Vodafone Group H1 FY24 Results Live Q&A

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H1 FY24 Highlights

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Group Chief Executive Officer, Vodafone

Welcome

Margherita Della Valle (Group Chief Executive Officer): Good morning everyone and thank you for joining us for our half year results conference call. I am pleased to be joined today by Luka, our new CFO. Welcome Luka.

Luka Mucic (Group Chief Financial Officer, Vodafone): Thanks a lot Margherita and great to be with all of you this morning.

Highlights

Margherita Della Valle: Now, since I have been CEO, I have said that Vodafone must change, and we are changing. As you know, my priorities are to focus on our customers, become a simpler business and accelerate growth. To set us on this path we have taken significant actions over the last six months. First of all on customers, we have reprioritised our focus and resources on customer experience and start to see some results. In H1 our NPS position relative to competitors improved in almost all markets. Second simplicity, we have just completed an end-to-end review of our shared operations and the services they provide to the markets. We will now transition to a commercial model with clear MSAs, volume-based pricing for all services and yesterday we announced an agreement with Accenture that will allow us to accelerate this transformation. Last but not least, growth. We returned to service revenue growth in Germany this quarter, supported by our commercial model re-engineering and our broader broadband price actions. Beyond Germany we have delivered a broad-based improvement in service revenue in Q2 with 14 of 17 markets growing and we have reiterated our financial guidance for the year.

In May I said we would focus our investments on markets where we see the right combination of sustainable market structures and sufficient scale to grow and to deliver returns above our cost of capital, and take actions where these conditions are not met. As a result, we have announced our exit from Spain. In the UK we are progressing with approvals for our merger with Three and we are continuing to explore a range of options in Italy. Overall we are making progress on our priorities but of course we have significantly more work still to do to improve the experience for our customers, cut complexity and operate in a simpler way.

We are now ready to take your questions.

Q&A

Maurice Patrick (Barclays): Good morning. Thanks for taking the questions. If I could ask a bit about capital allocation priorities for the Group, please? At the full year results you made a comment around the shape of shareholder returns changing as the perimeter of Vodafone changes. It does look as though perimeter is now changing. After the UK deal you have announced a €5 billion proposed sale to Zegona. When you announced that deal you did say you would review the optimal use of proceeds in the context of a broader capital allocation of Europe closing. So even though maybe today it is a bit premature to spell out exactly what you are thinking, it would be great to understand a bit more about your thinking around optimal

leverage, what happens if rates stay higher for longer and how you think about buybacks, dividends, those sort of priorities, I think would be very helpful. Thank you.

Margherita Della Valle: Thank you, Maurice. You are right. Back in May when we were talking about capital allocation, I said that we would reevaluate our capital allocation if the shape of the Group was to change. We have just chosen to exit Spain because it's a very challenged market and it is really important for me that in Vodafone we focus our time, attention, resources to markets where we have good opportunities to grow. Markets with sustainable structures. Markets where we have sufficient scale to drive returns ahead of cost of capital. In that context, we will do our capital allocation review at the point in time in which the Spanish deal will close. We expect this to be in the first half of calendar year 2024 and at that point we will review the allocation of the €4.1 billion of proceeds that we have from the sale of Spain. In terms of logic that we will follow, the guiding principle will not change. We have three capital allocation priorities around investment, balance sheet and returns. But perhaps, as we now have Luka our new CFO, Luka how do you see this?

Luka Mucic: Perhaps for me it is just important to take a step back because before capital allocation comes capital generation and my first priority actually will be to ensure that the company overall is able to return sustainable growth and cash flow. That is very important and there is no short cut there. This will only come through the focus on operational excellence. You have set the right priorities around customers, simplicity and growth and we will drive them hard across all of our markets. In those markets where this operational excellence focus will not be sufficient, as we have just now seen in Spain because of the market structure, then we will not shy away from taking decisive action either through market consolidation or through an exit. That's important as a baseline.

