Vodafone Group Plc

Full-Year Results 2018
Analyst and Investor Conference Call

Tuesday 15 May 2018

Overview and Strategic Progress

Vittorio Colao

Group Chief Executive Officer, Vodafone

Good morning. Welcome. Thank you for coming to today's year-end presentation for Vodafone. Before getting into the presentation, I have to ask for a couple of minutes to comment about the other announcement that we made this morning. In October, I will step down as CEO of Vodafone after 10 years, and I will be succeeded by Nick Read, who is well-known to all of you, and Nick Read himself will be succeeded by Margherita Della Valle, who is probably also well-known to most of you.

It's, of course, a difficult decision to step down from a company where you have been CEO for 10 years, on the Board for 14 and inside or near for more than 20, but this is the right decision. Vodafone is getting – as I said to the journalist, we are in a new chapter of our book of history. We will be, in October, starting to write the new paragraphs of the new chapter – a converged chapter, a chapter with India, being in a different space, Digital Vodafone starting to get traction, transformation of the company. It's a very healthy thing that you have a team which is dedicated for the next five years and beyond – really beyond, Nick – to make these things happen.

And I have to say I'm very happy that the Board, after the due process, has selected Nick. Nick is a tremendous person. He has been 17 years with the company. He has worked, actually – not many people know – more time not in finance than in finance. That's not to say that finance is a bad thing, but he has done a lot of jobs. I have to say he's also not only broad and deep; he has an incredible resilience. He is the only person on this planet who has been able to report to me for 12 years in a row, and nobody else in my life really managed to tolerate me for that long, and I think he will do very well.

And Margherita: Margherita was one of the original employees of Omnitel before Vodafone Italy – employee number 30 we agreed yesterday, because we don't remember exactly. And I have to say she's not just a super-bright and very, very deep person on everything, which is analytical and, therefore, financial, but also she's an innovator – a quiet innovator. She's has introduced automation, she has introduced more recently artificial intelligence – even Harvard Business School has written a case on it – and she's a tremendous leader of people. So, I think this is another great moment of leadership for Vodafone in how we handle these things. Now, let's move – there will be an appropriate time to comment when we get to Q1 and the AGM.

Now, let's move to results. Okay. This has been a pretty exceptional year – I would say a pretty exceptional year from both the strategic point of view and the operational point of view, and a year also of very good financial delivery. I'm very pleased with the strategic progress, of course: Liberty, Germany, Eastern Europe. India: we have reshaped India completely, not just with the first transaction but also the second one – the Indus-Infratel one. And we have continued our development of organic broadband in Europe. So, strategically, a great year.

Operationally, a fantastic year in terms of NGN connections: a record number of converged customers; third consecutive year of EBITDA-margin expansion. I was talking to somebody at the coffee. We are pleased, Nick and I, that not only – three years ago, somebody was criticising the Vodafone model and were proposing other models, and actually we said we can deliver improvement in margin. We will. It's not going to be the crazy number that some people were saying; it's going to be a solid 300-350 basis points. We are here. And of course, Digital Vodafone is giving a great promise for the future for that to continue.

Market outlook: very good market or solid and good market in Germany, in the cluster, in AMAP. A little bit more challenging in Italy and Spain, and I guess we will talk about it there, but overall we are happy that, today, we can report that we have exceeded our guidance – both the original, actually we are at the high end, and the upgraded guidance, we are above it – and we are confirming 2% dividend-per-share growth.

Now, operating highlights of the year: 1.6% service-revenue growth. This is after taking out a bunch of things that we think don't – we want you to look at the organic. Essentially, we continue with the same formula as for the last three years: a very good network. So, a leading network on both Mobile and Fixed: 94% coverage in Mobile, 65% homes passed with NGN, which is enabling us to continue to be very solid in the market. Strong growth of data: ex India, 63%. Our bundling strategy with bigger bundles and richer bundles is working and is supported well by the network. And to continue to grow very nicely in Fixed NGN, we are again the fastest-growing NGN provider in Europe, not just at NGN level but also converged offers: 800,000 increase in the year. I'll speak a bit about Enterprise. I'm pleased to report that we have, unlike many competitors, growth in Enterprise, but not just growth in revenues, also growth in profitability, which is important. And finally, we continue, of course, to invest in our net-promoter score and customer-excellence programme to maintain NPS leadership, which is structurally important for the future.

The operating momentum: I would call it robust. As you can see from the left part of the chart, we had good performance in Mobile – the light-red part of the chart; a little bit weaker in Italy and in Spain, but still in the range of where it should be. And a good performance in Fixed, particularly in Italy, 100,000 additions; particularly in the UK, for the first time a big contributor to this performance – 66,000; Spain weak, negative 16. But I would say, if you look at the red bubble below the bars, 40 basis points of growth in Europe versus 30 the previous quarter, so I can say, overall, we are continuing on the same trajectory. And AMAP: AMAP, we have some complexity in comparing numbers because of some disconnect or some rules, some regulations in Egypt and in Vodacom, but again, if you look at the bottom circle, 7.8% growth versus 6.8, so not only it's the same; it's actually a little bit improving. So, I would say a commercially robust performance across the piece.

Looking at the key markets, let me start from the four large Europeans. First in net-promoter score everywhere other than in the UK, but in the UK we are first in Enterprise, which is 50% of the business. Stable competitive environment in Germany. In Germany, we made 212 contract net adds in the quarter. We are pleased that this comes from more direct channels, which, we think, is, quite frankly, the future, given where we're going with digital telco. But also from the GigaCube product, which is a fixed-wireless-replacement type of product which is going very well. And also the 80,000 or 79,000 net adds in fixed-line are coming at the high end of the speed, so the 200 Mbps range, which is again where we are strong in Germany. As a result, we have growth of 1.8%. It's a bit taken down by some MVNO drag on a year over year but, as you see, the EBITDA performance is really – 8.3%. There's a bit of SIM-only there. There's a lot of work on cost but you see the difference between revenue growth and EBITDA growth in Germany is becoming quite satisfactory.

Italy is a bit of a more intense pricing environment, as you all know. Below the line continues to be aggressive. We have taken more activity above the line. We do very well in fixed-line – 11% growth there. And as I said, we had 100,000 additions on NGN. However, competition on Mobile has taken growth down a bit – 70 basis points – but still 4.6% EBITDA growth – excellent cost management and excellent restructuring of Italy.

