Vodafone Q1 FY23 Trading Update Q&A

Monday, 25th July 2022

DISCLAIMER:

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

These transcripts contain forward-looking statements, including within the meaning of the US Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties because they relate to future events. These forward-looking statements include, without limitation, statements in relation to the Vodafone Group's financial condition, results of operations and businesses, including guidance on the Vodafone Group's FY23 Adjusted EBITDAaL and Adjusted FCF guidance and certain of the Vodafone Group's plans and objectives. A review of the reasons why actual results may differ from these forward-looking statements can be found by referring to the information contained under "Forward looking statements and other matters" and "Risk Management" in the Vodafone Group Plc Annual Report for the year ended 31 March 2022 and under "Forward looking statements and other matters" in the Vodafone Group Plc Q1 Results for the three months ended 30 June 2022. These reports can be found on investors.vodafone.com. Except as otherwise stated and as may be required to comply with applicable law and regulations, Vodafone does not intend to update these forward-looking statements and does not undertake any obligation to do so.

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

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

References to Vodafone are to Vodafone Group Plc and references to Vodafone Group are to Vodafone Group Plc and its subsidiaries unless otherwise stated. Vodafone, the Vodafone Speech Mark Devices, Vodacom and Together We Can are trademarks owned by Vodafone. The Vantage Towers Logo and the VT Monogram Logo are trademarks owned by Vantage Towers GmbH. Other product and company names mentioned herein may be the trademarks of their respective owners.

Introduction

Nick Read

CEO, Vodafone

Good morning and thank you for joining both of us for the Q1 update.

Margherita Della Valle: Hello, everyone.

Nick Read: So, before we start with questions, I thought I would make four points on the results that we went out with.

First of all, we have executed in line with expectations for Q1, delivering another quarter of service revenue growth, both in Europe and Africa. Group service revenue was up 2.5%. European service revenue up 0.5%, and we saw an acceleration in business revenues up 1.7%.

I'm particularly pleased with the UK business. It saw service revenues grow 6.5%, and a double-digit performance in Consumer. And that was supported not only by price increases, but also the very strong commercial momentum that we have in the UK. I think it really is a good demonstration of the value versus volume formula that we think is positive for the overall industry and supports healthy returns for good investments.

Second, we made good initial progress towards stabilising our commercial performance in Germany. Our contract mobile customer base was stable in Q1, and our broadband customer losses halved in the quarter. We are on track in terms of our customer journey and IT issues in terms of resolving them within Germany by the end of summer as planned, and we should see a further gradual recovery in our commercial performance.

Third, we are not immune to the current macro situation, but our business is resilient. With results in the quarter in line with our expectation, we are reiterating our guidance for the year, as we set out in May.

And fourth, our near-term portfolio priorities remain unchanged. We continue to actively pursue opportunities for Vantage Towers, and to strengthen our market positions across Europe.

And on that, we welcome your questions. If I can remind you all, please can we stick to one question each, so that everyone gets a turn. Thank you.

Q&A

Andrew Lee (Goldman Sachs): A question around Germany, where the key investors debate, I guess is at the moment. The question was just specifically how you are progressing with your actions to resolve those operational issues, post the telecom law change, and specifically whether or when you can stabilise the broadband base? And what that means for service revenues?

And if I may, just the broader question that everyone is debating, and in light of Telenet recently becoming yet another cable operator to accelerate its upgrade to a full fibre network.

Just if you could talk us through what the characteristics of your German cable business are, that gives you the confidence that cable can really compete versus fibre?

Nick Read: So**,** Andrew, that was a multi-part single question. So, you have managed to cover a lot of topics within that. I will let Margherita maybe talk a bit around the outlook.

But on Telenet, I would just be very short. I think you should look at cable executions on a market-by-market basis. There cannot be a read across because every market has very different circumstances. So Telenet, as an example, had a very specific JV arrangement and that JV partner had to basically agree to the path going forward. And I think therefore, it is not a complete read across to others.

