metrics are there to say that we will report regularly on those. Some of them may be significant in terms of movement on a quarterly basis or on a half-year basis, presumably not all of them. There will be a mix depending on what is appropriate but our intention, as I said in my presentation if you have listened to it, is really to have an honest, transparent conversation about what we generally believe matters. This is the key list for me.

Carl Murdock-Smith: Okay, that is great. Thank you.

Margherita Della Valle: Thank you.

Robert Grindle (Deutsche Bank): Good morning, thank you. I would like to ask about your plans to arm's length your shared service centres on commercial terms. Is that mainly a cost thing, as you said you would consider using third parties if more efficient? Is arm's lengthening also a step towards either opco or sub-asset divestment optionality? I remember you did similar in Egypt before proposing that sale. How long does arm's lengthening take, please?

Margherita Della Valle: Very different circumstances, I would say, in Egypt but why we are doing this and then I think you are asking how long it will take. This is a really important change for me because over the years we have been very successful, as you know, in building shared operations in areas like IT, back-office and procurement. This has been a key driver for me to drive productivity in the Group and it is one of the reasons why through our scale and digitisation we have been leading then the industry benchmark on cost efficiency. However, I think it would be fair to say that not all shared operations have been matched with the same level of rigour over the years. By rigour I mean this commercial model Robert. I mean essentially P x Q charging model with price benchmarked to third parties and full transparency therefore on the business case. We have got it right in a number of areas already like our procurement or our offshore call centre, is we have always worked with that model, that is not true for all the things we do centrally. The reason why it is really important is that only if we have those measures do we know whether we are delivering on our business case and we are getting the best

service for our markets, which is why I am saying there may be areas which have not worked so far with that level of rigour, or where we may find out we are not delivering to the business case. In those cases, it may be true for example in some cases of in-house product development, we may decide either to stop the activity altogether or to source this differently. It is a big change for us, but it is a big change for us in timing that is going to happen within this year. That is the target execution that we have.

Maurice Patrick (Barclays): Hi there, thanks for taking the question. On the free cash flow and dividend side, you guide on free cash flow of €3.3 billion for the year, that is of course before restructuring and spectrum costs. Now, spectrum costs are historically around €1.2 billion a year, I think restructuring is €300-500 million. If I extend to the next 12-24 months, maybe we are going through a period of not quite so much happening on the spectrum side but on the other side you have got 11,000 headcount reductions. Can you give us some sense of what you think we should expect on below the line items for the next couple of years? That would be helpful, thank you.

Margherita Della Valle: I think you have summarised it appropriately. We have been guiding today to €3.3 billion of free cash flow generation as a new base from which to grow in the mid-term. In the short-term from a spectrum perspective, we are past the 5G cycle. From a restructuring perspective, yes, there is a lot going on and therefore there will be a sizeable amount into FY24 and beyond, however, we are well past the peak of the restructuring costs also linked to the Liberty integration, which has now completely closed and therefore I think our peak was €800 million in FY22, we have had €600 million this year, and although the core turnover of the restructuring may increase, we will not go back to those levels.

Maurice Patrick: Great, thank you.

Margherita Della Valle: Thank you.

David Wright (Bank of America Merrill Lynch): Hopefully I am unmuted. Okay, last question. First of all just on Africa, investors can buy Vodacom, what do you do with Vodacom? What is the Group synergy from owning Vodacom? Why would you not ever entertain a potential approach on that asset if the price was right? If I could just extend a little on inorganic activity, your leverage is now fine and I think actually this year with your EBITDAaL stable and the remainder of the Vantage proceeds, you are probably going to de-leverage a little more. You could be sub-2.5x. You are comfortable with your capital allocation. Therefore, any inorganic actions that could see assets sold, what would you do with the proceeds? If leverage is fine, if capital intensity is fine, then surely the proceeds come back to investors? If you could comment on that, thank you.

Margherita Della Valle: Sure. I will take the two steps, maybe starting from the leverage and the potential excess capital. We have talked about the capital allocation as it stands and we are at 2.5x. However as you have seen also looking at our guidance, it will take time for us to have another material step down in leverage. We are guiding to broadly stable EBITDAaL in FY24 and €3.3 billion of free cash flow. As you do the maths you see that it will take longer to have an organic step down on leverage. For that matter, any other exceptional proceeds that may come, the Board will consider the situation when it presents itself. I would not prejudge on that today.

On Vodacom I will reiterate what I was saying earlier: it is a very strong asset for us as a Group and of course you mentioned options and situations. The board will always consider options that create shareholder value but Vodacom is a very strong contributor to our performance and our returns, which for me are really important today.

David Wright: That is a standalone business. How does Vodafone create value through its ownership of Vodacom? What are the shared commercial services, the procurement, etc that mean you create value through owning that emerging market asset? For instance, on the flipside you create risk through two days ago we had a massive spike in the currency because of typical emerging market volatility, you create risk. How do you create value by owning Vodacom? Thanks.

Margherita Della Valle: We are used to managing emerging market volatility. Typically, what we see happening, but it is probably not the time to get into a lot of detail, is that free cash flow gets hit at the time of the devaluation, but if you grow revenues ahead of inflation and costs below inflation over the cycle you go back on the other side with growth. This has been our experience and we are seeing already today Turkey where revenues are growing ahead of inflation. Between Europe and Africa the synergies are very different than the ones we have within Europe. Therefore, we have talked in the past about yes there is cooperation of procurement, there is cooperation on large corporate customers, we share products. It is a different level of synergies than the one we have within Europe, I think is your point and that is absolutely correct. However, at the same time, once more, it is creating value.

David Wright: Okay, thank you.

Margherita Della Valle: Thank you very much. I just wanted to say thank you for being with us today.

[END OF TRANSCRIPT]