UK: again, this is another stable environment from a pricing point of view. We are now the fastest-growing fixed-broadband provider in the UK, which we told you would be there; now we are there. On Mobile, we have 99% 4G coverage and we are getting again good feedback on quality, so now it will be the time to start re-leveraging on the mobile part of the business, and we continue the restructuring of Enterprise. We have 1.4% growth in UK, so happy to be back into growth. 1.4% growth in EBITDA, and again a lot of work has been done on costs to continue the positive trend.

And finally Spain: a more intense, very competitive, strange market. Top end, very good. We can increase price. We are very kind of head-to-head with Telefónica but, quite frankly, doing well. In the mid and in the low end, more challenge: more challenge in the mid end by Orange and in the low end by MásMóvil. And I have to say competitive pressure here has led us also to have some loss in Fixed Broadband. So, what are we going to do? We have announced last Friday we are changing our pricing policy vis-à-vis the Orange and the Orange brand, so now we're going to be more head-to-head and matching, and we are going to use the second brand, Lowi, in a more competitive way at the low end against MásMóvil. Having said that, still 5% EBITDA growth: again, another situation where we have done a pretty good job, I think, on costs.

In AMAP, I would say not much to comment on South Africa, because it's known. Continues to be first, continues to have a big gap in NPS between them and the second and third provider. 5% growth of revenue; 5% growth of EBITDA. The big bundles – the data bundles are the core of what we do and we told many times it's the way that we have to monetise data and retain customers at the same time. So, I would say good performance. Turkey and Egypt are different countries but similar stories. Stable from a competitive point of view, from a price point of view, and we have more or less the same recipe. We acquire customers and we are very strong on data and, as a result, as you can see from the slide, we have mid-to-high-teens growth in revenues, which is nice, and very, very healthy EBITDA growth. Now, it's good because we are growing more than inflation, so we are catching back some of the currency and some of the pressures that we have from the economic environment, but I'd Turkey and Egypt pretty good.

And now India: India, I would say, intense competition is probably a euphemism. We had a minus 86% – something like that – data-price decline in India year over year, and minus 40% – only minus 40% voice decline in India year over year, so it's a very, very competitive and intense market. We have put 90% of our resources in our leadership circles and we have some good news: we got 10 million customers in the last quarter. We start again getting more 4G and data customers but, of course, there is a price to pay to such a competitive environment: minus 20% revenue – a lot of it is also MTRs, by the way – and 35 EBITDA.

So, what are we doing in India? I'm very pleased to say that we are progressing very well with our new partner within what we can do before completion. We have appointed the management team, identified the structure, identified the structure below. We have agreed the branding policy and the branding infrastructure/architecture, so that we can start as soon as we get the approval. The approvals are expected, essentially, in June or towards the end of June, but we are ready to go. And again, that's the most important thing to do. Then we will concentrate our money in the leadership circles and try to consolidate, of course, India. Now it's a very concentrated market – it's a three-player market – so, any positive movement on price would immediately completely lift back the situation.

And then I have – before handing over to Nick, I have a new slide. This is what we call the fifth OpCo – the fifth European OpCo. We never talk about the cluster but the reality is that the European cluster, ex the Netherlands, if you put it together, is like Spain – is as big as Spain. It's 4.6 billion of revenue. It's made by a variety of countries. But I want to draw your attention on is that, without much noise, actually all the bars, with one exception, in the European cluster are actually green and some of them are even double-digit green, so we are growing EBITDA very nicely in those markets and we're growing revenue in a nice way. It's a very good application of the digital-lite model in many cases. It's easier to do in smaller countries and we are very pleased with the progress that Ahmed and his team are doing.

Romania is a bit of a different case because of some implications of roaming. Romania is very low-price and a lot of Romanian SIMs travel a lot in Europe. And of course, there's IoT costs that come back as a recharge. Now, for Vodafone, it's almost like a wash, because what we lose there, we make somewhere else; for our competitors, less so. But of course, we work on that as well because we don't like to see that. Overall, the cluster, very healthy.

A finally, one word on Ziggo: the whole year has been still in the negative but the last quarter was actually practically breakeven. We are happy that we are now selling more and more converged packages there. We have a high number of our homes who are now in the converged situation and that will allow us to mimic more the KPN strategy and compete with low-cost providers, unlimited providers in a more effective way. So, overall I would say the EU cluster – the fifth OpCo is performing also very well this year.

And I would say, with that, I will turn to Nick for the detailed financial review.

Trading Update

Nick Read

Group Chief Financial Officer, Vodafone

Thank you, Vittorio. Good morning, everyone. So, it's a very proud moment for me to have the opportunity to lead the Group after Vittorio and take it into its next phase of growth going forward. I'd like to take the opportunity – I know it's a little early – to personally thank Vittorio not only for transforming Vodafone into the great company it is today but actually being a great mentor to me over those 12 years. I'd also like to congratulate Margherita. She will be an outstanding CFO for the Group and has been a joy to work with. So, this is the last time I get to do the inspiring part of the presentation.

So, starting on slide 11, as highlighted by Vittorio already, our financial performance in the year was strong, as we translated our modest organic service-revenue growth into strong EBIT and free-cash-flow growth. In absolute terms, our fiscal-year revenues declined, primarily due to the deconsolidation of Vodafone Netherlands and a drag from FX. On an organic-growth basis, we grew 1.6%, or 2.6% excluding the impact of regulation and the introduction of the handset financing in the UK. Adjusted organic EBITDA grew 11.8%, or 7.9% on an underlying basis, which removes the impact of handset financing, large [legal] settlements in Germany and the UK, and the drag from roaming regulation. As a result, our EBITDA margin expanded by 190 basis points to 31.6%, or by 130 basis points on an underlying basis.

D&A declined year over year, partly reflecting a longer assumed life for our German cable assets, further amplifying EBIT, which increased by 47% organically. Free cash flow, pre-spectrum and restructuring was 5.4 billion compared to 4.1 billion in the prior year, driven by higher EBITDA growth and lower capital-creditor outflows, following the final payment for Project Spring in the prior year. Overall, we exceeded our raised guidance of around 10% organic adjusted EBITDA growth and above 5 billion of free cash flow pre-spectrum. Given this performance, the Board has approved a 2% increase in the dividend for the year to 15.07 eurocents, consistent with our intention to grow the dividend per share annually.

As you are aware, each year there are a number of non-cash items that distort our reported earnings, which is why we also present an adjusted view. The bridge on slide 12 shows the walk from adjusted EBIT to reported earnings. I do not intend to go through the bridge in detail, as these items are clearly explained in the press release. Additionally, I will cover later in the presentation our actual interest costs and cash taxes paid. However, let me draw your attention to three of the most material items.

