# Merger of Vodafone UK and Three UK

Wednesday, 14th June 2023

## Introduction

Margherita Della Valle - *Group Chief Executive, Vodafone Group Plc*

Good morning, everyone, and thank you for joining us at short notice today. I am truly excited to be sharing the news that Vodafone and Three will be merging in the UK to create a third scaled operator with a best-in-class network.

**[Slide 2: Vodafone UK + Three UK]**

As you know, we have been working hard on this for a number of months to ensure we deliver the best possible outcome for all of our stakeholders.

I genuinely believe this deal is great for our customers, great for our country, and great for competition. The combination of Vodafone and Three will transform the experience for our millions of customers by creating a best-in-class network for coverage, speed, and reliability.

The network will be a leader in 5G with our rollout targeting fully aligned ambitions with the UK government wireless infrastructure strategy. Unleashing the power of 5G will drive innovation, economic growth and support the creation of new jobs.

I am joined by Ahmed today, who has been the CEO of Vodafone UK since 2021 and will become the CEO of the combined business. Ahmed joined Vodafone in 1999 and began his career with us, nobody knows this, I think, in customer care, which is something we are both very passionate about.

Before taking questions, we have a short presentation to outline why this is such an important transaction for all of our stakeholders, the value of the merger for our shareholders, and of course, the timeline we will be working to.

Over to Ahmed.

## Presentation

Ahmed Essam - *CEO, Vodafone UK*

Thank you, Margherita, and good morning, everyone, or good afternoon, everyone now. Margherita has just highlighted this merger is really exciting for me personally as it is great for customers, great for the country, and great for competition.

**[Slide 3: Great for customers, country & competition]**

Starting with the transformation this merger brings to our customers, from day one, both Vodafone and Three’s millions of customers will benefit from immediate improvements in network speed, reliability and coverage. With no change to either operator’s pricing strategy this is a significant increase in value for our customers.

This also includes our strong commitments to retain all current measures to support financially vulnerable customers, including our social tariffs. The combination of our networks will also enable broader availability of fixed wireless access products, bringing fast in-home WiFi to more people.

Moving to why this is good for our country, having a better 5G network in place sooner and covering more parts of the country earlier will deliver up to £5 billion per year in UK economic

benefit by 2030, supporting the digital transformation for schools, hospitals and businesses across the nation.

And lastly, the merger is good for competition, both in mobile and broadband, and retail and wholesale.

**[Slide 4: Great for customers, country & competition]**

The current structure of the UK mobile market is not sustainable. The chart presented is from Ofcom and was recently included in the government's Wireless Infrastructure Strategy. It demonstrates the very clear link between the scale and the ability of an operator to earn an acceptable return on capital.

Vodafone and Three are both subscale compared to the two leading converged operators following their own previous combinations. This has created an unequal playing field, where the two larger operators have the ability to invest alongside earning an acceptable return for their shareholders. Merging Vodafone and Three will create a new operator with sufficient scale and returns to invest and compete effectively.

Greater scale will enable us to invest over £11 billion in accelerating the rollout of 5G, which the UK desperately needs to keep pace with leading commitments with leading continents, such as North America and Asia. This will level up the digital divide for customers with reliable 5G network, with broadband coverage, enabling a national fixed wireless access offer.

**[Slide 5: Value-creating merger | Significant synergy potential]**

A mobile-to-mobile combination is perhaps the most value-creating transaction we can pursue. Combining our infrastructure as well as back office operations enables us to lower our capital investment and operating costs, which will deliver over £700 million in annual savings by year five. Of this, around 50% is generated from bringing our networks and IT together. The net present value of these costs and CapEx synergies in total is over £7 billion.

On top of this, there are significant revenue opportunities from cross-selling. Combining the businesses will require integration costs of around £500 million over five years.

And with this, back to you Margherita to outline more information on the structure of the merger.

