Vodafone Group H1 FY23 Results Live Q&A

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Introduction

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Welcome

Good morning, everyone. And thank you for joining us for our H1 results. Before Margherita and I have a chance to answer your questions, I thought I would just touch on four key points from the presentation.

Firstly, in the first half, we delivered a resilient financial performance. You saw that our Group service revenue remain constant at 2.5%, although we experienced a slowdown in Europe offset by stronger performance in Turkey and Africa.

EBITDAaL moderately declined at €7.2 billion when we take into account the significant one-off adjustment of TI settlement in Italy last year. The underlying decline was due to the performance in Germany.

We remain confident in delivering our full-year adjusted EBITDAaL within our original guidance range, although higher energy costs in the second half means that we will be towards the lower end. We are also confirming our interim dividend at 4.50c in line with our annual commitment of a minimum of 9.00c.

Secondly, we are making good progress on our shorter-term operational and portfolio priorities, which include obviously significant improvements in IT and networks within Germany, alongside an improved commercial momentum, establishing the joint venture in Germany for our fibre-to-the-home build. And then last week, we obviously went out with our towers transaction, which achieved our three strategic objectives at an attractive price of 26 times EBITDAaL.

Third, given the current macroeconomic environment we face, we have taken a series of Group-wide actions, predominantly in two areas: first for pricing. We have executed very systematically across our European footprint 11 markets out of 12 have pricing actions, seven have a CPI or inflation-linked formula.

In terms of cost, we have obviously made a lot of progress over the last three, four years under Margherita's leadership across the business. And we want to continue that. So we came out with a new target of additional €1 billion over the next 3.5 years. And that would be achieved through streamlining, simplification of the Group moving forward.

And fourth, while our short-term focus remains very much on dealing with the current conditions with the right level of urgency required, we also want to make sure that we remain focused on the long-term growth potential of the company and investing appropriately behind that.

Our European consumer business, which represents about half of the business, we highlight in the presentation the formula that we have done in the UK, which is part of our overall European proposition roadmap, and has led to very significant growth in the UK business. Around 18 months ago, we made the conscious decision of investing beyond connectivity for business, and you are seeing good service revenue growth in our business segments and over 20% growth in the beyond connectivity areas.

And then, lastly, in Vodacom, again, good growth rates and investing behind financial services, which again are growing over 20% year-over-year.

So that combination of actions and be the short-term actions, long term investment for growth, we believe on top of our strong financial position in terms of our balance sheet ensures that we are well-positioned for our mid-term growth ambitions and sustaining improvements in shareholder returns.

And on that, we will hand over for Q&A.

Q&A

Jakob Bluestone (Credit Suisse): I had a question on Vantage Towers. If you could maybe just talk us through the logic of IPO-ing it last year and then taking it private a year later. What is the thought process underlying that? What has changed? And then if you can maybe also just explain where you are in terms of capital allocation post that closing from the debt reduction you have highlighted, within the foreseeable future it looks like you could end up below your leverage floor, so below the 2.5 to 3 times. How would you think about using any excess cash? Could we get a buyback? Or do you think you need to invest more into the business?

Nick Read: Thank you, Jakob. Morning. I'll let Margherita handle maybe the second part of that question.

Maybe just in terms of logic, clearly, the IPO was a really important step for us to establish independence for the tower company. And that was really important to then accelerate our organic growth potential through third-party selling. So you know, of course, we did the 1&1 transaction. There were others as well. So I think primarily, it was that independence. But the second reason was just establishing a reference valuation for our towers.

Now, when we IPO-ed, we took the view that we saw even more potential longer term, and therefore, we constrained the amount that we actually sold. So we constrained it to a quite a small amount being 18%. And I think that was vindicated with our transaction last week, which was highly attractive at 26 times.

I think a private vehicle now is appropriate. And it is appropriate because we can have true co-control governance within a private setting. We can also set the right capital structure to really ensure that we can get behind not only the organic growth, which we were executing, but also the inorganic opportunities.

The market is highly fragmented, and there is a real opportunity, I think, to capture and consolidate the market. And therefore, we really needed to have a private vehicle to be able to do that. And of course, we have two strong investors behind us with a lot of experience and expertise, and obviously strength and depth in terms of financial capability to achieve that goal.

So I think we share the vision. We share the ambition. I am very excited about that collaboration moving forward.