Firstly, given the size of our Luxembourg tax assets – over €26 billion – small changes in assumptions such as interest or tax rates can often lead to a meaningful non-cash-P&L impact. This year, we have a 1.9 billion further write-up of the deferred tax asset, given higher interest rates. On an underlying basis, the Group's effective tax rate for the year was 20.6%, down from 25.4% last year. This lower rate is primarily due to a change in the country mix of Group's profits, a lower corporation tax in Italy, and the successful closure of tax audits in Germany. Looking forward, we have lowered our medium-term tax-rate guidance to low-to-mid-20s from mid-20s previously.

Secondly, profit for the period included a net write-down of €2.2 billion in India. This was principally driven by a fall in the value of IDEA's share price during the year, which is a key reference point for our accounting on a fair-value basis required until completion.

And finally, it's important to remember that our reported share count is inflated by the mandatory convertible that we issued at the time of the Vodafone-Ziggo merger. We have completed the buyback of the first tranche and it is our intention to buy back the second tranche in early 2019, which is already reflected in our Liberty transaction-funding plan.

Turning now to service-revenue growth on slide 13, as the chart on the left shows, adjusting for European regulation and UK handset financing, we have delivered consistent growth in the mid 2s [percent] over the past five quarters. In Q4, we reported 1.4% growth, excluding the benefit of the legal settlement in Germany. This reflected an improvement in AMAP to 7.8% and a slightly weaker underlying performance in Europe, due to lower German wholesale revenues.

Looking ahead to Q1, we expect a slowdown in reported-service-revenue growth by over 100 basis points on our current accounting basis. This reflects circa 80 basis points driven by a two-to-three-month delay in our planned repricing in Italy following the move from 28 days to solar billing, together with the lapping of price changes in the prior year; circa 30 basis points higher handset financing in the UK; and finally some impact from the repricing of our pricing plans in Spain. The Italy drag is a Q1-only impact, but we expect a negative impact from the new entrant and competitor responses from Q2 onwards.

Regarding Spain, you will have noticed that we repositioned our headline prices on the main Vodafone brand last week to better align with our main competitors. We will also respond against MásMóvil using targeted below-the-line initiatives to improve our net port position during the year, principally through our second brand, Lowi. These commercial actions will lead to a decline in our service revenues in Spain and EBITDA in H1, but should deliver improved commercial momentum and a more balanced long-term competitive position. However, when looking at the rest of the Group, as Vittorio has already covered, we are broadly pleased with the good momentum we carry into FY 19 and particularly happy to see the UK back in growth.

On slide 14, you can see the contribution of our three growth drivers to our overall service-revenue growth in the year, and the number of drags which weigh on our reported performance. At the bottom of the slide, you can see our expectation for the coming year. Excluding regulation, European Consumer Mobile service revenue grew, given our more-for-more commercial actions.

In AMAP, data revenue grew strongly, as we monetised strong traffic growth. In Fixed and Convergence, we maintained our good momentum, and we are once again Europe's fastest-growing broadband provider, adding 1.1 million new broadband customers. And in Enterprise, we continued to outperform declining incumbent peers, thanks to profitable fixed-line market-share gains, our exposure to fast-growing emerging markets and further account penetration, which more than offset pricing pressure in European mobile. With a new entrant in Italy and the repricing effects in Spain, we expect to turn negative in European Consumer Mobile revenues this year; however, we expect to maintain good momentum in Fixed and in Enterprise.

On the right-hand side of the chart, the drag from regulation should reduce next year, as we lap EU roaming regulation. Handset-financing drags in the UK will increase. And within Wholesale, we expect a reduced drag from carrier, particularly offset by an increased drag from lower MVNO revenues in Germany and the UK.

Moving now to slide 15, you can see the breakdown of our EBITDA growth in the year. We achieved a very high flow-through from revenue growth to direct margin, despite higher wholesale broadband costs. This was further supported by a second consecutive year of lower net operating costs, given our Fit for Growth programme. As I've already highlighted, we also benefited from UK handset financing and legal settlements. This was particularly offset by EU roaming regulation. In FY 19, we expect to reduce absolute organic operating costs for a third year in a row. This is despite investing up to 100 million to accelerate our Digital Vodafone programme.

As you can see on slide 16, this focus on costs has helped to deliver a third consecutive year in which the Group has expanded EBITDA margins, which reached 31.6%, or 30.8% on an underlying basis. At the bottom of the slide, you can see that the number of markets growing EBITDA faster than revenues has increased from the 12 in FY 14 to 20 today, demonstrating the broad-based nature of the underlying improvement. The opportunity for further margin improvements remains substantial, enabled by the transformation of our business model as a result of the Digital Vodafone programme. Our new LRP plans have improvements from virtually all of our markets over the next three years. With regard to our current year, you should expect the EBITDA growth to be more H2-weighted as we lap easier comps in Italy and Spain.

Vittorio will talk of the transformational impact which Digital Vodafone will have on our customer experience and commercial execution. I will primarily focus on the scalable levers which we have identified to continue to reduce net operating costs over the medium term. The programme is built around three key areas: customer management, technology management and operations. Our current cash-operating cost around these areas is about 8 billion. I will illustrate some examples under each area.

On the left, you can see our AI-powered chatbot TOBi, which is currently active in five markets, although still at modest scale, as we undertake A/B testing. Taking the UK as an example, the quality of interactions so far is encouraging, with 90% customer satisfaction, at a cost far cheaper than an FTE equivalent. In technology, we've introduced new Smart CAPEX methodology to network-capacity planning, based on big data analytics, which enables us to understand our profitability both by customer and by each cell site. As a result, we've saved 170 million of capex in FY 19 planning. In Operations, we already have around 200 bots live in our Vodafone shared-service centres performing back-office functions, capable of delivering the work of up to three FTEs per bot. We expect to scale this to 600 by year-end.

Moving on to capex on slide 18, the chart covers our top five markets, which make up approximately 65% of the local spend. You can see three areas of growth. Firstly, given our momentum in Fixed, success-based CPE capex continues to rise in the mix. Secondly, we are investing in the upgrading of our cable infrastructure to DOCSIS 3.1 to deliver higher speeds. And finally, we continue to transform our IT infrastructure to improve customers' experience and create a more agile business. Investments in mobile capability and coverage were broadly stable as we develop 4G+ ahead of 5G. Finally, capacity and maintenance capex declined, given efficiency programmes I've discussed. Overall, our capital intensity was 15.7% in the year, 40 basis points lower than last year and within our unchanged mid-teens guidance range. As a reminder, this guidance excludes material incremental fibre-build opportunities such as the announced Gigabit investment plan in Germany, which will ramp up during the fiscal year. We have no other investment opportunities identified at this time.