Now, my thoughts around the capital allocation priorities are as follows. First of all, on the investment side of the house, I am actually comfortable with the levels of capital intensity and capital investment that we are showing to-date across our markets. I don't think that you will need to see a departure from that. I also must say that I am very pleased with the strength of the balance sheet of Vodafone. Actually, as I have been diving deep into it, it is actually quite remarkable. Yes, we have of course significant net debt, but it is having a very long maturity, on average 11.7 years. It has a very decent low interest rate attached to it, on average 2.5%. Actually in the next 18 months we have very limited repayments that are coming up and over the next five years it is actually in total only €13 billion or so. I am based on that also comfortable with the round about 2.5x net debt to EBITDA ratio that we are currently showing. When you then take a look at returns to shareholders, as Margherita has said, we will take our time to look at the optimal use of proceeds and the overall capital allocation framework when the sale of Spain has closed. However, based on what I can see, obviously we are around about looking now for €3.3 billion in free cash flow for FY24. We are on a positive track towards achieving that. The sale of Spain will of course reduce this cash flow a bit but on the other hand we are also focused on operational excellence, as I said at the beginning. We will have a much better way of judging the effect of all of these parameters as we approach the closing so we will update you on that. Since you have asked that question, of course buybacks could be part of that mix as well.

Maurice Patrick: Great, thank you.

Polo Tang (UBS): Hi, thanks for taking my question. It was just about German commercial trends. With the bulk of the repricing in the broadband base done, how confident are you that broadband declines in Germany can improve going forward? Also, where are your latest thoughts in terms of how much basic cable TV revenue you will lose and how much of an impact will we see in January 2024? Thanks.

Margherita Della Valle: Thank you, Polo. On broadband we will definitely see an improvement on the volume trends. The disconnections of the past two quarters have been driven by our repricing. It was admittedly a very low level of disconnection, we are talking about low single digits. I think our customers now appreciate the quality of our product in Germany. We probably mentioned this before, but we continue to be rated as the best fixed broadband product in the market, thanks to our network performance and our speed performance and it’s competitively priced.

As we look into H2, we will still have some disconnections because we have now covered with price increases 60% of the base. We have one last 10% to go through during Q3, so there will be some disconnection also coming from that in the second half. Beyond that we look forward to take our fair share of the German fixed broadband market going forward. On MDUs, the second part of your question, this is something where we will start to see movement from the first quarter of calendar 2024, so our Q4 FY24. We have had very small volumes of movement throughout the summer. We have completed the pre-tests, one of which was ongoing last time we spoke, and we have seen that the redemption rate, the conversion rate towards the new billing have been between 35% and 65%. As a reminder, 65% is I would say, the top-end also because it corresponds to the level of customers actually using the service. Our teams in Germany are now busy to prepare for January when we will start the first volume and we expect the transition to happen gradually between January and July. We have focused on testing all our processes internally in terms of migrations across all channels, online, retail, telesales to make sure that everything runs smoothly from a process perspective. But, most importantly we have been calibrating our commercial approach, our communication, the marketing side of things to ensure that we get the maximum possible results in terms of penetration. It is really a very, very strong focus from our organisation in Germany right now.

In summary, a first impact on service revenue growth in the last quarter this year. You know that our trend of growth in Germany is actually improving and will continue to improve if you set aside the MDU transition. To allow you to see this underlying acceleration trend, we will actually report from Q4 FY24 the MDU impact separately so that you can work out the two components. Then we expect FY25 to have the largest impact from that.

James Ratzer (New Street Research): Good morning, Margherita and Luka. Thank you very much for taking the question. I was wondering if we could talk a little bit about the EBITDA growth phasing going ahead. You have just reported flat organic EBITDA growth, but I think you are saying there is about a five point drag in there from energy headwinds. Could you give us some thoughts maybe over the next two or three half-yearly blocks how that energy headwind might unwind and become a potential tailwind on your growth? Then to what extent that might be offset by some of the German cable TV losses? Do the two offset each other and do we actually see overall organic EBITDA growth rates improve from here? Thank you.