Margherita Della Valle: On capital allocation, as you mentioned, we have always indicated that our near-term priority would be deleveraging. And I think this is proving the right approach in the current macroeconomic conditions. So you should expect us initially to

allocate the proceedings towards further strengthening our balance sheet, but we will form a full view on this once the transaction will have completed and the final proceedings will be set.

Just as a reference point on the proceedings, the way to look at it is assuming all the minorities tender their shares and the consortium reaches its target of 50% ownership, as intended, then we are talking about €5.8 billion. So once we will have completion, we will reassess the situation at that point.

Robert Grindle (Deutsche Bank): You made clear why German EBITDAaL trends will improve in the second half due in part to end A&R phasing. But I would like to get some more clarity there. Are the operational challenges now fully behind you in Germany? And what did the commercial trends look like from here? And in particular, what does it mean for service revenue growth? How was trading in the current quarter, please? I think the new prices did not land yet but perhaps you could put me straight on that. So a bit more colour in Germany, please.

Nick Read: Morning Robert. I will let Margherita maybe handle outlook, etc. Let me just talk to the operational improvements.

So we have completed all of our remedial actions on both IT and network that we set out to achieve on schedule. If I was going to give you some colour to that, so that you say, "Okay, I understand what you mean by that."

I would say first of all our front-end systems, that were originally not stable, have now reached a greater than 99.7% availability. So we are very happy with the stability of those front-end systems. We have also got our IT trouble ticket, so where we have issues, down to normalised levels. We have reengineered the important frontline processes in terms of re-contracting customers within our new systems.

Our network is now operating since June against our quality KPI metrics that we have set out to achieve. And I would say that we have been able to double the speed of the uplink in the heavier data areas segment for a more attractive product for our customers. So I stand back and I just go through the checklist. We have hit the whole checklist.

I would say now we are much more in the normal cycle of upgrading our IT and processes moving forward. I am also pleased with, obviously, our continued commercial regaining of momentum if you like - The commercial engine is back in Germany. And that gave us the confidence to do the pricing action that you refer to.

Margherita Della Valle: Yes, in terms of outlook in your multi-part question, I would cover service revenue, commercial performance and pricing and how it is landing.

Starting from service revenue first, we should expect a lower performance on service revenue in the second half compared to Q2. And this is driven essentially by two reason: one more mechanical, and one will link to mobile ARPU.

So I will take first, the mechanical part, which is related to effectively what we would call tough comps in the prior year. You may remember that last year in Q3, we called out a peak in B2B revenues, which can be quite lumpy sometimes. And in Q4, we then called out some service revenue year-end adjustment related at things like contract with service providers. Of course, this will not repeat in the second half this year. And then in terms of ARPU trend, we

have called out a shift in channel mix in mobile, as we exited the pandemic and we saw a reacceleration of volume movements with the new telco law, we have seen a higher weight for indirect channels and service providers, therefore with a lower ARPU. And we expect this trend to continue in the second half.

However, as you look beyond this year into FY24, we expect structural service revenue reacceleration for the two points you were raising earlier, which are commercial performance and pricing. On the commercial front as a result of the action that Nick was highlighting, you have seen us now growing for two quarters in mobile and having effectively stabilised our cable base in fixed. So we can count on this stabilisation to improve our trends going forward. And then we will have the pricing benefits.

So, on pricing, two moves. Actually, one has attracted a lot of attention, but I think they are both important. First of all, we have raised prices on the front book in fixed by €5 to €10. And this was against the increase on upload speeds that we could offer to our customers. But we have also reduced the promotional intensity in mobile. And this is important because if you were looking at our inflow ARPU as it stands today, in the month of November, for example, our mobile acquisitions are coming in at a price point net of promotions, which is about 5% higher than where it used to be before. So ARPU supports in both fixed and mobile, which, together with the better commercial dynamics will support reacceleration into FY24. I think we can say that, for us, fundamentally, Germany remains a strong market.

Nick Read: Absolutely.

David Wright (Bank of America): So just a couple of quick questions. So the first is just on inflation-linked pricing. And I see you are rolling that out across markets progressively now. And I think it was quite encouraging that Telecom Italia last week followed in what has been certainly one of the toughest markets. So I guess my question is, how much of that can we think about dropping through to actual net growth? I know in the UK, they have talked about sub 50% of the gross price increases coming through, because you obviously have to manage the customer base, etc. So I guess my first question is, if you could talk about any early indications of how much you think you can monetise from CPI-linked price rises?