Margherita Della Valle - *Group Chief Executive, Vodafone Group Plc*

**[Slide 6: Value-creating merger | Structure & key terms]**

Thank you, Ahmed. Vodafone and Three are, of course, different in size with different financial profiles. Vodafone UK reported EBITDAaL is around £1.2 billion, and Three is around half that at a little over £600 million, albeit, there are some differences in accounting treatment between the two, which you can see in the press release.

To achieve our target ownership structure of 51/49, each business will contribute different amounts of debt into the new entity. Three will contribute around £1.7 billion, while we will add £4.3 billion.

The MergeCo will distribute consolidated free cash flow to its shareholders on an annual basis once the JV has reached its target leverage ratio of 2.5x. Three years after completion, then Vodafone will have the right to acquire the remaining 49%, and CK Hutchinson will have the

right to sell. There are specific mechanisms in place to ensure that this happens once the merger has been a success and created significant value.

**[Slide 7: Value-creating merger | Comprehensive governance framework]**

To ensure we deliver on the exciting value creation of this merger for our customers, the country and our shareholders, we have established a comprehensive governance framework.

The Board will comprise a combination of directors appointed by Vodafone and CK Hutchison. I am delighted to say that Ahmed will be the CEO for the combined business, and that our partners at CK Hutchinson are naming Darren Purkis as CFO.

Following completion, the combined business will receive a package of best-in-class services from Vodafone Group, including procurement, technology services and Vodafone business products.

**[Slide 8: Financial effects & timetable]**

The combined business will be consolidated by Vodafone, and the transaction will be broadly neutral to our leverage and will be free cash flow accretive from the fourth full year onwards.

Some summary financial information is presented here with further detail in the appendices and in the full announcement this morning.

**[Slide 9: Financial effects & timetable]**

We expect the transaction to be completed by the end of 2024, and the transaction is subject to certain regulatory conditions, including clearance from the UK's Competition and Markets Authority and approval under the UK National Security and Investment Act.

A key part of the timetable is going to be shareholder approvals from both Vodafone's and Hutchinson's shareholders. We expect to publish a circular for our shareholders later this year, to the extent that one will be required at the time.

**[Slide 10: Conclusion & closing]**

Now before opening up to your questions, I want to close by reiterating how important this merger is for our customers, the country and for our competition.

The combination of Vodafone and Three will transform the experience of our customers by creating a best-in-class nationwide network for coverage, speed and reliability. The network will also enable the UK to be a leader in 5G fully in line with the government's Wireless Infrastructure Strategy. Unleashing the power of 5G will drive innovation, economic growth, and support the creation of new jobs.

The merger will also support competition, bringing together two subscale operators with returns below cost of capital, and creating a third scaled challenger that can compete effectively in both mobile and broadband as well as retail and wholesale markets.

And finally, this transaction will generate significant efficiencies and create substantial value for our shareholders.

Thank you for your time. And we can now open up to the first question.

## Q&A

**Maurice Patrick (Barclays):** If I could just get you to talk a little about potential remedies and your view on that. Maybe you will say it is early, but I think it is quite important when you look at the history of consolidation in Europe over the last decade or so, you have often seen companies promised large remedies, but then naturally the net result is a lot lower because the market gets ruined by remedies. You obviously felt the harsh end of that in Italy and Spain yourselves. So I guess as you make your pitch towards the CMA, I can see your pitch is about better for the UK and better for customers, but what assurances can you give that you are not going to risk giving away so much value via remedies that will actually make this a value destructive deal?

**Margherita Della Valle:** Thank you, Maurice. I would say a very important statement that we are making today, you will have seen it in our press release, is that fundamentally this transaction is very good for competition. And maybe I will let Ahmed articulate that. Let me add that I think that the market has significantly changed; the telco world has significantly changed since the last decision in this respect, and maybe I can build a little bit on that.

But first, Ahmed, why is this a good deal for competition in the UK?

**Ahmed Essam:** So we believe it is a very strong deal to competition because first of all, from day one, customers will be getting much better quality for what is the same price. We also believe that the investment that will go into creating a world-class network in the UK will deliver this quality to our customers, but also to our wholesale partners. So MVNOs out in the market will have access to what is better quality networks than only being limited to a duopoly.