Luka Mucic: Yes, perhaps I will take this question because I have already heard some questions whether our EBITDA outlook confirmation is a sign of German conservatism. If that

is the case, I take that as a compliment. But, to outline what we are seeing here. You are absolutely right. In half year one energy was a €300 million drag on EBITDA. It was actually outperformed slightly on the organic side through the strong revenue performance and also through continued focus on opex savings; we added another €100 million under our opex programme. However, that is something that we are also looking to reinvest in our customer experience initiatives, but it has helped to offset those investments which was very important. When I take a look in the second half year, we are actually by now almost entirely hedged, 94%, so what is remaining is actually in certain markets that we don't have mechanisms to hedge further so I can be relatively precise in a sense that we will see H2 FY24 vs H1 FY24 a relief of €200 million roughly in terms of energy headwind that we will not face.

Now, in terms of the puts and takes on top of that energy topic there are a couple of important ones. On the positive side H1 results in the UK were negatively influenced by the role of an MVNO agreement with Virgin Media; that is now lapping and therefore will also not affect the UK numbers any longer so we would expect the UK actually to return to EBITDA growth. In Germany in turn first of all we will face the initial impact from the MDU transition. "How much it will be?" is a little bit hard to assess and Margherita has covered the trial results, it will certainly take some time before this is fully transpiring. But on top of this, we also are investing from a programme opex perspective of course into all of the processes to now go after the retention of our MDU customers. This is requiring investment from a marketing perspective, from an operational, door-to-door and other retention measures perspective. We have planned for around about €100 million of investment under this notion. Not all of that will actually happen in H2 FY24, but a significant portion of it will happen in H2 FY24. When I take a look at that in combination, I see us actually well on track towards our full year ambition and we will see where we end up. For our next year, we are actually already around about 70% hedged from an energy perspective and we will see this ratio going up fairly soon to around about 80% already. So, I would expect energy to become a tailwind in FY25 even though likely not yet fully returned to the levels of FY23. In FY26 I then fully expect us to be back to levels let's say perhaps slightly above what we saw in FY22. Then of course the underlying growth that we are seeing in the business should translate into stronger EBITDA growth than what you have seen in H1.

Margherita Della Valle: Perhaps bringing it all together James, we have been very clear when we issued our guidance for FY24 that the number we are achieving this year is going to be a base to grow from and we are intending to grow in FY25. As we have just highlighted, we will have the MDU transition impact but on the offset we will have the energy unwind. Plus all the other typical business puts and takes. Net of this it will be growth.

James Ratzer: That's really clear. Thank you for that.

David Wright (Bank of America Merrill Lynch): Okay, I hope you guys can hear me clicking mute and unmute. Thank you so much for the presentation today. I guess just on the whole capital allocation issue, we haven't talked for some time about German fibre. You have obviously got an allocation and an agreement with Altice to co-build around seven million lines or so in Germany but that leaves a lot of cable lines to be invested over time. You obviously have decisions to make with the proceeds of Spain coming up. I am just wondering to what extent fibre build is something that you could look into owning a little more or whether you are going to continue to pursue the joint venture structure? If I might just segue that a little into Holland

where there is a broadly similar situation with a full cable network that needs overbuild. Just any plans there because that business looks very unlikely to pay dividend the next year given its leverage and poor operational performance. What is the future for VodafoneZiggo do you think? Thank you, guys.

Margherita Della Valle: Thank you, David. Starting from German fibre I think that Luka has been clear earlier in saying that we are comfortable with the level of capital investment we have in the business now and this does include continuing to invest in the evolution of the cable network in Germany. Our plan is to build fibre on the seven million households through the JV, as you mentioned, but also continue to evolve our cable network. In that respect on top of being now well invested and delivering very strong performance, it is worth noting that we have just put into our live network high speed DOCSIS in Germany, which as you know allows us to achieve multi-gigabit speeds. Cable itself has its own strong technology roadmap, and by the way, in the Netherlands we have also trialled commercially DOCSIS 4 already. We will keep evolving and we are happy with where we stand in that respect. Back to the Netherlands I would say that we are actually competing effectively there. It is not the only market, there are more that have cable and fibre side-by-side. You may have noticed that in the last quarter in the Netherlands we have been growing in consumer fixed. We are focusing really on the areas which do matter most to the customer at the moment. If you look at what is on offer today from cable, it satisfies entirely all the consumer use cases for fixed broadband. What people mostly care about is their experience in the house, the experience in Wi-Fi., that is what makes the biggest day-to-day differences. This is an area where VodafoneZiggo has been particularly active. As I said, service revenue is going again in fixed in the Netherlands. All the dynamics that you see in markets like the Netherlands between cable and fibre are frankly driven by pricing, by promotions, it is not linked to the actual service.