Moving to spectrum on slide 19, during the year we invested 1.1 billion in spectrum, similar to our long-run average, renewing our 2G position in Italy and staged payments for the UK 5G spectrum auction, which we subsequently won the largest share of 3.4 [GHz]. Over the next two years, we expect spectrum costs will exceed the long-run average, as auctions take place for 5G in the 3.5-3.7 GHz range, as well as 700 band. It is important to note that we have much greater range of spectrum choices than in the past, thanks to greater flexibility of 4G and 5G technologies which support carrier aggregation. In addition, we are actively planning our refarming strategies for 2G and 3G for each market. These factors provide alternative options if auction conditions become unreasonable. As a result, despite the near-term concentration of auction activity, we believe the long-term average annual cash costs of spectrum will remain in line with the historical average, which, in itself, is some way above our normalised annual spectrum amortisation charge of below 1 billion.

Moving on to slide 20, free cash flow pre-spectrum increased by 1.3 billion year-over-year to 5.4 billion. This improved performance was principally driven by higher EBITDA, lower capital additions and lower capital-creditor outflows, which were unusually high last year due to the final Project Spring payments. These benefits were partly offset by a greater working-capital outflow, reflecting the reversal of the half a billion of UK handset-financing benefit to EBITDA. Cash-interest expenses were slightly lower than last year, reflecting the loan interest received from Vodafone Ziggo and lower bond interest driven by our refinancing activities last year. In FY 19, we expect cash interest to be around 800 million, excluding the cost any financing we may choose to raise in advance of the acquisition of Liberty Global's assets. Cash tax was 1 billion, 0.3 billion higher than last year, principally driven by non-recurring tax rebates in the prior year. For FY 19, we expect cash tax to increase to around 1.1 billion. Importantly, free cash flow after spectrum and restructuring costs was 4 billion, fully covering our cash-dividend payment of 3.9 billion.

Turning to slide 21, the graph on the left provides a multiyear view of the free-cash-flow-target component of the management LTIP. Given that India was excluded from the 2017 LTIP schemes onwards, we have excluded it from the schemes for comparability. The black bars on the left chart show the Group's targets excluding India have risen consistently over time. At the same time, even when adjusting for the drag of Project Spring – the blue bars – you can see continuous growth. The red circles above the chart show we exceeded our targets in both 2014 and '15, and we remain on track to achieve our 2016 and '17 targets.

On the right, you can see our new LTIP targets for 2018, which does not include any contribution from the proposed acquisition of Liberty Global's cable assets in Germany and CEE. The midpoint of the three-year free-cash-flow target has increased to 17 billion from 16.6 billion previously. Based on our FY 18 dividend payout of 4 billion and including the long-term average spectrum cost of 1.2 billion per annum, you can see the dividend is comfortably covered by free cash flow on the basis of an on-target achievement of the LTIP.

Moving to our balance sheet on slide 22, we reported closing net debt of 31.5 billion compared to 31.2 billion last year, with leverage at 2.1 times, as expected. During the year, we generated 5.4 billion of free cash flow pre-spectrum and received net proceeds of 1.2 billion from the sale of Qatar and our Vodacom share placing. This was offset by our dividend payment of 3.9 billion, spectrum purchases of 1.1 billion, and our share-buyback programme for the first tranche of the 2016 mandatory convertible of 1.6 billion.

During the year, we maintained an average life-of-bond debt of nearly 10 years, with a net cost of debt of 2.5%. As per our announcement last week, we intend to increase our target-leverage range to 2.5 to 3 times, and be at the upper end of the range following the completion of the Liberty Global transaction. We will also intend to secure 5-7 billion of equity credit through issuing hybrids, and around 3 billion of three-year mandatory convertible bonds prior to completion. After our recent engagement with the credit-rating agencies, we believe we are likely to get a split BBB+/BBB rating – a solid investment grade. Net debt in India of 7.7 billion is not included in the Group's consolidated net-debt position, giving the upcoming merger with IDEA and the creation of the JV.

I would like to comment in more detail on the pro-forma leverage position of our India JV, which is illustrated on the left-hand side of slide 23. At the end of March, IDEA's net debt included in accrued interest was 6.9 billion. Under the merger formula, this means that Vodafone India will contribute debt of 7.2 billion; therefore, we will need to inject up to 1 billion of additional cash into India prior to completion, as we announced in January. Progress on tower disposals reduces the JV's pro-forma leverage by around 2 billion, helping us to fund spectrum liberalisation and tower-exit fees. This leaves the JV's pro-forma net debt at around 13 billion, with a pro-forma leverage of 7.7 times on an LTM basis, or 4.7 times after taking into account full run-rate opex synergies of 1.1 [Sic: 2.1] billion. Following the exit of the smaller players, we would expect ARPUs to improve in the medium term. A 10% recovery in ARPUs would reduce leverage to well below four times. And as you can see on the right-hand side, we are now concluded on our company name and brand – Vodafone IDEA, selected our top management team and detailed our integration plan, with a focus on a fast start to synergy realisation.

Finally, looking ahead to guidance for FY 19, we expect underlying EBITDA growth of 1-5%, which is equivalent to an adjusted-EBITDA range of 14.15 to 14.65 billion on a current-accounting basis and at guidance FX. The waterfall chart on slide 24 explains the basis of the guidance, which adjusts for the non-cash impact of EBITDA of the UK handset financing, the large settlements and the non-organic impacts of Qatar disposal, and lower India recharges post the expected completion of the JV. Our guidance range captures various possible scenarios in Italy as well as the usual swing factors related to competitive intensity in our major markets and the potential for macro instability of our emerging markets.

We continue to expect our mid-term capital expenditure to remain within our mid-teens envelope as a percentage of sales excluding the Gigabit investment plan in Germany. Our free cash flow before spectrum of at least 5.2 billion includes a drag of approximately 0.2 billion from the Gigabit investment plan together with the drags from the sale of Qatar and lower India recharges. Finally, during the year we will start reporting our results on an S15 accounting basis as well as the existing basis. Under S15, we will expect our organic service-revenue growth will be slightly higher and our absolute adjusted EBITDA will be slightly lower, primarily due to the elimination of the impact of the UK handset financing, with no impact to free cash flow.