The third thing is we operate in a market today, as Ofcom highlighted in its support, that has two subscale players, not making enough return. If the case is really there for the UK to accelerate on the investment and deliver on the 5G ambition, we can provide the third scaled player that will be able to effectively compete with the two scaled players.

There is also a case around accelerating the deployment of fixed wireless access, which is, I would say, a very important product from a fixed broadband perspective into a wide community in the market.

The last and final point is, I mean, I operate in the market today and I see how competitive the market is. And the market is definitely not limited to four key players; there are a number of MVNOs who have managed to achieve scale, and are very competitive with very low barriers of entry to the market. The share of MVNOs in the market today is north of 16.5% within the mobile market landscape.

**Margherita Della Valle:** Yes. And I think this is a real important point when you compare the decisions that have to be taken today, with the decisions which were taken five plus years ago. As you know better than anyone, the telecom market is very different today and it is split in two layers. One of these layers is the one of MVNOs, which have multiplied the level of competition in the retail space. And this is very different from where we were a few years ago.

Today, if you are an MVNO, ultimately 90% of the MVNO traffic in the UK is taken up by the two scaled networks of our competitors. Tomorrow, we create these third challenges, and

therefore for the MVNOs, there will be more choices of infrastructure, which in itself is going to support retail competition.

The whole merger is predicated on something else. The whole merger is predicated on the infrastructure layer, and that is where we need three networks able to compete with each other to support a healthier competition. So we think it is a really strong difference with the past.

**Polo Tang (UBS):** I have two quick ones. The first one is, can you clarify what is happening with your two UK network joint ventures, given that Three UK and Vodafone UK serve different networks. So how does this impact the level of synergies that is realisable? And my second question is, I know the focus of this call is UK M&A, but can I ask a broader question on your recent meeting with the European Commission and Commissioner Vestager – specifically, what do you think the EC's view is on consolidation? And what do you see as the range of outcomes on the fair share debate in terms of sector CapEx?

**Margherita Della Valle:** Yes. I will start by saying a word on the general environment and then Ahmed, you can then move on to the networks situation in the UK.

As you said, Polo, this is really a call about a UK deal. So I would not expand on that, I will just reiterate what you probably have heard me say back in May already, which is, it is very clear that the changes I was calling out also earlier for the UK are true for the rest of Europe. And there is now a broad understanding about this different situation of the sector also in Europe. And at our end, we will continue to work on consolidation beyond the UK.

You have heard me calling out the fact that a number of Vodafone's market are delivering returns below cost of capital and all these markets would benefit on structural transformation. So we will continue to work on that.

**Ahmed Essam:** So on the network question, there are three points really to highlight here. So if you look into our ambition and what is coming from this deal. First of all, from day one, we would have an immediate benefit as you combine both networks. So there are many areas where you would have gaps and access to other parts of the other network would help compliment that.

This delivers an immediate benefit on day one, but then over time with the £11 billion investment, we integrate and build to deliver more than 95% population coverage of 5G standalone.

This takes me to the second part of answering this question, which is related to synergies. If you look into our synergy run rate, announced run rate, which is £700 million, around 50% of which would come from network and IT. A lot of this will come from a lot of the elements that I would say are not really efficient; we would go into one core network instead of two, we would go into one software instead of two. You eliminate a lot of these inefficiencies and we manage to deliver the CapEx, where it is actually needed in the areas that are not there today.

And then the third part of your question, which is really important, is on network sharing. So obviously, today, we have a network sharing agreement between Vodafone UK and VMO2. There are positive discussions happening at the moment to see how can we make a wider benefit to the VMO2 network out of the sharing agreement so the deal does not actually

deliver only a benefit to the MergeCo network. If discussions evolve with VMO2, which are positive to this date, this might also lead to a very positive outcome for a VMO2 network.

And we are committed to this because it delivers a sharing value benefit for both companies.