David Wright: I am not sure that is entirely what KPN is saying but at the same time we have just had a benchmark datapoint from Telefonica with 2026 domestic capex sales guidance of 10%. That is a function of full fibre buildout but more importantly full copper decommissioning. So fibre networks of the incumbents are moving to new levels of capital efficiency and opex efficiency over the coming years, which I think will massively outstrip the ability of cable. Is cable to fibre a "when" not "if" and it is the "when" you are currently debating or actually do you think cable has a future as a competitive technology? Not just to the consumer but economically to you as a Group.

Margherita Della Valle: The cable networks themselves continuously fiberise. When I was talking about segmentation it means more fibre needs work gradually over time. Then at what pace you go, how do you move, also depends very much on market conditions. As you know, the conditions of Spain are completely different for example from the condition of Germany. So what actually makes sense is very different for different operators in different markets.

David Wright: Thank you for your questions.

Ottavio Adorisio (Société Générale): Hi Margherita, a couple of questions from my side. The first I will start is from Spain. You announced the transaction whereby effectively you will be selling the asset to a company where you are holding 75% of the equity. Therefore you will be participating in any potential downside if the turnaround is not successful. Clearly you believe the turnaround to be successful. Therefore my question would be, why did you not do the turnaround yourself? Is there an issue that the management of Vodafone does not have the

skillset, or you believe that your investors are not patient enough? Why are you leaving the upsides to a third party? Considering that, also if the turnaround is not successful you do not have any recourse on the assets of Zegona so therefore you will be left participating in the downside. Therefore, the question is why did you not leave the stake in the asset so at least you got your €900 million back on tangible assets rather than a pledge from Zegona?

The second one is basically related to your leases. We have Luka so welcome to the call. The question is on the leases is, I am trying to understand how you capitalise your lease and liabilities because whenever I do the ratio between how much you pay on leases and how much you capitalise, both of them come really at the bottom. Now, some credit agencies like S&P do make their own adjustments because they feel that your leases are too low. Therefore if you can share with us the assumptions you used to NPV the future leasing payments that would be great. Thank you very much.

Margherita Della Valle: Ottavio I would say probably on the second question that you raised, it is best to follow it through with Investor Relations team later. I am sure we will be able to share all the details with you.

I will take the Spanish question instead. Let's be clear, what we have done in Spain is a clean exit for the market; we have €4.1 billion of cash upfront and we have €0.9 billion of deferred compensation. Then the deferred compensation is supported by a financial mechanism which is the one that you have described, but essentially in a nutshell we will get up to €0.9 billion whenever there will be liquidity events for the company. We are not exposed to "downsides" as such, and we will not be part of any decision making. It is a clean exit. We have sold 100% of Vodafone Spain.

Why did we sell Spain? I go back to what I was saying in the beginning; the Spanish market is incredibly fragmented, over 70 retail brands, five fibre infrastructures, competing to the point we were touching on earlier with David, in the same cities in the same regions. It is a market that will require more than one round of consolidation. I really want us to focus on the markets where we can drive the best growth and the best returns. That is our mission. Zegona's mission will be for themselves to deliver as much value as they possibly can. We are focused on spending our time and attention on markets where we have greater growth opportunities.

Ottavio Adorisio: Thank you. Considering the leases question will be a answered in a different way, can I ask a different question? It is one on the working capital. When we look at H1 we see free cash for Vodafone is always deep red and of course you always attribute this to working capital. This working capital seems to be becoming bigger and bigger, so we just wondered if you can give us the elements and what Luka is going to do going forward to avoid these big swings from one year to another? Thank you.