If I move across to Germany, and the progress we are making, first of all, let me start with the network, then as you raise it, very pleased with the progress we are making on the network. I mean, we have been heavily investing and upgrading the network over the last 18 months specifically. And now we have just gone below our targeted congestion levels across our footprint. And we are confident that we can hold below those levels moving forward.

So, we are pleased with what we have been doing on the network side. And actually, this summer, we will be doubling the uplink capacity in the heavier segments within the network. So even further enhancing the customer experience and we will continue to do upgrade programmes moving forward.

I would say specific to the challenges, the operational challenges we had, obviously, we had IT and the customer journeys, and we have made substantive progress there. First of all, in terms of IT stability, our front-end system stability. We are now achieving for the quarter 99.6%. We would like to get to 99.7%. That is the goal for the coming quarter. But stability is no longer an issue for us. We have also been working on the key customer journeys and made very good progress on the journeys the count, though, there are more to do over the summer period.

And what I would say is finally the backlog of IT tickets. So, this is, if you like, the changes we need to do to our IT system. We had a backlog. We have cleared 75% of that backlog, and on track to do the remainder 25% over the summer period. So, I look back and say, look, we have worked hard. We are in line with our expectation. And as an aggregate, if you like, therefore, of all of those actions we are doing, we think we will have gradual progress on our broadband performance. And we will see ourselves stabilised during H2.

Margherita Della Valle: From a service revenue perspective, you have seen the sequential slowdown that we have had in Q1 quarter-on-quarter. This is largely driven by the customer base dynamics, of course, and the decline we have seen, particularly in fixed broadband, because fixed broadband has been a key growth lever for Germany so far. And in the near-term, you should expect the service revenue to continue to slow in the coming quarter as a result of this dynamic.

Now there is always a lag in the flow-through from commercial performance into service revenue. And this will also be the case on the way up. As Nick mentioned, we have now stabilised the mobile base and halved the losses in the fixed broadband base and we are heading towards stabilisation there as well. So, in time, this will also support the financials going forward.

Emmet Kelly (Morgan Stanley): So, you recorded Group service revenue growth of 2.5% in Q1. Can you maybe just talk a little bit, Margherita, about the puts and takes on the service revenue growth rate for the next couple of quarters? And if you could maybe just throw a reference into B2B or Enterprise into the service revenue mix as well, given the warning we had from AT&T and Verizon in the States last week?

Margherita Della Valle: Sure. As you have seen, we have continued to deliver good growth in both Europe and Africa, 2.5% for the Group, 0.5% for Europe. Now, specifically for Europe, you should expect our growth to be a little bit more challenged in the next couple of quarters, for the reasons I was just sharing with Andrew in terms of what the dynamics are in Germany at the moment, but also because we will, in the near-term, have a bit of a drag from Wholesale. We will lap the Poste MVNO in Italy, exit Virgin in the UK. So that will be a headwind.

On the other hand, we are expecting to get a good tailwind from the European recovery funds in the second half, particularly in Spain, it is going to become material. And we also expect good growth to continue across the Group with Africa reaccelerating.

Now you mentioned business and you mentioned the comments that you have heard as well. And it is important as we look to the midterm that we mentioned the macro environment around us because there is material uncertainty, inflation, war in Ukraine, is this going to have an impact on consumption? I can say that as far as we are concerned, in Europe, we did not have any signal so far of any optimisation going on.

If I think specifically about B2B, we have seen a good acceleration in our service revenue. We are not seeing any signals of any slowdown in the project work, which, for example, could be a KPI indicative of that. But of course, we will continue to monitor, and particularly as we look forward to the winter months, I think we will need to keep our eyes open to that.

What I can say is that as far as our own performance is concerned, our execution at the moment is tracking well in line with our expectations. And you would have seen that we have reconfirmed the guidance for this fiscal year.

Polo Tang (UBS): Just one question in terms of M&A. You have been very clear in terms of your desire to undertake M&A on towers and pursue in-market consolidation in Spain, UK and Italy. However, with Orange formally announcing its merger with MasMovil in Spain and Deutsche Telekom selling a controlling stake in towers to private equity, how do you see your options going forward? And can you give us your latest thoughts in terms of M&A and the portfolio?