**Andrew Lee (Goldman Sachs):** I had a question, then a quick follow up. My question is on the put option. Could you just clarify what the value you have included of the put option in net debt assumptions or what you will include in net debt assumptions? I think you have been saying that Vodafone Group leverage does not change much as a result of the deal on day one. So just trying to understand how the put option contributes to that? And is the put option the key reason for the shareholder vote you have on the deal?

And then if I could just follow up on Maurice's question. You obviously explained justifications for the deal. Congratulations on getting the deal over the line. It has obviously taken some time and there is lots of complexities. The key uncertainty coming up is clearly Competition Authority approval. So I wonder if you could just talk specifically about what kind of breaking points you have in terms of potential remedies, scenarios that would cause you both in Vodafone and Hutch to pull the deal?

**Margherita Della Valle:** Sure, Andrew. I have noted three points. I hope I am going to cover everything, maybe not in the right order. Yes, to the put option being the driver for the shareholder approval requirement under current regulation in the UK. That is correct.

In terms of breaking fees, which is your other points, there are no breakup fees in case of no approval. Clearly, we have stated very clearly why this is actually a great deal for competition in the UK, but as customary, I would say, no breaking fees for that.

On the nature of the put option and the implications for the debt, let me stand back for a second and explain the logic importantly of why the structure of the deal is what it is, which is the following.

Clearly, we wanted, through this deal, to have a clear route for full ownership of the joint venture. And the structure is giving us exactly that with the feature of allowing us to maintain a strong balance sheet as we capture the synergies, which is what I would call the first phase of the execution. And for example, that we have included a threshold of £16.5 billion to potentially move to what I would call an accelerated monetisation if the deal delivers strongly on that front.

And then at the time of potential exercise, and this is important in terms of your implications on our financials more broadly, we have a very wide flexibility if we decide to exercise on how to fund these options, which is a potential mix that covers both cash as well as convertible debt, as well as share. You have seen, we have a range of options.

Now, this being said, the point I think worth noting at this stage is that all the exercise choices and conditions, I think it is worth mentioning are still some time away from here. We need to get through the next 12 to 18 months to complete the approval process. And beyond this, the accelerated value creation scenario is triggering the ability to exercise put and call options after three years. So we are talking four to five years from now, clearly at the right time, at the earliest.

At the right time, we will choose which way to go. And the structure of the deal gives us that optionality. I hope I covered all three points.

**Andrew Lee:** Yes, the one thing, it was not breaking fees I was asking about when following up on Maurice. It was more kind of what are the limits of remedies that might be required that will cause you and Hutch, I am guessing you have got some predetermined limits to say, okay, we are going to pull this deal because the remedies offset the benefits we see from the deal, which clearly could be quite large.

**Margherita Della Valle:** Yes. So we clearly do not expect necessarily remedies, given the type of deal we are talking about. I think this is really important in this case. Do not apply sort of old methodologies and old approaches for something which is really very different in a different set of conditions.

But beyond that, maybe to just reassure everyone and I think this is really the heart of your question. We do not see this deal as compatible with any kind of disruptive remedies, of course.

**Georgios Ierodiaconou (Citi):** Congratulations for agreeing the deal and good luck for the next steps. My first one is a follow up on the network discussion from earlier and from your answer, I guess, Cornerstone is the way you are heading from a network perspective. I was curious to understand if you are thinking about a broader integration of networks like we have seen in Germany with a Golden Grid, or more like what T-Mobile has done in the US where you have an anchor network on which you build and expand and improve over time?

And linked to that, I was curious out of the synergy run rate that you highlighted, how much of that comes from a mobile site optimisation, where there will be reduced sites outside of the cornerstone footprint as part of the synergies that you are discussing.

And then the second question is very briefly, just a comment from you, given that the adjusted free cash flow is only accretive in year four, whether it changes at all how you think about shareholder returns for the Group?