Luka Mucic: That is perhaps one that I can cover. As I said, I will be really strongly focused on sustainable cash flow generation and that covers all of the aspects, not only working capital management but also how to improve the general cash conversion across the business. A significant part of that mix should also be in the future the accelerating growth in Vodafone Business because that has a much lower capital intensity and actually therefore a higher potential also in the short term to improve the cash flow generation. You are right, when I take a look at the historical evolution of H1 versus H2 swings, they are becoming bigger. We are confident because we have anticipated what we are looking at now in H1 at our full year cash

flow generation. It is also partially a result of the significant buildup that we have seen towards the end of the last fiscal year which has resulted in the significant unwind here. That is fully anticipated.

From a go forward perspective clearly there are some levers, like for example taking a look at the way how we build up or build down the amount of trade receivables that we have. That is mainly driven by handset receivables financing and that could be structured differently. We will take a look at those options, but it is one of the strategic priority programmes that I am driving within the Finance organisation to de-risk our profile in this respect for the future. However, having said all of that, actually where we are right now in H1 is exactly in line with where we thought we would be and hence we were also able to confirm our guidance for the full year.

Ottavio Adorisio: Thank you.

Georgios Ierodiaconou (Citigroup): Good morning, thank you for taking my question. The main one is around Italy and in your opening remarks Margherita you mentioned that Italy is under review. I just wanted maybe to touch on a couple of things. Firstly, the developments we are seeing in Spain whether these encourage you or discourage you in pursuing in-market consolidation. I guess that is objective in competitive markets like Italy. That may also apply perhaps to Romania and other markets but curious to hear from you if you believe based on what we hear whether the options are still available for you.

If you could also perhaps touch a bit on the legislation changes around win back promotions that Vodafone and the incumbent are having in the market and whether that could be a meaningful impact to your business. I hope you do not mind; I will also ask one clarification given a few of my peers have gone beyond the first question, which is around common functions. There has been a significant reduction in losses this quarter. I am curious if it is cost cutting or charging the subsidiaries more. Also if you can give us some indications on how the Spanish deal will affect this division in the next couple of years. Thank you.

Margherita Della Valle: Perhaps Luka I will hand over to you the common functions question and I will start from Italy. The changes which are being discussed on buybacks. For everybody's benefit it is whether buybacks can be customised by the different provenance of the customers or not is what is being debated in Italy at the moment. I think the jury is out on the type of impact this is going to have. I have been reflecting that it can go either way in a sense because it can potentially lower the offers in general, but it could also drive more discipline in the approach that people take to the so-called below-the-line win back offers that are so prevalent in the market. Either way I do not think that will change the substance of Italy being a very competitive market, but I think the incremental impact could go in either direction. We will see.

Reflecting on Italy more broadly, where do we stand there? My focus remains on the three markets I called out in May, as I said at the beginning: UK, Spain and Italy. I said in May they would all benefit from portfolio actions and therefore in Italy we will continue to explore consolidation opportunities. Our position in Italy is very different from our position in Spain. We have a very strong company in Italy, as you know. You will have seen from the latest results that also this quarter, as we do consistently quarter-in, quarter-out for years, we have been outperforming all the other established players in terms of service revenue growth. We have a strong brand, a strong network. We are outperforming also because we are very strong on the business side of things. Over 35% of our revenues are B2B in Italy now and you will have seen

as we have started reporting more granularity on B2B that we have effectively high single digit growth in B2B in Italy now and we are competing effectively in consumer overall relative to the other players. That does not change the fact that it remains a very challenging market. None of the players in Italy delivers returns in excess of cost of capital. Prices are below cost so no matter how many efficiencies we drive, as we have done more recently with the latest 1,000 role restructuring, the market itself needs action, which is why we will continue to review a range of options. As always in this case it is not possible to set deadlines or comment any further, but the market does require action.

Luka Mucic: Yes, and perhaps just to add on your question around common functions, you are absolutely right. Last year we had a significantly higher amount of costs in common functions that was then charged out in the second half of the year compared to this year. I think what you see this year is a combination of slightly more even spreading and phasing but also savings. As we have said, we continue to focus on lean corporate services and having opex savings programmes, so that it is partially contributing to the lower cost. It will be a more even distribution than what we have seen last year with also some net savings that will flow through to the year end.