With that, I will hand back to Vittorio on strategy and execution.

Strategy and Progress

Vittorio Colao

So, update on strategy and execution. Let me first start from strategic capital allocation. If you look at what we said we wanted to do in the three geographic areas of the world, we said we wanted to be a converged leader in Europe. With the Liberty transaction, we are adding 17 million households and we clearly are becoming the biggest infrastructure owner in Europe. We're already that in Mobile; now we will become that also in Fixed.

We said we wanted to be data leader in Africa but wanted to have a simplified structure. It has been a good year of transactions between rationalising and simplifying the relationship between Safaricom, Vodafone and Vodacom, with the deals that we have announced during the year, the Tanzania IPO and the sale of Qatar, which was a little bit out of the strategy at this point.

And then the third statement we made said we want to be a scaled leader in India. I am pleased to say that the merger of IDEA and Vodafone India is on track and, as I said before, we agreed everything. Don't forget $10 billion of synergies will start coming to us as soon as we can complete. We had a standalone tower sale for 1 billion, and I have to say it was very important also to get the Indus-Infratel deal, not just to make the main transaction happen but also because this gives not only synergies again but also a monetisable asset which can help making India self-supportive. So, from a strategic point of view, I think we did what we said we would do and I'm very pleased that everything was on time with today.

Where does this lead? This is a slide we already showed last week with Liberty. It's pro-forma, clearly, for that but, if you look at where we were, let me say, after Verizon, and where we are today, we will be at 35% fixed-line revenue in Europe, which is quite remarkable, seeing where we started from. More importantly, we will have 53% of our footprint – of our NGN footprint on net, being it on-net or on strategic partnership, which makes also the business much more profitable and much more resilient for the future. And we'll have almost 80% of our EBITDA mix coming from Europe. So, I think we'll be a more fixed-converged, more infrastructure owner, more focused on Europe player in the next leg of the journey.

And to give you an idea of the impact of the Unitymedia-UPC deal, on the left side – this is a familiar chart – the number of homes that we will now be able to serve through our partnerships and our own network has gone up 60 million. But if you add also the opportunity of NGN resale that we have either negotiated or obtained from a regulatory point of view, we have almost 70% footprint in Europe. This enables us to compete effectively in every market on convergence in Consumer and in Enterprise, which is why probably some of our competitors are not very happy about this deal.

On the right hand of the chart, you see the situation before and after. Before, we were kind of the co-number two – or we are – we're co-number two in terms of homes passed. After the deal, we will be the clear number one in Europe, with 54 million homes – clearly, a nice position to be in because we become the leader in NGN in infrastructure. But we didn't do just deals – we did a lot of organic activity. I will not comment on the whole chart because practically now in every country of Vodafone, we have converged and fixed services. CityFibre in the UK: seven cities have been announced, one million homes have been targeted, and half a million are already identified, so that is being rolled out. There's a bit of movement in the discussion with BT on other stuff but, to be honest, it's not enough. It's just marginal movements and not yet what we need to really have them in the right place, but we continue and we are engaged in a discussion.

Germany: Gigabit plan, 2 billion. We have 29 business parks now being built. We are starting the DOCSIS 3.1, in July, upgrade, and this is very important because this puts together KDG, Unity and this plan, and you get 25 million homes with Gigabit speed and you get, essentially, two-thirds of the German government plan happening three years before their target, which is why we are finding – I don't know if you follow the press – that the reactions, actually, to our deal are, with one exception, mostly positive from everybody who has an interest in the development of Gigabit in Germany.

And Italy, Open Fiber: we are at 2.7 or 2.1 – depending on what you look at – homes passed or marketable. They are now running between 25, now more 35,000 connections or deployments per week, so they are getting up to speed, and we signed the second phase of the agreement.

But as you can see also from the flags, there's activity everywhere, whether it's SIRO in Ireland, whether it's Portugal, DOCSIS 3.1 in Spain. So, it's not just M&A; this is really an acceleration of our transformation.

And the results are here in terms of execution: the 1.3 becomes 1.1 in Europe but, as you can see from the chart, Vodafone is now the fastest, biggest growing fixed-line provider in Europe and we are 50% bigger than the next player, which is the guy with 0.7 written below us. The last quarter was particularly good: 514,000 NGN connections. It's really important to note that 35% of our connections now are converged, and two-thirds are NGN, so, again, we are building a base for the future, which is going very healthy. Think that, in the next – any forecast you look at, the next years you'll have 50 million more households being connected to NGN in Europe or upgrading to NGN in Europe, so, potential for Vodafone with this kind of asset base, super strong.

Now, this was the first of our three engines for growth. The second is clearly mobile data. Mobile data keeps doing well. I will not talk a lot about the NPS programme and the CXX programme. I have to say we maintain a network level – mobile network level, clear gap versus number three, and some gap – leadership or co-leadership versus the other player in the market. This is a prerequisite for delivering high quality – and high quality which is going to be very important, obviously if you think about MVNOs and new entrants and these things. High quality as measured not by the customers, but by us, is in the central block. 92% of data sessions have video quality in Vodafone, which is very pleasing. I had to ask Johan to check a number of times the 34 basis points of drop [inaudible] in Europe because I never saw in my career – and I have to say congratulations to Johan and my technology teams – 34 to zero – 34 basis points of drop is really an amazing result.

Most importantly, only 3% of 4G sites are fully utilised in the busy hour. Why is that? Because we bought spectrum, because we are deploying spectrum very well. We still have not a huge amount of carrier aggregation deployed. I think we are in the 30-35%. So we still have room to grow. We have still more carriers to light up. But this gives us the ability to continue to grow as you see on the green part of the slide, to continue to grow at 60% at per-user level. So those investors, those analysts who say, 'Oh, but you guys will have – you cannot continue to give more data to have everybody grow'. The answer is we can because we deploy our spectrum and our capex in an effective way. And as a result, our network costs went up only 2% in the last two years, compared to a traffic that goes up 60-70% per year.