**Ahmed Essam:** So first of all, on the network side, you have to acknowledge the starting point, which is if you look to the Vodafone UK network, as it stands today, there is part that is standalone - it is not shared, [this is] mostly in the key cities. And then there is more end sharing out of this with Cornerstone and Beacon, where the Three network comes along it gives us the opportunity to use the network on top of the layer that we have. Some of it can get, and it will be based on the discussions we are having with VMO2 and how we evolve this agreement. Some of it can be rolled in, if needed, within Cornerstone. And some of it might be overlapping and will be rationalised over time.

So the way we see how we evolve the network going forward, to answer your first part of the question, is to deliver on the first objective, which is; let us integrate the networks, deliver the network metrics that will create the right level of ambition in the market so that we can deliver on our promises. Once we do this, there is a part of, okay, how can we optimise between Cornerstone and out of Cornerstone. And then we get to the end state as we see this integration coming to the end.

To the second part of your question on the synergy run rate, 50% of the synergies, which is the 50% of the run rate, £700 million cost and CapEx would come from network and IT. A lot of it is driven by a single core network, a single IT stack. And this will take maybe some time, and that is why you see the cash flow positive turning negative as Margherita said, in year

four, because there will be some investment, £500 million of integration cost, as we integrate the networks to end up with one IT stack, one network from year four onwards.

The number of sites; I mean, we have an idea about the number of sites we will end up with. It is definitely going to be lower maybe than the starting point where the overlap is. But it will still deliver on our network sharing commitments, which is very important to highlight.

And then you had a question on year four.

**Margherita Della Valle:** Yes, in general, I think your question was on capital allocation. When we last spoke in May, I was highlighting the fact that potential changes to the shape of the Group would trigger potentially the need to review our capital allocation logic depending on what these changes would be. We do not see this deal as a change that triggers a review of the capital allocation structure for us.

And this is, well, for two reasons, which I think are pretty obvious in the numbers. The first is, as you noted, it will take some time for the deal to impact our financials and the initial impacts will be fairly small. So first we have to start to go through these approval processes. So we are talking about at the earliest impacts on FY25 for us, and also near term, the drag to the Group free cash flow is fairly small because you heard us talking about £500 million of integration costs over five years. So relatively small impact.

Then importantly, the deal is going to be accretive to free cash flow over time. So on the back of all this, no need to make changes at this stage, but of course, what I said in May remains true, which is if the shape of the Group was to change materially, we will have to reconsider the overall capital allocation structure.

**Carl Murdock-Smith (Berenberg):** I was just wondering what you would say to reassure those with national security concerns around the deal?

**Margherita Della Valle:** Thank you, Carl. Yes, Ahmed on the UK?

**Ahmed Essam:** So it is a really important question because as you can imagine, Vodafone UK and Three UK are both operating today in the UK, we're both subject to telecom security regulation, we're both subject to customer privacy regulation as well. And Vodafone UK takes this very seriously.

So on any of our security standards, we would have only customer vetted teams in the organisation that would have access. So not even Margherita would have access to this information within the Vodafone UK space, because it is only allowed within these teams.

So it is really important to highlight this. As we approach this deal, this deal, of course, is subject to national security approval, and we will be working with NSIA to comply and to fulfil any of their questions. I believe both companies, that are already operating in the UK, have this really at heart. And I believe we will be addressing all the requirements from the security side.

**Margherita Della Valle:** So in a nutshell, we generally do not see these concerns. We are subject to very strict regulations as it stands today, with a lot of external monitoring as well as internal monitoring. And as Ahmed was saying, it is not a matter of who sits where. The importance of our customer data is already embedded in all the current regulations and will

continue to be maintained in the same way as it is maintained today in the context of the future joint venture.

**Robert Grindle (Deutsche Bank):** Two questions from me. What is the mechanism to inject the £4.3 billion of debt into the MergeCo that is from Vodafone? No external debt is mentioned in the presentation, so I assume that is shareholder loans. Are they paid back to Vodafone before dividends are paid, or can the loan exist for longer, perhaps as a contribution for the call option?

And then my second question is about FWA. Quite a high profile in the deal announcement. Is it that the MergeCo views that FWA is becoming a more major substitute for fixed broadband, given the spectrum and scale of the combined company? So less need for external fibre?