Margherita Della Valle: You also raised the question of what happens with the sale of Spain to our common functions. I think this links to what you may have seen an announcement on this also yesterday, to the transformation we are doing in our shared operations. Our scale has been a great source of efficiencies for Vodafone. We are really keen to make sure we continue to develop those efficiencies; we are making our shared operations fully commercial with effectively MSAs in place between the Group centre and the countries to drive more efficiencies there and also to be more effective in selling to third parties, which could be JVs, which could be other partners in the industry so that we continue to benefit from our scale strength.

Akhil Dattani (JP Morgan): Great, thanks very much for taking the question. Margherita, can I maybe ask a question on your NPS comments from earlier in your presentation? Obviously, you have outlined on slide 16 the trend that you are seeing at the moment, but I guess I was trying to understand better exactly how we should interpret this. What I am trying to understand is that, firstly when I look at your major European markets you are not a market leader in any of these regions. Whilst you are highlighting some select gap reductions, we still do not know how big the gaps are. How do we really try and interpret this data? Is it an improvement but there is still a very wide gap? Do you think you are really structurally closing that gap and you can start to become a market leader? Maybe if you could just comment on that.

Similar to the last one, I just had a quick clarification, which was just that you have announced on consolidation a Spanish merger despite the fact we do not yet know what the remedy situation will be from the Orange/MasMovil deal. You are also announcing you are looking at potential options in Ital,y despite the fact we do not know that. How do we interpret that? Is that to say you do not think this matters, or could we even interpret that you are maybe concerned about how this might play out and you would prefer to move ahead of that? Thanks a lot.

Margherita Della Valle: Maybe I will pick up the second first. It is very simple. As I was mentioning earlier, I think the situation of the Spanish market will remain challenging with or without a merger between Orange and MasMovil. Because of the position it is in, which is why

at the end of the thorough strategic review having examined all options and discussed with a range of counterparties we have taken the decision we have taken. We have chosen the deal that was giving us the best combination between value creation and transaction certainty.

If I think instead about NPS, this for me is really, really important. You have not seen absolute NPS numbers in our reporting because as you can imagine this is truly commercially sensitive. However, we have started reporting on trends now and we will continue to do so in the future. This is the first instance of the scorecard I announced in May, and it is the same datapoints that we will be looking at inside the company. If you were walking into Vodafone now across the Group, the focus on customers is the biggest change that you will notice. We are really single-mindedly obsessed with "winning customers' trust every day". That is our mantra and in order to get there you know that we are reallocating more money to customer experience, €150 million in the budget of this year, but we have also a wider range of initiatives. In every market there are weekly, monthly reviews all focused on how do we make our customers' lives simpler. I think this is a real opportunity, by the way, for all telcos. We see it in operational results. We have not done big stats, but we see simple things like waiting times in our call centres dropping and the like. On the big numbers we look at two things primarily. We look at the mix of detractors and promoters within our own customer base and we have also included that in our incentive plans from this year. We look at our net promoter score position relative to competitors. As you were noticing, I think it was good to see and clearly there are no quick fixes on customer satisfaction, so we are talking about a long journey ahead. However, it was good to see that despite, for example, the inflationary environment we have been living in, in the last six months, we are starting to see the numbers edging in the right direction both in terms of absolutes and in terms of relative position, which is why we are reporting on the gap to competitors. A long journey but I think it is one which is really important for us. That is what Vodafone is about - serving customers. It was heartwarming to see that we are starting to see the KPIs inching in the right direction.

Akhil Dattani: Margherita, just to clarify, that was very helpful firstly. I understand not wanting to give absolutes, and I think that obviously makes sense, but how do we think about the gap? If you are trying to conceptualise for us how big the gap is versus your peers in your major European markets, how do you think about that?

Margherita Della Valle: It varies enormously and the gap we measure as well Akhil is the gap versus the best player. The best player can be a very different type of player as well in every market. It is not necessarily who you may think it is. We look at all the range of retail brands and we compare ourselves versus them. Maybe the best way to answer your question is to say we have published that we have reduced that gap by 20% in the last year. That gives you a sense of progress and we will continue, as I said, to report against that.

Akhil Dattani: Thanks very much.

Margherita Della Valle: Welcome back Jakob.