This is very important because it also sets the basis and the expectation for 5G. Now, this is a busy chart but please bear with me. On the left part, we've made – we wanted you to be aware of the comparison of 4G versus 5G. 4G took around, I would say, three, four years – three years, really – to go from standard to first-city deployment. But then it took another six to get – or five or six – to get to 50% penetration. We think that 5G will not follow a very different pattern. It is now probably a couple of years to three years to see the first cities for us: we have Milan, we have other places where we are deploying. But then it will take time to get to 50% penetration because of handsets because of – and in the meantime, we can do an excellent job with the 4G and 4-and-a-half-G capability that I showed you before. The right hand of the chart, in the case that in the dense urban area, we will deploy 5G. Of course, we will follow also what competition does so we have to respond but the intent is to deploy 5G in dense urban area. And here we have in most of the cases fibre and then 4-and-a-half will the rest of the countries. And then of course, the red blob will start covering the white and the blue and we will deploy more of 5G.

Now, an important point which is in the note: microwave technology. As we have been saying, quite frankly, for probably five or six years including to the ones of you who are not really believers, actually has improved a lot. And now the latency of microwave hops is down to below one millisecond. Actually, you can go as low as 0.05 with E-band. It is not really true that even in a dense area, you really need fibre everywhere. So if you have it, it's a good thing to have but with latencies of 0.25 milliseconds or even 0.05, we will be able to serve in a very flexible way. And of course, if you have fibre and good conditions, why not? But if you don't have fibre and good conditions, microwave would be very effective. And this is important because we wanted to reassure you that our mid-teens capital expenditures guidance is consistent with this vision. So technology is supporting that to stay where we are. Of course, we are a little bit right of 15 if you include CPEs and everything else; and a little bit less of 15 if you don't, but that is why we have comfort with our medium-term guidance.

In terms of applications apart from cost, clearly IOT and fixed wireless are the two applications that everybody is talking about with 5G. Cost, you know, will go down. I have already said it many times. Fixed wireless, we are less convinced. We think it is a more selective type of deployment. In certain parts of certain countries, it will make sense to do it. In others, it won't. IOT instead is a real opportunity. The market grows 11%, as you can see on the top part of the bar for the industrial part of the Enterprise part. Vodafone grows at 14%. We now can serve IOT in 180 countries in the world, which is thanks to our partner market market organisation. 68 million things – the biggest sector by far is automotive. Our mission here is to have 30-35% market share. We have in the countries where we operate, which equates to probably six, seven, eight of the total market but it is a very heavy, very important asset that we have. We have deployed narrow-band IOT in nine of these markets and we were planning to deploy it everywhere.

Consumer IOT is following. Again, here the numbers are expecting something like an 11% growth. It is early days. We just announced that we are partnering with Samsung for the inside-the-home IOT applications and outside V by Vodafone will be expanded. Today it's about – it's present in four markets. By the end of the year, we will be in 11, 12, something like that. Of course, it is longer-term potential. The top part is money today; the bottom part is a lot of money, possibly even more money, a little bit longer over time.

And finally, Enterprise – a third area of strategy for us. As I said before, we are pleased to report that the Enterprise is doing well. If you take away the regulation impact, it's a two-ish [revenue growth] type of performance. Clearly, it's driven by IOT, the previous thing that I discussed. It's also driven by the fact that emerging markets in Enterprise, Vodafone is the supplier of choice and is doing well and is growing very well. Also, that we have low exposure to legacy voice revenues unlike, others.

The theme of this year, topic of Vodafone very important, has been working on margins. We are the new leader in the Enterprise business and, yes, focused a lot on profitability of Enterprise and we managed to increase profitability by 170 basis points, which is not little, in a year. I do believe it's needed now because market – this whole market is hyper competitive. You tend to give too much sometimes to customers and so we have done a very, very thorough review of the profitability of the accounts. We have decided to optimise margins, so cost allocated to each account and how much you are willing to put on services is now much tighter and in a very, very disciplined way, managed. And of course we are also working on closing legacy platforms and legacy networks in the UK, which contribute to the margin.

So, a nice story which shows up on the right-hand of the chart when you compare to our competitors. And, again, here I will not make names also because it is apples and oranges, as not everybody has the same footprint and everything, but as best as we can we are the only ones growing and some of the others are declining pretty fast. Why is that, apart from the fact that we are Vodafone and we are good? I would say two things, if I am honest. The excellent set-up of Vodafone globally, which Nick Jeffery, who now runs the UK, historically established. We have a higher NPS, higher recognition, our sales capability and quite frankly we are faster and quicker and better at managing multi-country and complicated – more complicated customers who like us. And then, second, we have a great ability to serve internationally through a vast but very agile IP VPN network without too much legacy from the past. These, I would say, are the critical skills that have made us a little bit unique in the Enterprise space. I would say positive news on Enterprise as well.

Before closing, one word on our horizontal programmes. I will not spend too much time talking about the CXX programme. After [Project] Spring we have made a big push into customer satisfaction. As you can see, over the three years we have consistently maintained or improved the gap versus the others. This is important not because we just are obsessed with gaps but because this is what really is the basis. I do believe it's the basis for the future transformation that is just about to start. So we have better scores, better gaps. We are very happy.

Now, the real game now is digital. And digital in particular for the digital aspects of customer satisfaction is very important. So digital is not just to reduce costs, which is very important but it is also to improve the relationship with the customers and take advantage of the changed external environment where we have to say we still invest billions and billions and take the opportunity to have, at the same time, a better experience at a much lower cost and potentially also higher loyalty and therefore higher revenues. The examples on the page are real examples. In Italy, we have now almost 90% application over the My Vodafone app. This means that every month we have 10 contacts per customer, as opposed to three visits in the store per year. This gives a tremendous opportunity to do much more marketing, much more than the old above the line, below the line, much more direct. We will be and we are insourcing platforms and activities because we believe that this is a critical skill for the future and also critical skill to make sure that the relatively large amount of money that we invest in advertising and commercial cost is well invested.

We have also acquired more on digital. A good example from Czechia where we went from 6% to 25% and I think there is a link between that and the great profit performance of Czech Republic. Bundles and AI marketing – South Africa is the kingdom of that. We power 200 million bundles only on data, 500 million in total, through that AI and again that increases also efficiency of your spending but also revenues.

Finally, Nick mentioned TOBi, the chat bot. This is, I think, the next big transformation. I'm very glad that Margherita who has got some training on the three billion of operations now will put her eyes also on the remaining 5 billion of commercial spending because this is really – this is a real example. In Italy today, we manage 800,000 interactions per month through the chat bot, TOBi, and we have 70% resolution rate. Now, it will not be the same everywhere because Italy is a pre-paid market so it's easier to have a good resolution rate and in other markets is less easy. But this is really at the same time what the customers want but also saving a lot of money. And I'm confident that we – with Nick and Margherita's attention all these KPIs will go north. We will report on this. We will continue to report. They will continue to report, actually. They will continue to report on this but I like to indicate 35% of campaigns now are enabled by big data, which will allow big savings and much more efficiency. I am happy with the [My] Vodafone penetration. It is a bit higher in Europe, but I would like to get it in the 70s and 80s pretty soon. As Nick said, the chat bots have just been introduced but the goal is to go to 60% pretty quickly. Again, the Italian example is there. So we'll continue to report on this but I think CXX customer experience is nicely now going into digital and digital will be the core programme for the transformation of the company in the next few years.