**Margherita Della Valle:** Yes. I will take the debt point and then move on to FWA, which is actually an important part of the deal that is not always called out very clearly.

On the debt point, you are right. We will arrange the full financing for the company from the Vodafone side and expect the repayment to move over time from the cash flow generation of the company. And we have a plan that delivers deleveraging of the company as we drive the cost and CapEx synergy through, and we move through the integration cost. That brings us to 2.5x net debt to EBITDA as the target leverage of the new JV. And then beyond that, as you've seen in the press release, we will start dividend payment on an annual basis.

I would say there is nothing particularly special on the financing considerations. And there is no link - I think that is where you were thinking probably with your question - there is no link between the financing and the put and call options in place.

**Ahmed Essam:** Yes, on the fixed wireless access, it is important to see how fixed wireless access plays a role in the fixed broadband space. I believe it is quite complimentary to the propositions of other fixed products that are there in the market today. Our starting point in Vodafone UK is that we have the widest footprint of fibre within the UK on the back of an asset-light model, where we use Openreach and CityFibre networks and we are open to doing more.

But from a customer perspective, and this is why I believe in that this deal is really good for customers, from a customer perspective, we are limited in terms of choice. And what fixed wireless access delivers is another choice for our customers to use flexibly, to use in areas maybe where there is no fibre, to use in areas where they might not have the access to build even within an MDU.

So I think it provides optionality and choice to customers. And our plans today is building an ambition to deliver more than a 100-megabit product on FWA to more than 75% of households in the UK. This is a big solution to a problem that will take a long time to deliver with the regular fixed products. But it is quite complimentary, and I would not call it a substitute.

So it compliments our proposition in terms of how we address consumers, and it adds to the competition in the broadband space, not only with a new product and a new price, but also with flexibility.

**Nick Delfas (Redburn):** Good luck with the merger. Certainly does seem to be pro-competitive on the US model. I have just got a couple of questions. First of all, on the charges back to the Vodafone Group. Unlike some of the other transactions we have seen in the sector that you have done or Liberty has done, I presume we should expect that to be reasonably stable or even rise over time?

And secondly, just wanted to confirm, in the put call, as the language in the press release a bit confusing. It is 5% of Group shares that you might give, in consideration at your choice in the put call?

**Margherita Della Valle:** Nick, on the put call, there is a phasing mechanism, you are right, starting with a 5% cap. I would direct you maybe to IR to get the full phasing and the full optionality between shares, convertible, etc., depending on how we may decide to exercise it. As I was saying earlier, it is sometime away from now.

Your earlier question was on, the intercompany relationship and the charges. Yes, the JV will continue to benefit from our shared operations and that remains the same today. The UK is leveraging group services on a wide range of areas going from technology to products to procurement. As you know, all the shared operations from which we have built strong synergies over time will continue to be in place and the UK will continue to benefit on the scale there.

Now, it is important to note that you heard me say in May that we are now transforming as well, this shared operations to ensure that they are entirely end-to-end managed through a commercial model. And by commercial model, I mean arm's length relationships, SLAs, and very importantly for me, benchmarked P by Q models so that all our markets, not just the UK, will have the certainty of benefiting from the best supplier in those areas, and I will have a chance to increase the level of efficiencies that we have already delivered from this shared operations. In that context, Vodafone UK will also benefit from this agenda of transformation of the shared operations over time.

**Nick Delfas:** Great. And just a very quick follow up. If the deal were to close tomorrow, roughly what interest rate do you think the JV would be paying?

**Margherita Della Valle:** A question I need to really send you to IR on, Nick.

**James Ratzer (New Street Research):** So I had two questions please, both on the synergies that you are talking about. So the first one, I think, Ahmed, you talked about potentially lowering the number of sites the network might use in future. Does any of these synergies involve reduced payments to either Vantage Towers or to Cellnex? Or does the longevity of those contracts prevent you from making any savings on payments to either of those two suppliers?