And then just my second question that I am going to sneak in there, Margherita. We saw Telefónica putting through a new hybrid yesterday paying over 7%. I think you have got €2 billion due in October next year. I think you have got about €10 billion or so in the hybrid stack. So you could obviously look to take bond financing on, I think, 10% of that. But are you comfortable thinking about effectively refinancing at 7% plus levels right now? So those are two questions.

Nick Read: Can I suggest, I would like to just touch on the strategic elements of pricing, and then maybe Margherita can answer more directly your question. Because I think the important thing is that clearly energy costs and higher rates of inflation is putting the sector under pressure in Europe; and there is only so much that we can do on cost. In the end, pricing is a critical component of the formula for every operator. And I think you are going to see that consistently across the board.

We have advocated the CPI model, because we believe that that is more transparent for the customer. And also, it is simpler for us to manage in our back-end systems, which, of course,

every operator should be trying to achieve versus say, repricing model, which adds a lot of complexity continuously in the back end.

So that is why we propose CPI pricing. I would also say, I think it leads to a more sustainable model for the industry as well, as we have seen in the UK, in terms of being a more investment-led model going forward.

I would say if you stand back, we obviously in every market, depending on the quality of our assets, set out a strategic positioning of our pricing versus our peers; brand by brand, mobile, fixed, etc., converged. And so we operate against, if you like, that strategic framework by market. So all I would say on pricing is we do not operate in isolation. But clearly, we try and take all the proactive steps both front book and back book to advance for the sector. But of course, it is dependent on competitor moves as well. I just wanted to provide that framework with before the answer.

Margherita Della Valle: Yes, I would say considering all the actions we have taken so far, we are looking at a material impact on European service revenue growth next year. We have said actions in 11 out of 12 markets, out of these seven are CPI embedded in the contracts.

And just cover quickly what we have done in the big four markets for reference, we have just talked actually about fixed broadband and mobile in Germany. In the UK, CPI is now well established. In Spain, we have just introduced CPI in our contracts in September/October, and we will apply our first increase on that basis in Q4. And then in Italy, we have migrated, as you know, almost five million of prepaid customers towards a simplified range of tariff plans in an ARPU accretive way.

Taken in aggregate, as I was saying, potential of very material impact on European service revenue. With the actions we have in place so far; we are talking about 1% to 2% incremental impact to service revenue growth next year.

Clearly, you have flagged an important point, which is the potential for erosion when there is a difference between front book and back book as time moves on. And this is also why I am giving you a range. It includes our estimate of that. But it is important to say that, as Nick was flagging, we are very keen to maintain alignment as Vodafone, between front and back. And we have been successful in doing so in fixed broadband, as you have seen in the UK. And even when there is more competition on the front book, again, UK mobile would be a case of that; we manage to retain a proportion of the benefit over time through the upgrade cycle through our CVM. So you do get a net positive impact I would say in all circumstances but important to maintain alignment wherever possible.

On your question on financing instead, this gives me an opportunity actually, to reiterate what I believe is a really strong position in our balance sheet today, because, as you know, our rates are 100% fixed on 2.5%. Our maturities are very long, over 11 years. I think it is one of the strongest positions across sectors in the whole of Europe, which puts us in a good position to deal with the current environment.

You mentioned the hybrid maturities. And in our presentation, we show year by year, what is due for refinancing. I would say we have plenty of time to decide what to do, because we are talking about 24th January. And then also because the hybrids themselves have long maturities; we are not talking about very significant amounts in the next three years; it is

around, I think, €3 billion, if not €3.5 billion on which we will have also flexibility, given that we have now started the journey of deleveraging, also with the support of the towers transaction. So I think we are in a very strong position in terms of interest costs outlook.

Nick Read: And I think it is right to say we made the call to prioritise deleveraging. We said we wanted to get to the lower end of our range, and we have been executing consistently against that prioritisation. And in the current macro environment, I think that was the right decision.

Andrew Lee (Goldman Sachs): I just wanted to follow-up on the German recovery confidence, following on from Robert's questions. Obviously, you highlighted your confidence in that recovery. But the share price and investor feedback, it is showing investors do not share that confidence. And one of the key things is while the KPIs look better this quarter, investors just fear that that has been paid for by higher acquisition costs, and with coinciding with the 7% decline in EBITDA.