Nick Read: Yeah, Polo, I would like to keep the discussion around M&A, fairly high level, because a lot is going on behind the scenes and we are making good progress. But if I was going to touch on the four areas, I would say, first of all, towers. We have had and continue to have extensive conversations with a number of players around towers. The objective is very clear, and I have shared with you before, the fact that we want to partially monetise. We want to deconsolidate whilst staying in co-control. And we believe we can achieve that objective and working hard on it as a priority area.

I would say secondly, Egypt, I would say, has been a slightly longer process. You have to get two regulatory clearances. One is the national regulator authority, and then the second one is the financial regulator authority. We are nearly at the phase of closing out the first and then we will have to move to the second. So that has been slightly protracted, but we are confident that we can close that out in the near term.

I would say the third area is in-market consolidation. I really cannot go into any details. We are active across the four markets that we said were a priority.

And then, finally, in terms of Germany fibre JV, very strong appetites in the market for obvious reasons I would say. And we are just at the process in the coming weeks that we will go into a down selection to a smaller number of players to advance those conversations.

So clearly, we are working on all of these things. And we will have more to share by the time we get to November results.

Georgios Ierodiaconou (Citigroup): Wanted to focus more on an update on OpEx and CapEx? I know the results are more about service revenues. But if you could share with us any thoughts you are hearing from a lot of your peers around labour costs, energy costs calculations changing as we pass through the year. It would be great if we could get an update from you.

And if you do not mind, just a clarification on the answer you just gave regarding Vantage. You mentioned partners. I just wanted to clarify whether that could include financial partners or whether you are still more focused on finding like-minded MNOs as your partner?

Nick Read: Regarding partners for Vantage Towers, I mean we are not restricting the list of partners that we engage with. Like-minded just means that we share the same vision and strategy for Vantage Towers and what the potential opportunity can be for organic growth and inorganic growth. But that is more what we meant by like-minded.

Margherita Della Valle: On costs and inflation, I would say two different sets of circumstances between you mentioned energy and wages. I will start from the wage front because it is simpler. We have now gone through effectively the cycle for this fiscal year in Italy, Spain, UK, Germany. We will move to the next round for the following year in January. So, the situation is quite stable for us, and we can reconfirm what we said in May, which is low single digit increases on this front.

Energy is a completely different set of circumstances. And we see very high volatility in energy prices in the market. If I go back to where we were in May, I think you have heard me say that we were at the time three quarters hedged for this fiscal year, roughly 75%. But even with that, we were forecasting a 200 million year-on-year increases of energy OpEx.

And well, fast forward to today, two months on, prices have gone up again. Our hedging has progressed as well. So, we are now 85% hedged. But on the back of the geopolitical news flow, prices have continued to increase. And if we were using the current spot prices, the year-on-year increase that was 200 million, two months ago is approaching now 300 million for us.

There is a substantial level of uncertainty surrounding the energy environment. Clearly, the key driver is the geopolitical news flow, as I mentioned, but also what will the governments do about this? Will they take action, as we have seen happening in Spain or not? Where will consumption go? Will consumption decrease and ease on prices or not? I think it is very difficult for us to speculate on that.

What I can maybe build on is what we are doing about it. We are clearly working on the hedges, like everyone is, at the moment. We are hedged almost 40% also into FY2024. But the most important lever we have is to progress more long-term structural deals like PPAs, Power Purchase Agreements. It is a much quieter market. It has not been as volatile. So, we are working to expand on that front.

Sam McHugh (Exane BNP Paribas): Just to follow up on that last question, actually. And I was trying to do the mental gymnastics, but I am not awaken enough this morning. For next year, FY2024, assuming energy prices were to remain as they are at spot prices, what is the step up in energy costs for FY2024 versus FY2023?

Margherita Della Valle: We are still a very long way away from FY2024, Sam. So, I think it is early to do calculations on that basis. But if I can again go back to how we look at it. So, first of all, we have hedges and long-term contracts in place that are helping mitigate that and we think there is a good opportunity to expand. We used to have only about 5% to 10% of PPAs in our renewable portfolio. And clearly, this can be extended.