Jakob Bluestone (Exane): Thank you very much, exciting to be back. I had a question on free cash flow just following on from James's question earlier. Your free cash flow for the year you are guiding for it to be down by about €1.5 billion from €4.8 billion to €3.3 billion. It was down about €1 billion in H1 so implicitly you are guiding for a substantially better free cash flow development in the second half than in the first half. In your response to James's question you

said it is not coming through from better EBITDA growth so can you maybe just help us understand what is it that is going to get better in the second half to drive what looks like a much better implied H2 free cash flow performance year-on-year?

Luka Mucic: Sure, at the end of the day it is of course the focus on reversing all of the trends that you have seen at play in H1. In H2 you typically have a much better positive impact on trade receivables and from a working capital perspective that is what we will certainly look to drive and to achieve the corresponding outcomes. On the EBITDA side you are right, we are looking prudently at a roughly similar performance than what we have seen in H1. It is essentially the usual rhythm of the seasonality of cash flows that will fully come to fruition and then we are looking for next year forward for a more even spread as we look at the focus on change measures.

Margherita Della Valle: Just a point we may have covered in the past Jakob, and I am trying to remember if we did, there are two technical drivers of the working capital swing between H1 and H2 in Vodafone. One is the phasing of capex. You have typically a sort of 40/60 split between H1 and H2 on capex so obviously you end up paying more of the capex in H1. Second, which is something, that we may reconsider, and Luka is working on now, is historically we have done all our handset receivable sales in H2. This is why you accumulate in H1 and then it swings back in H2. These two effects together are driving a very, very significant swing. I think we have opportunities going forward to rephase the handset receivables technical execution during the year so that you can follow smoother trends.

Jakob Bluestone: Okay.

Luka Mucic: At the end of the day, the growth in the business overall of course results in the fact that the material that we have available for the swing and to drive it is actually getting bigger. However, again we are looking for ways to smoothen this going forward.

Jakob Bluestone: Okay, thank you.

Andrew Lee (Goldman Sachs): Morning Margherita and welcome Luka. Thanks for taking my question. I had two follow-ups if that is alright. They are hopefully both relatively brief. The first one just follows on from what you were talking about to Jakob's question around working capital swings. Just checking that in terms of smoothing things, you are not planning on using factoring or vendor financing, given obviously telco investors and the market in general are hyperallergic to those approaches. I just wanted to check on that side of things.

Then I had a question also following on from James's question earlier in the call on the revenue growth versus EBITDA growth. I think his question was around the energy swings. I just wanted to ask more structurally we had a couple of telcos talk to service revenue growth exhibiting limited operational gearing. I wanted to ask your thoughts on the scope for operational gearing. Let us take Germany, just as your core market. I think Germany for its 1% service revenue growth delivered about 1% EBITDA decline ex- energy but obviously still we are not seeing we are not seeing a translation of EBITDA growth. Splitting out energy and volatile factors, is this anything structural that is stopping this operational gearing? Be it revenue mix deterioration or whatever? Thank you.

Margherita Della Valle: Just on the vendor financing, because I know what you are thinking Andrew, not the kind you are thinking about. Again we can give you more comments from Investor Relation, but operational gearing?

Luka Mucic: Yes, first of all on the first one no new fancy mechanisms. It is just a matter of are we wanting to really put everything to the far end of the business year or perhaps come to a more even application of the programmes that we have already in place. On the EBITDA and the gearing side of the house, I think what you need to take into account is that we have not only the EBITDA challenge by energy at the moment. We are also consciously using, this year, the savings that we are having under our opex programme to reinvest very consciously in additional initiatives around customer experience. That is the right investment to make from a long-term perspective because it will at the end of the day result in better retention, lower churn and that will drive profitability. No, I do not think that there is something structural in the business and how it evolves that will dilute the potential of us to provide operating leverage. If anything I would say I am very confident that based on the cost leadership that Vodafone has always exhibited, that we will continue to drive successfully for the €1 billion in opex savings. Going forward thinking about the next business year and further on, as we have righted the ship and focused appropriately on our customer experience, you will also see more of that translating into further EBITDA growth.

Andrew Lee: Thank you.

Luka Mucic: See you all.

Margherita Della Valle: Thank you. Bye.

[END OF TRANSCRIPT]