Second, I wonder if you just give us a bit more colour to explain your confidence on the German commercial momentum. I know you talked through the things that you have sorted out to put it back on track. But what are you seeing in terms of evidence of it being back on track? Maybe the run rate of KPIs in October before your price rises or any other data points would be helpful there? And then, I guess, just the second question, which is really a follow on from that; What are we going to see as investors in terms of evidence of that commercial momentum over the next couple of quarters? Because you have highlighted that the tougher comps mean organic service revenue growth is going to be weaker in Germany in the second half of the year. So what can we look for that would drive home investor confidence over the next six months?

Nick Read: Maybe do you want to talk to A&R and the view and just a bit of an outlook? And then maybe I will just maybe take up a notch in terms of what I think key drivers are?

Margherita Della Valle: Sure. In terms of A&R in Germany, it is important to consider that we are comparing ourselves in half one this year to a first half of the year last year, which still adds the weight in a way of some pandemic restrictions at the time. Since then, we have seen then an acceleration of the volume movements into half two last year with the new telco law, which has then continued into the first half of this year.

So when you look at the impact on the P&L of A&R year-on-year, you need to consider that there has been a volume increase, pandemic restrictions in a simplified way to post telco law intensity of volume now, so simply more volumes. And together with the additional volumes, we also add, and you see it in the other revenue line of the P&L, a handset mix shift towards higher tiers.

We have had very successful iPhone promotions in the last quarter. And this has brought, of course, higher ARPU customers in but also more volumes of handsets, which have impacted both higher revenues and A&R. As we move into the second half of the year then, because phasing is so important, A&R will not be a drag to EBITDAaL anymore in Germany. You know that we are talking about a much better EBITDAaL performance as we move into the second half compared to the first half.

And this is because we will not see this drag anymore, because we will compare to ourselves to a half year, which had already the impact of the commercial intensity of the new telco law. And also, we had some one-offs last year that supported EBITDAaL in the first half, that, of course, would not recur. So you should expect a better outcome for the second half and for the full year.

Nick Read: And Andrew, if I was just painting the slightly bigger picture, first of all, you have seen all our competitors results. Germany remains a really attractive market, probably one of the best performing European markets, of which we have a strong asset in that market. We put our hands up and say it. We dropped the ball on the new telecom law implementation. The remedial actions have been taken. It is behind us now. And you will see in our commercial momentum regain. And that is what gave us the confidence to do the pricing changes that we proposed. If we did not have confidence, we would not have done that.

Maybe in the next quarter, there is a relative performance adjustment because of the pricing action we will see. But if we look through that, clearly, we are regaining commercial momentum. We got very much the management team focus now on the proposition roadmap for Q4 and next fiscal year, which we are finalising in terms of regaining focus on convergence cross-selling capability that we have been constrained on up until now because of the remedial action that we have been taking.

Also, structurally, I just say, look, we have a really good mobile network. It has performed well versus DT. You have seen the gap over time close. You have seen a gap maintained against TEF. And then you go across to the fixed network side, we have an upgrade programme on the fixed cable network. And at the same time, we announced the fibre-to-the-home on a targeted basis for housing associations. I am really pleased with the combination of both of those things, the cable upgrade programme that we have communicated plus the FTTH programme, because together it is given real competence to housing associations. What we have seen is a real acceleration in terms of re-contracting with us. We have not lost one single significant housing association this fiscal year because of our communication of how we are advancing our network.

So I just look at it, yes, there was a ball dropped, management changes were done. We had a very clear plan, executed through with Group support of the Germany operation. And now we move back onto the front foot moving that forward.

Emmet Kelly (Morgan Stanley): My question is just sticking with the phasing of the EBITDAaL throughout the year. If you look at your guidance at the Group level, you have delivered minus 2.5% in H1. You are targeting, I think, just over 1% for the full year. So it looks like 5% EBITDAaL growth potentially in the second half of the year. Clearly, all of that cannot be Germany. There has to be some other dynamics there as well. So could you maybe say a few words based on the other kind of shift in EBITDAaL growth as we go into the second half of the year? And in particular, if you could reference Italy, where EBITDAaL was down, I think 6.5% in the first half of the year?

Margherita Della Valle: I think when you look at the year-on-year elements of EBITDAaL, it is important once again to consider the year we are comparing ourselves to, because there were a couple of elements in last year's performance that are relevant then to the growth rates themselves.