And if you look at the pricing in the PPA market, it is a fraction of what the forward curves are. But also, beyond that, the uncertainty is just very significant on the elements I was calling out before, particularly around government intervention. And also, I would say you should not consider this in isolation.

I would say if prices were to remain at the same level as they are today in the forward curves for FY2024, I think we will have to see much bigger adjustments in the broader economy, if we get there and also for the industry. And in that context, certainly pricing also has to become a key tool in that respect. But there is still some way to go, and we need to see how the geopolitical environment evolves.

Sam McHugh: I was going to ask on the 40% hedging though. Can you say what price the 40% has hedged at? Is that higher than current prices? I do not know if it makes sense to give any detail.

Margherita Della Valle: Yeah. So maybe the best way to describe it is more than half of that was already locked in before the Ukraine war. So, we have a long running base to count on. And again, we are extending the structural 10-year deals which are PPAs, which, as you will have seen are not anywhere near the multiples of historic highs that I think are what the forward curves indicate at the moment.

By the way, as I said already in May, clearly there is a lot of uncertainty. At some point, this headwind will have to turn into a tailwind, and you see it in the forward curves. You see it in the PPA pricing. It is not going to last, let us say, forever. But there is uncertainty clearly.

Robert Grindle (Deutsche Bank): Nick, I would like to pick up on your value versus volume point. I reckon the UK is seeing mobile service revenue per gigabyte falling by around 12% year-on-year, which is probably lower than the annual deflator of your unit capital, perhaps for the very first time. It feels like a big deal. Behind your comment is it that you are optimistic, you will see slowing mobile volumes that are much better return economics, as unit price deflation improves across the Group as much as the UK seeing lower falls in unit revenues?

Nick Read: Yeah. I'm sure, Margherita has some builds. But I stand back and think this industry needs to improve returns. And governments want investment, and they want accelerated investment to be globally competitive. And so, with that mindset, I think that there is a view that when you look at the pressures coming from energy, we are not going to recover that just by chasing customer volume. I mean, I think that would not be a productive path to better returns. And therefore, pricing has a part to play.

Now, of course, we cannot really talk about pricing too much. But what we are saying is, we need to be very proactive. And I think we need to be systematic and structured, and sequencing at the right time, our various actions market by market, depending on the circumstances.

There are two things that I think are really important from a structural perspective. There is, number one, the market leader, if you like, the largest player in each market needs to play their part on driving a healthier sector. So, what are they doing? And then I would say, secondly, it is very important that there is front book discipline, if you are going to take pricing action.

And if we use the UK as an example, we led on the front book, both mobile and fixed. Fixed stuck, so I would say that basically everyone followed in the marketplace. Mobile, we have yet to see that movement on the front book. Now, of course, there is time and energy will be an increasing pressure for people to reconsider. But these are the things that need to be in place. So, the leader needs to play a role. And there needs to be front book discipline. But I do not know if you want to comment on other markets and mechanisms?

Margherita Della Valle: Yes, exactly. We are very engaged on this topic, and we have been for some time now, different mechanisms and approaches in different markets. The UK model is now embedded in the contracts across five of our European markets, UK, Ireland and three other cluster markets. And where it has been activated so far, it has landed well. I think it has established itself well.

We are not progressing exactly in the same way across markets. And if you move towards southern Europe, in Italy or Spain at the moment, our focus is on simplification of our range of pricing plans and options. So, if I take Italy, as an example, we may have mentioned this in the past, we are currently midway through a migration of our full customer base in Italy from hundreds of legacy tariffs and options layered over the years to just five mobile plans. And this is a accretive migration. We have already contacted almost four million customers there and in the second half of the year you'll see the support from that in our results.

Nick Read: What I would finally say, just to the point of the UK, because everyone can get a little bit fixated on the percentage. We are talking £1 to £2 price increase per month per customer. When you put in that contrast of what the inflation is in food or fast-moving goods, or fuel for your car or the energy bills, I mean, put it in perspective, these are very small. So, we offer a huge value for money for consumers. Of course, we want to give a good network experience service experience, so we have to invest right now.