And the second question was kind of slightly bigger picture on the synergy number. When I look at Hutchinson today, it is spending 29% CapEx to sales. It is loss-making today. So clearly in your base case to give them 49% of the equity of the joint venture, you must presumably be assuming that Hutchinson as a standalone company is able to reduce capital expenditure and to become a profitable entity. So I kind of wanted to make sure we are not really double counting here that what is synergies you are getting from being a combined

entity, and what is your base case assumption of Hutchinson's underlying standalone CapEx reduction to be able to award them 49% of the equity in the joint venture?

**Margherita Della Valle:** Maybe, you start on the network front, and I take the bigger picture of the relative valuation. But let me say just as an opening that we have had plenty of time in the last few months to really work through consistent business cases as the starting point for the analysis and extensive due diligence on that, and then also building together the synergy case.

But maybe we can bring a little bit more colour to life on these points, which I think is very good question.

**Ahmed Essam:** On the tower's front, I think it is a very good question. So what we want to deliver is over time, we would rationalise the number of towers to where it is needed. So there will be a lot of overlap, but there will also be a lot of gaps. So I think it is important to acknowledge this fact that there will be demand generated in new areas, and also rationalisation where the overlap is.

We already have MSAs governing our relationship with Cornerstone, and contracts covering relationship with other providers, all the minimum commitments, of course, will be delivered. And I think we are talking about the opportunity to scale in terms of deployment on 5G even beyond that.

So in summary, it should not change the commitments towards CTIL, and therefore Vantage. And it should bring more volumes in terms of deployment going forward on the back of this £11 billion 10-year investment.

**Margherita Della Valle:** And on the other part of your question, due to relative valuation, I would say the short answer is yes. We have started from two DCF plans and within those DCF plans, as we have said also earlier in illustrating the deal, we clearly had to take into account that with the current level of returns of the standalone business, the current level of investment that you call out, is not sustainable in the long term with all the consequences that this implies.

But standing back in terms of relative valuation, I think the real important point is taken into consideration, clearly, the DCFs of the two business is standalone. Also taken into consideration the fact that, from a Vodafone perspective, we will own 51%. We will consolidate the JV, we will have control together with the optionality to own the full businesses.

And last but not least, we have not discussed this from this angle yet because we are unpacking the synergies together here. But let me just reiterate it because I think it is really important as we get towards the closure of the call. I genuinely believe this is for Vodafone a unique opportunity of value creation. We have unique access to a mobile-to-mobile merger in the UK, and mobile-to-mobile merger synergies are very significant.

And we have, as Vodafone, but also as an industry, a very strong track record, as you know, of delivery of those synergies. So I think it is a really great opportunity for us.

**James Ratzer:** Could I follow up and ask you, just to throw some numbers here. I mean, Hutchison last year spent £743 million of CapEx. It would strike me, my personal view is to award them a 49% stake in the joint venture. One should be assuming that needs to come

down by around £200 million to £300 million in a standalone case. Is that fair? Should we be then thinking about that on top of the synergy, so you are thinking £200 million to £300 million Hutchison UK CapEx reduction, and then a further £700 million on top of that. So we are thinking £900 million to £1 billion of savings? Or is that just too high?

**Margherita Della Valle:** No, I think this is not the angle, and actually maybe we can help in the coming hours with the IR team to try and build the bridges on your maths. But I do not think that is the right angle. And I do not think this logic of, if you want, inertial CapEx reduction is a big element in the rationale of the relative valuations, see it as DCFs, of course, which have their own assumptions. But I think we may be helpful in rebalancing that together with control on our side as the key driver of the valuation.

We are very pleased with a very balanced outcome from that respect, which allows us to access then the synergy side. But maybe we can have a further detailed exchange later between your team and the IR's team to just specifically unpick. Do not see this as a key driver, is the one thing that I would call out.

## CLOSING COMMENTS

Thank you, everyone, again for being flexible and joining us at short notice. And thank you to Ahmed. And I would say also big effort on our team side and on the Hutchinson side to get here today. So very pleased with the conclusion. Thank you.

[END OF TRANSCRIPT]