In the first half, we had one-off settlement, specifically in Italy, which flattened our EBITDAaL performance last year, and we called out. And then instead into the second half of the year, we had what we were discussing before in Germany in terms of, if you want, reacceleration of the commercial intensity into the second half. These elements are relevant when you look at the guidance we are giving for a significant reacceleration in half two, despite, and this may be a little bit counterintuitive, the fact that the energy cost drag will be higher in the second half than it has been in the first half, because, of course, the pre-Ukraine hedges that we had in place are rolling off.

But the reason why we will have this phasing of EBITDAaL growth is that we will have three big swings between half one and half two, which are actually broadly of similar size. And you are right, it is not all about Germany. So the first swing, as you may have already seen yesterday is related to Vodacom. Vodacom EBITDAaL was marginally down in half one, and we expect good growth into the second half, also supported by the dynamics in the international markets. So that is number one.

Number two is A&R. The drag we have suffered from in half one will not recur in half two. We have covered this already. And then number three is clearly our OpEx initiatives, where we are accelerating, you have heard about the new €1 billion cost target 2022 to 2026. And these will also be loaded towards the second half of the year.

Net-net, as you mentioned, we have guided to an EBITDAaL growth at the lower end of our original range. And the only reason why I am using the word lower end is because of energy movements between May when we issued our guidance, and today, the energy drag has increased, which is why we are zooming in into the lower end. But it means growth definitely in the second half.

Specifically on Italy, the EBITDAaL dynamic is, once you exclude the settlement, very much driven by the top line. And I am afraid this will continue into the second half. But again, overall Europe and Group will have the dynamics we have just talked about.

Sam McHugh (Exane BNP Paribas): Your medium-term targets are for mid single digit EBITDAaL and free cash growth. Obviously, we have seen a 1.5% underlying decline in EBITDAaL and guidance for this year is for free cash flow to 4%. So how realistic is that medium term outlook? And then post the Vantage sale, is the 2.5 to 3 times leverage range still appropriate? And how does this all make you think about your dividend coverage? And so, what would you say to shareholders who are maybe worried that we are heading towards another dividend cut

Margherita Della Valle: Shall I take the midterm outlook and the leverage range? So in terms of midterm outlook, I would say, fair to say that when we set our ambitions 18 months ago, we were coming out of the pandemic and we were looking forward to more normal economic environment. Unfortunately, 18 months on, we are far from that. And we have had, particularly in our case, a significant shock coming from energy prices with also the broader inflation.

So I would say until that environment normalises, we will not be able to deliver what were all our midterm goals within the timeframe that we have flagged. That is certain. We are taking action, however, on structural front, as we were discussing earlier on both pricing and costs; we have ahead of us a big peak of energy costs to go through, as you have seen from our

presentation, but if you set that peak aside and as we have already discussed, it will have to reverse. You should think about it as the actions we are undertaking have been designed in such a way that energy costs peak aside, they will maintain us on a good growth trajectory.

You also referenced briefly the growth of this year. I think just one quick point worth highlighting, as we did in May, there is a big swing in tax costs between last year's free cash flow and this year free cash flow. It is going to be €500 million. So when you calculate growth rates, you need to keep that in mind because of simply a technical deferral of a cash tax payment in Germany.

Finally, on the leverage range, I can only reiterate the points we mentioned earlier. We need to wait until actually we complete the Vantage Towers transaction. And at that point, we will review our position overall in terms of capital allocation.

Nick Read: So maybe just to frame how the Board would think about the dividend, we have a minimum commitment of 9.00c, that was part of our midterm ambition. We have been prioritising deleveraging. We have gone past the peak of 5G spectrum and Liberty integration. So that will support free cash flow.

We are doing a number of portfolio actions that will materialise synergy benefits, etc., if we complete everything that we want to complete. Clearly, in the near term, we have an energy hit. But we have to look through that. And when we look through it, and let us say the exceptional inflation and we have the balance sheet effectively to absorb that, if we look through it, management still remains on the ambition of the midterm growth. So we see the dividend intrinsically linked to that profile.

Polo Tang (UBS): It is just on your German fibre JV with Altice. So you have decided to deploy fibre at around seven million homes around about a quarter of your German cable footprint. However, do you think you need to upgrade more of your German footprint to fibre? And can you maybe just talk through why you have just targeted the housing association areas? And can you maybe talk through what you are seeing in terms of NPS score trends for subscribers who take cable, and then there is the subscribers who take VDSL broadband?