Finally, to conclude, let me sum up. As I said, exceptional year on transformation. We become the leading next generation infrastructure owner in Europe. I'm glad the way both joint ventures will go in India. India will be self-supporting and very, very solid. Proud of the achievement in fixed line. I have to say, again, third consecutive year of EBITDA margin expansion, which is exactly what we promised three years ago. And digital Vodafone becoming really the big transformation plan for the whole company. In terms of dividends, we have announced a 2% increase and Nick gave you the guidance: 1-5 EBITDA and free cash flow, pre-spectrum at least 5.2 billion. With that, thank you for your attention. I think we should move to Q&A.

Question and Answer

Jonathan Dann, Royal Bank of Canada

Hi there, it's Jonathan Dann from RBC. In the blue suit. Congratulations. I've got two questions. One is on the LTIP. If we dissect slide 21, it sort of implies that year plus one and year plus two, we would start to expect the sort of substantial increase in free cash flow. Can you just walk through whether that's revenue, opex, capex driving that? And then my second question is more existential. It seems very easy to disrupt in broadband. So, yourself in the UK, MásMóvil Spain, whereas it would seem to be that 5G has greater barriers to entry. How do you see the pricing environment competitive landscape in, say, the consumer broadband market?

Vittorio Colao

Okay. Yes. Why don't you take the LTIP, while I –

Nick Read

I would say, on the LTIP, what I was really trying to highlight is there is good progression. I would say, pretty much EBITDA driven, so it is sort of core performance driven. Need to bear in mind, we were doing organic service revenue of 1.6% this year. A good proportion of that had high margin because it's monetising data so we built the network we were monetising. Also, we have now an extensive on-net footprint, which has high margin. So those two factors go through to our bottom line. And then on top of that, we have digital and digital will start ramping up. So it's a bit of an investment year next year. It's been a bit of an investment year this year. But then it starts to really contribute going forward in terms of transforming our business model.

Vittorio Colao

Yeah, and the existential question: is it easier to be an attacker and disrupter or not? Let me say, of course, you have a point, but of course you have to put it in context. So is it easier to attack in fixed line from behind? Yes, but we don't do it exactly in the same way everywhere. So you might be influenced by the UK where we have literally zero legacy, so yes there to build scale over time you need to be more aggressive but if you look, for example, at Italy our pricing is if anything more cautious than the pricing of others. If you look at Spain, until Friday, actually we were at a premium in certain segments. Now it's a premium versus Orange, not versus Telefónica. If you look at Germany, the cable pricing is more or less has always been the same. We are not. So yes, it is in a way easier because you don't have big, old high-level revenues but we are not really being particularly aggressive across the board.

5G will be different. 5G will be more complicated and that's why MVNOs are nervous. That's why MVNOs are nervous because they know there will be a surge in traffic, which will be very high. There will be technical requirements in terms of latency and quality of service, which will be higher and it will not be easy as an MVNO to really kind of do them. Of course, some of them will be there. Others are less comfortable. Capacity management and quality management will be more important over time. But it's already a little bit the case in 4G. I have to say, even in 4G it is a little bit more complicated, not for serving Netflix, of course. Netflix is – yeah. So shall we – yeah, let's go there. Robert. Okay. Yeah.

San Dhillon, Exane

Thanks. San Dhillon here from Exane. Two questions. Firstly, on digitalisation, Nicky mentioned that there were investments this year and in FY19 in preparation for the benefits of digitalisation. Could you quantify kind of the scale of those investments and how much are non-recurring? Secondly, on service revenue growth progression, as we kind of go into the 2Q in the second half of the year and you revert to normalisation in Italy so to speak, are you still expecting the underlying organic service revenue growth to be between the 2% and 2.5% that you have been delivering?

Nick Read

I would say on the first one in terms of digital, the costs this year have not been so great, so in FY18. I'd say in FY19, we're putting investment to the tune of about €100 million that we think we can do and still lower our absolute operating costs while we do that. So a little bit to Vittorio's theme of investing in our business continuously. Fit for Growth gives us capacity to then reinvest in the business. I'd say on service revenue, for the trajectory, rather than break down by quarter, which of course we're not going to do, what I would say is we're growing, if you like, the headline 1.4% in Q4 and 2.4% underlying. If you look at the 1.4%, I'm really calling out the fact that we're going to slow up in Q1. 80 basis points is really a bit of a one off in Italy for timing on the repricing. Then the question is, Q2 onwards, what is going to happen from a competitive dynamic with Iliad coming in to the market. And frankly there are a lot of different scenarios, a lot of different potential pricing plans. We have to see what they are. So I don't think we're in a position to give an outlook. We'll just have to see. I think we're very well prepared. Spain will be a small impact in going negative into Q1 and then let's see how we evolve. I think the second half will be more positive for Spain given those investments that we're doing in the first half.

Akhil Dattani, JP Morgan

Two questions, please. Firstly, I guess just a big picture question around the EBITDA growth that you delivered last year and as we look to this year. So I guess tying up a few things we've talked about. If we look at the underlying EBITDA growth in March 18, it's about 8% adjusting for one-offs and everything else. The midpoint is 3% this year. Obviously, there's going to be an Italian impact you've assumed there. But I guess can you walk us through what are the other moving parts that we should think about? I guess top-line cost cutting digitalisation. What are the things that kind of explain the slower growth? And I guess, with that, one of the things I am quite interested in is in the age to EBITDA that you generated, the margins were up nicely but opex didn't improve in your market. In terms of opex cuts, they were very good in H1, not so much in H2 so maybe it's commercial investments, too. So just the general message around that. And then the second one is just on spectrum.

Nick Read

I think you're up to three now. Anyway, carry on.

Akhil Dattani

The – my second one is really just around spectrum. You made an interesting point about maybe being able to re-farm spectrum and not necessarily having to compete so aggressively for future auctions. I guess what I was trying to tie together is if you were to look at the volume of auctions coming up, we could probably be thinking of €5-5.5 billion of spend the next two years. I understand the point about maybe not needing to buy so much but I guess what I'm trying to understand is how much of it's important just to future-proof because I guess there's not a lot of visibility around future 5G demand. Is it really strategically to think about it's safe to not bid for that auction?