James Ratzer (New Street Research): I would actually love to pick up on that last question exactly what you just finished off there with, Nick. Because I mean, I hear you that the changes on overall consumer bills at the moment from meeting inflationary targets are reasonably modest, absolute sums of money. But yet saying that, it seems that apart from in the UK, the industry as a whole is actually struggling to pass those relatively small euro per month increases through to consumers. So maybe if you could just kind of drill into the front book pricing in a bit more detail?

I mean, Margherita, you just mentioned some examples of contracts simplification you are trying to do in Italy. But what else are you trying to do in, say, Germany and Spain? And in particular, what are you seeing from the competitors in those markets? Because I get the feeling that it is still a struggle to push through front book price increases, potentially because of competitive pressures as well. So, it would be interesting, just if you could dig into that in a bit more detail, please?

Nick Read: Like to give a perspective in our build?

Margherita Della Valle: Sure. As we were mentioning earlier, it really depends of circumstances. What I think is common to all of us at the moment is the impact of inflation on costs. And as Nick was mentioning earlier, we cannot expect to recover that. Neither us, nor our competitors can expect to recover that through volume growth.

And if these increases remain structural, which, as I was saying earlier, remains to be seen, particularly as we are heading towards the winter, it is important that pricing becomes the tool. We cannot comment specifically on every market. But clearly, we are closely following the competitive dynamics. And as you know, they depend on the market. So, for example, in Spain, there have been some prices increases put through recently, and we will keep our options open on the review in each of those individual markets.

Nick Read: James, and if I was just to build on some of Margherita's point, and I am just reflecting on the various conversations that we are having more structurally, is just you need to look at high value customers I think that tend to be loyal, lower churn, more converged. I think there is an opportunity through base management, etc. And obviously, the front book has to follow that.

I think you are seeing a number of countries putting through price increases at the high end. Then you have got the value brands. I think the value brands to-date have not been putting through price increases. However, everyone is going to be under cost pressure because of energy and various other things.

So, this might be the first year where you see those value brands having to respond. Otherwise, they are going to face severe margin squeeze. And a lot of these do not make a lot of money anyway or could even be negative. So, I think suddenly, there may be a reappraisal at the low end just what they do.

I think importantly, for the sector and something I have talked a lot to governments about is we need to do this to improve returns. However, at the same time, we do an execution very much focused on the vulnerable. And so, we have a whole series of special social tariffs that we are executing and making it very clear what we are doing in an area for governments, and also as part of that, people that are struggling with payments. We are not really seeing signs of that at the moment, but we anticipate when it comes to the winter, etc. So, setting up dedicated teams to help customers, understand how they can reschedule the payments to us whilst maintaining service and connectivity.

So, we want to be proactive in that part of the social responsibility area, but that should not hold us back from doing more broad price actions, just like every other industry sector is doing.

James Ratzer: And so, on that, would you say relative to say three months ago, when you last reported earnings, there is actually more receptivity within the industry to engaging on constructive pricing changes than we were back in May?

Nick Read: Well, James, do not make it sound like we are coordinating pricing across Europe, because that definitely is not happening. So, what I would say, pricing is very difficult to talk about. All I am saying is the pressure from energy is that I hear starting to feed through to the industry to say, hold on a minute, we are not going to make this up on customer volume. We have got to pull the price lever. Every other sector is doing it. Why are we not doing it? I think there needs to be a response industry wide.

Jakob Bluestone (Credit Suisse): I just wanted to get back to Germany, where you have flagged the improvement in net adds for both postpaid and for fixed. But the one net adds metric that seems to be getting worse in Germany is for convergent customers. So, a year ago, you were adding about 300,000 consumer converged customers, and by now it is small declines. Can you just help us understand what is going on there? And is there a shift in commercial strategy in Germany away from convergence?