And maybe just a quick follow up on Germany about energy. How do you think about the impact of potential government support in terms of how that may or may not impact your €500 million headwind that you have outlined for next year?

Nick Read: Okay, I will let Margherita cover energy. Look, we have got a good engagement with the house associations. I would say that, as I said before, we have gone through our cable upgrade plans and the fibre build plans. And it is not like every housing association wants fibre, because in the end, many of them do not want the disturbance associated with, if you like, upgrading to fibre. So they are just as interested in the cable upgrade plan over time. And there is either disruption on the build outside the building, and then, of course, there is disruption in the building at the same time. And they would really prefer to time that for general refurbishment of buildings which are longer cycle times.

So I think the combination of these two things is providing them a lot of clarity on our roadmap, proving that we really are the natural partner of choice, because we can now offer them both options and over a long timeframe.

I would say that we targeted the fibre build to the housing associations, because frankly, the economics are attractive for us to do that. And also, as we do that, we obviously have additional build around the areas. So these tend to be more highly dense areas that we are targeting. And we have gone through, region by region, through Germany, where we want to build with Altice. And therefore, we have exclusivity in those areas.

And I think what many people are not appreciating is the importance of partnering with Altice is because they had a significant construction entity. That entity has built over 18 million homes passed in six countries over two decades. And they have already started building in Germany. And what we wanted to do was purpose the build engine onto our build, prioritising how we want to roll out fibre to our housing associations and areas.

So what I would say is it was more to do with us having a targeted build, taking the capacity in the market. By the way, we are also talking to a number of other construction companies to supplement the Altice build, because they are doing the majority, but there is still some residual that we will be building - those are well advanced as well.

So what I would say is that when I look at, to your point of NPS, because we have been upgrading our network, I cannot point to any particular NPS stats at this point that would suggest a big deviation. Certainly, with our experience in Spain, as an example, where we have been having fibre completely overbuilt with cable, offering both, we have not seen any difference at all on the NPS.

So I think this is just about high quality. It is a hybrid cable fibre network. So by definition, it has fibre in it. I think it is about offering a high-quality network, either through that mode, or total fibre.

Margherita Della Valle: On energy, we have quantified headwind for next year at €500 million in our presentation, and this is based on current spot prices and does not have any government intervention benefit in it. Why is that? There is a wide range of government actions that are being discussed all across Europe. You mentioned the German plan, which is definitely the largest, but other countries are also working on anything from tax rebates, all the way to the more material price caps.

We are not including this in our forecast at the moment, because there is still a substantial level of uncertainty. If you take the German measures, they still need to pass through state aid evaluation from the EU, we are not yet clear on what conditions may be attached to them. So we remain cautious at this stage, it could be material. If we talk about Germany alone, it could be over €100 million benefit to our P&L with the type of measures which are being discussed at the moment.

Nick Delfas (Redburn): Just two questions on revenue growth if I could. The first one is on business, so slide six. You did 3.4%. Could you talk a little bit more about the components of that growth? Is that all connectivity? How much of it is software as services?

And then the second question is around base management and lifting prices on the back book. So I think I am right in saying that there is no plan at the moment for the most part to lift prices in Germany, specifically on existing subscribers. So the price increases you are talking about all new subscribers only.

Nick Read: Let me just answer the base one because it is simple one. And I will let Margherita maybe talk to the business revenue composition.

You are right, at the moment, it is front book changes that we have made. I would say that Germany in the past in terms of cable has put through price increases quite consistently every year, and done that quite successfully. We have not announced anything at this point. And it would not be appropriate to talk about anything in the future on pricing at the moment. However, clearly, we are assessing our options.

Margherita Della Valle: And on the service revenue growth in business, 3.4% in the quarter - this is still, I would say, in the main with limited impact from the big initiatives of the European Recovery Funds. When we talk about digital toolkit in Spain, vouchers in Italy are starting to come through but not yet. These have been mostly delayed for administrative reasons.

What is driving the current acceleration is essentially two things. One is the beyond connectivity part of service revenue. It is about a quarter of our service revenues now growing in excess of 25% year-on-year, and you have a full range of areas which are growing very strongly from IoT, which is growing in the high-single digit, cloud 30% year-on-year. There is a wide range of digital services accelerating.

And also, if you look at it, instead of from the product mix, from a segment mix, I would say, we are seeing strong acceleration into the public sector, where we are growing double-digit at the moment. And some of it may be tender associated to the European Recovery Funds. Some of it is simply higher demand that we are seeing now.