Margherita Della Valle: No, I think, Jakob, it is very mechanical. Think about it. In the context of the telco low churn acceleration we have seen, for the last couple of quarters, fixed broadband net adds have been negative. So, by definition, this influences the base for convergence. We were offsetting that until last quarter, because we were running marketing campaigns specifically on convergence. These have paused in this particular quarter, hence why you have seen the numbers broadly flat, but we continue to see a significant opportunity to grow convergence in Germany.

And as the fixed broadband base numbers will stabilise and then grow again, then you should expect to see this continuing to grow.

Nick Read: And just why we paused it was just we have been dealing with the customer journeys, IT and prioritisation within the business. So, we just said hold on, we just pause that while we work on some other things that are higher priority and then we start again.

Carl Murdock-Smith (Berenberg): I wanted to follow-up on James's question. Obviously, he was asking you about recent activity in the market with regards to operators. I wanted to go back to the social contract, and I do not want to steal too much thunder from September's briefing. But obviously, there is more political uncertainty and instability and change in leadership now across several markets than we have seen in recent years. And as politicians are balancing the long-term importance as you are talking about the need for investments with the near-term pain and potentially populist agenda of need to control the cost-of-living crisis, how receptive are governments to conversations around the social contract now versus where they were, say, six months ago?

And then also just a follow up on the Virgin MVNO revenues? At what rate should we expect those to fall off across the coming quarters?

Nick Read: Okay. I will let Margherita deal with the second one. In terms of the social contract, what I would say is that the pandemic created a tailwind of engagement. In other words, the intensity that governments deal with us, and I do not see that diminishing. So frankly, if I go into a market, governments want to meet, they want to talk about investment because in the end, let us not forget, okay, we have had the Ukraine war, but essentially the biggest thing they are trying to drive is the digital agenda because they know that that is huge for economic growth of Europe moving forward.

So, it stays very prominent in their mind about the long-term drive and investment that they need. And so, they want to engage on that. And what can they do? And of course, the EU recovery funds has a big digital agenda component to it. And all the markets have said what the programmes are going to be. And now they got a very short period of time to execute through those programmes. So, they are very engaged with us through that.

I would say, secondly, our response for the Ukraine has been excellent, I believe, as a company being recognised by Europe, and many other countries for the pro-activity that we had in terms of supporting refugee camps, migrants, just all of the problems and issues that have surfaced from Ukraine. Of course, we continue to support our partner in that market. So, what I would say is that that in itself has just increased the conversation, adding security, resilience to the conversation.

The one thing that we do need to make sure that they understand is all the things we are doing for the vulnerable in society and the ones that the comments I was making before. And I think we have been very proactive in that. And we draw that to their attention as well. So, what I would say is good positive dialogue with governments. I think the sector has definitely moved into a different position of strategic importance critical. And a sector that has lent into supporting society understands its societal role. So no, I would say they continue to be supportive.

Margherita Della Valle: On the Virgin MVNO, Carl, see it as neutral to the year-on-year growth of the UK in FY2023 over the full year. We expect the same identical contribution that we had last year on the basis of our timing of exit expectations. Clearly, within the year it is front-end loaded to the first half. Would become negative in the second half in terms of how many tens of basis point that means, you can work it out of the other revenue line in the UK. That is the important driver there, but overall, for the year, neutral.

Jerry Dellis (Jefferies): When Deutsche Telekom announced the divestment of a stake in its tower asset to infrastructure investors, they were of course willing to give up control in return for some quite strong contractual protections. So, as you think about your own opportunities around Vantage Towers, does co-control really still need to be a red line?

And then on top of that, I would be interested in whether there is a possibility that you might be willing to, for example, reframe elements of the MSA contracts in order to get a deal done?

And then finally, perhaps if you could perhaps comment on whether you see this as being an urgent situation to resolve or whether really it is just still mostly important just to make the right decision and take whatever time that requires?

Nick Read: I think my short answer to these, because I mean, obviously, we are actively involved in discussion. So, I do not really want to go into too much detail. I would not call it an urgent situation. What I would call it is our top priority. And there is a slight difference to that. We want to get the best outcome for our shareholders. And that is what we are focused on in terms of value creation. And therefore, when we look at variance, of course, to deliver the best outcome for our shareholders, what I would say about co-control is I do not think that us having co-control in the construct that we are discussing is inhibiting anything around value.