Nick Delfas: And in terms of the margin of that growth, is it similar to the Group margin. It is not dramatically different?

Margherita Della Valle: We are seeing good margin growth also in the quarter as much as we see service revenue growth. So margin dynamic is actually quite good.

Nick Read: Nick, we deliberately do not go after, let us say, product services, that, let us say, that are very, very low margin. I mean, that is not the type of business that we focus on.

James Ratzer (New Street Research): Two questions, please. So I was not expecting this morning to be asking questions about the FY24 guidance. But given you have the slide in there, where you talk about some of the considerations for it, I was wondering if I could just drill in on that in a little bit more detail. So firstly, on the margins, you seem to have three red ticks down and two green ticks up, on the margin. But at the same time, you have also mentioned that does not include potential uplift that could come in from energy caps.

Well, first of all, should I read that slide as saying margins for next year might be slightly down. But could it be that if the energy caps come in, margins for next year could be stable or maybe even up for next year? And if you could say anything about what we should think about for the base level for free cash flow for next year, if you can say anything on that?

And then the second question I had, just a broader question on Germany. I mean, Philippe has been in as the new CEO since July now. I mean I think a lot of the commentary you have talked about today, Nick, has been about successfully fixing some of the problems that were

there in the past. Can you give any commentary on how Philippe is thinking about maybe driving new initiatives in Germany from here going forward over the next few years?

Margherita Della Valle: On FY24, of course, we need to wait for the guidance in May. But we wanted to use the presentation to start highlighting the key moving parts ahead of FY24, given the macro environment we are facing. And going on to the mix, I say we see two major drags to our performance next year. One is specifically energy inflation, take it as current condition, current spot prices, €500 million. The second is, of course, the wider inflationary pressure that will affect wages and also other costs.

Against these, I think on a more positive note, we should expect Europe to have some structural elements of reacceleration embedded in its performance as we have discussed today. So we will have a weaker exit this year because we have suffered from customer losses. But we have reaccelerated the commercial performance in Germany and Spain. And this will be supportive from a demand perspective.

On the demand front, there is the possibility of some macro pressure, but we will also have the benefits of the price increases that we have just talked about. And then finally, we will have the actions that we are undertaking on costs as part of the new €1 billion target that will also be the favourable.

I mean, net-net, I cannot be drawn into EBITDAaL guidance at this stage. We will have to come back in May.

You asked about free cash flow, maybe I can add an element there. We have not yet done our CapEx planning for FY24 again at this time in the year. But I would say you will have seen us for FY23, confirming our €8 billion CapEx spend, excluding Vantage growth CapEx. And looking ahead to FY24, we feel broadly comfortable in maintaining our current level of capital intensity.

Nick Read: James, let me speak for Philippe, who we will all have an opportunity to meet him in due course. But if I sit back, I was just thinking that there has really been four things that I have talked a lot to Philippe about what he has been focused on. First was rebuild the team with the right skill sets and capabilities to execute the plan. And he has done that. And I have got total confidence in that team. We have done some important additions that I think will make a big impact.

I would say secondly, it was about execute through on the plan that was in place for the remedial actions, and he has accomplished that. The third which they have been working on for the last couple of months was I was concerned about there were too many initiatives in that business, and they needed to be rationalised, focused down, with clearer prioritisation to drive execution success and growth.

And I was really pleased that we had a review a couple of weeks ago in Germany for a whole day with the team. And they were presenting back on that, that prioritisation and trade-offs that need to be made for execution for next year. Now, clearly, I cannot go through what all of those were. But we are very happy that now is a more focused plan.

And then the fourth thing, from my perspective, was really just continue to execute through on all the investments we are doing around the network, both mobile and fixed. It is a big agenda, because if you think about the mobile side, coverage obligations, ensuring that those

are executed through. And then on the fixed side, we are forming a new JV, we are meeting our partner, I think, it is next week or the week after, to go through detailed next steps, etc.

So these are, I would say, the first four things. He will also say he is communicating, he is getting now into the business, he is meeting customers, he is understanding the challenges, issues, what more we could do to improve the experience. So there are many other things, but these are the four things I would call out.

Well, thank you, for everyone for taking the time to join us. I am sure that we will meet in due course over the next couple of weeks, one way or another. Thank you.

[END OF TRANSCRIPT]