So, I think we have a strong interest by serious players. And so far, our objectives do not stand in the way of value from a transaction perspective.

In terms of MSA, I mean, if there was a strong reaction to some of the clauses, of course, we would sit down and discuss, and you have to go through the equation. We must remain competitive as a commercial business. So, we are not about maximising the tower value at the expense of competitiveness of our commercial business. It has got to be a balance, yeah. So, we think we pitched the MSA currently with that amount of balance.

And bear in mind, I was on Indus Towers' Board for about four years. We took a lot of advice from the American operators and other operators to see what the optimal MSA would be. So, it was a long process to get to what we felt was the right MSA. So, we would challenge hard the need to change it, put it that way. But of course, we are always open.

David Wright (Bank of America Merrill Lynch): My question is, you mentioned the EU Recovery Fund as a supportive tailwind in H2. And I think you have identified Spain as notably beneficial. What I wanted to understand is a lot of the opportunities with that also include you as an effective hub to resell products for some of the exposed B2B clients. So could we see a situation where we are driving service revenues up, but actually these are extremely low margin revenues. So, it drives the service revenue up, but we actually see the margins dilute a little. Is that the way we could be thinking about that dynamic in the second half?

Margherita Della Valle: Yes, but not in any significant way, David. We have worked on our business cases very hard to make sure that we had the right margin from this product. I perfectly understand your angle. But actually, we do quite a lot of work on behalf of our SME customers because we are talking if we talk about the Spanish plans of SME customers. We are doing quite a lot of work in aggregating and packaging the services and bringing them to the market from what could be small companies themselves that are effectively offering those services.

From that perspective, we are getting what I would consider a good margin, see it as in the 30% space for the current digital toolkit activities in Spain, which I think is good and was clearly a key focus at our end. So maybe not the same margin, at EBITDA level, pure connectivity, but just at EBITDA level, different versions on cash, but still quite good.

Nick Read: And David, what I would just build, one of the things we made a very conscious choice, because I agree with you, there is going to be a range of these EU recovery fund projects, some of which may make no or little margin.

And we made a very conscious decision. We have a bandwidth. As an organisation, we are going to get very focused on where there is good returns and where we can excel. And we really focus down into three areas: SMEs, which we believe is good margin area, whether connectivity or digital services. Second was health, because these are big projects, but have a lot of connectivity as part of them. And the third was in public sector, where the connectivity was the main component, we would build and someone else would do the fronting for the overall project.

So, we did not want to get into the complexity of some of those projects. We just wanted to be the connectivity provider.

Margherita Della Valle: We have really opted for overall a CapEx-light approach. And therefore, good margins on EBITDA translates in good cash flow margins.

David Wright: If I could follow-up on that particular CapEx-light approach. One of the obvious drivers to improve the return on capital in Spain is to move to a more CapEx-light approach. I did notice the MasMovil deal selling cable and cable investors bit of a classic telco infrastructure deal. You did not mention that, I guess, Nick, in your sort of portfolio or summary. But is that the deal that you guys could consider a de-capitalisation of the network CapEx in Spain?

Nick Read: Yeah. So, we are actively looking at the fixed network and looking at options for that. If you look at the objectives that we are trying to achieve, first of all, we want to future proof the network and access. Secondly, we want to drive higher utilisation. And third is we think there is an opportunity to create value for shareholders. So, we have started that process. We are going through with it. There are obvious players that we would be talking to, and then there are other players. So, it is a very interesting space, and it is definitely something that we will be able to update in November.

Thank you for joining us on the Q1 update. We look forward to engaging going forward and obviously see you in the November results. As you saw from our results, very in line performance, in line with our expectation and reiterating guidance for the year. So, thank you. Have a great break for those that have taken it. Take care.

Margherita Della Valle: Thank you.

[END OF TRANSCRIPT]