Nick Read

Let me rattle through your list. Just in terms of EBITDA growth, the 7.9% down to the midpoint of 3%, the biggest swing factor is Italy because Italy contributed to growth this year and it's obviously going to be negative next year. So that's the sort of biggest shift down. There's a degree in Spain. And the main degree – we need to invest in Spain. We've repositioned pricing but we'll also invest below the line. That will involve some selective subsidies etc. to basically compete with MásMóvil, not in an overtly aggressive way. That's not – we're just saying, in retention, in reaction we want to be able to compete. So there's the investment going in there. I would say these are the two main movements. The rest of the profile looks, I would say, pretty similar to what we've been delivering.

To your point of H2 operating costs, yes, they did not reduce. We could have had a reduction but actually we felt with the performance we were doing, now was the moment to invest in the business and there were a number of markets that we felt on the commercial cost we thought we had really strong momentum, in a number. We wanted to invest behind that momentum to give us more growth in FY19 and before.

And just in terms of spectrum, I suppose the big one on the re-farming opportunity is low-band. It is, sort of, do we need to participate? And to what extent we need to participate more around the 700, given the low-band that we already have in some of our countries. That's not to say that we're not going to. Clearly we have to evaluate. We have to see the pricing but the pricing has to be, if you like, a compelling price point for us and so we are doing the strategic review in each of the markets to see where the opportunity is.

Maurice Patrick, Barclays

Hi, it's Maurice from Barclays. A question on your next generation access, you referred to it as being in a super strong position, fastest growing of your European peers etc. I guess the question relates to the pace of growth going forwards. There were many who doubted Open Fiber's business plan. There were many who doubted whether City fibre or alternative fibre investments in the UK would take place. It seems to be your own commentary around BT, they are moving slowly regarding giving you the right wholesale terms. So you seem to have some tailwinds to fixed line growth in that respect. Do you think net adds can actually accelerate going forwards, given the greater footprint in Italy? I think Open Fiber is talking about 2.5 million net adds I think in terms of homes past this year. Clearly, lots of money coming in from infrastructure funds on UK fibre. Can we see accelerating growth in fixed line?

Vittorio Colao

Let me give you the broader answer and then maybe Nick, you can talk about the expectations. The broader answer is there is no doubt that new generation networks are coming. They are coming, either because incumbents are investing in them or because we – and now I say we – upgrade cable to DOCSIS 3.1 or because private equity is investing on a regional basis. The beauty of the Vodafone structure is that we always said we are going to be capital smart. We are going to use the three models. We can do ourselves, we can buy, we can work with incumbents or we can work with local companies to do it. Now, there is no doubt this will happen. This will imply that a lot of people will upgrade, as I told you in my speech. And then there will be an opportunity to acquire customers from incumbents. Incumbents have the problem of having high prices for old products, products that don't deliver. If I look at how much I pay in my home, honestly every month, then I forget but every month I say, 'Why am I getting this for this price?' It's a tremendous opportunity for us when we are equipped with the right strategy and the right assets going ahead. You want to be more specific on –

Nick Read

No, the only build I would say is – and I think we covered this when we had our Open Office down in Italy, where we focused on fixed was – look, we're in a window at the moment where people are moving off slow speed DSL, whatever, products and moving onto fast speed, giga-speed, which we can offer. And so it is a little bit of a land grab moment, to your point, and if other incumbents etc. are not rolling out a product that can really compete with our infrastructure, we have an advantage. I think there is a balance between no over promoting and reducing ARPUs and the level of growth but you clearly see in our quarterly performance the momentum we have as a business and we are taking share.

Vittorio Colao

Difficult to choose. Let's move a little bit here. John and James and then here, Polo and then Jay and then we go there. Okay, yeah, I see you. Robert, I am sorry. They all call themselves Robert.

John Karidis, Numis

First of all, congratulations to all three of you. If I may, just one question to do with India. If we set aside the fact that you're just about to kick off a major self-help programme when you merge with Idea, can you help us consider whether the market and you would've been at the bottom now and you would've been slowly but surely recovering now that all the blood-letting seems to have sort of run its course?

Vittorio Colao

Yes, it's very hard to hold the bottom of the market, especially when pricing is not in your hands: it is in the hands of three different people. I would say for sure we are very well positioned for a recovery of the market when it happens. In the meantime, as I said we have US$10 billion of synergies that we need to get so the whole work that we have been doing with – as much as we can because you cannot completely do things – with a clean team, is to first set up the plan for getting the synergies in terms of network synergies, most of them, and in terms of commercial planning for the joint brand. And then, clearly be responsive to all price moves of the competitors. For the time being, we have never triggered a single pricing down, it's either Jio or the other guys. We follow and we defend our base. It's going to be an incredibly elastic situation because it's 10% increase of price, which sounds like – after the collapse, sounds nothing – actually it can contribute immensely to the bottom line. Can I call it now? I don't know. I mean, it depends. You know an effect on the base, which of course will be there but keep in mind that our 22% decline, half of it is MTRs, so also that at some point will up. So is this enough to call it the bottom? Probably not but we are clearly being closer to the moment of the bottom than one year ago.

Nick Read

Yeah, I think it is also fair to say that since, what, early January the pre-pay market has been pretty stable. Obviously there is new post-pay price in going into market, but pre-pay has –

Vittorio Colao

Yeah, which is inevitable because when you have pre-pay very low, why would you take a contract up to a point? So is this the end of it? I cannot say and it's not for me to say but clearly we are getting into a three players market. That's the story.

Polo Tang, UBS

Polo Tang at UBS. I just have two questions. The first question is really a clarification in terms of cost savings. So I am just really trying to get an understanding in terms of how big the opportunity is left. You've obviously called out lower opex for this year. Is there a lot more to go for from next year onwards? Any commentary around that would be very helpful. The second question is really just for Vittorio. As 10 years as CEO, which achievement are you're most proud of and how do you view your legacy?

Nick Read

Why don't you do yours first because it is more interesting?

Vittorio Colao

Listen, in theory it's not today. In theory, it's AGM, it's Q1 at the moment but let me say, first thoughts, the real achievement that I think is lasting in life is the people you leave behind and not just the people, Margherita and Nick, but the people who are sitting here on the first row and the other two hundred there behind. It is a real lasting legacy and I think for investors this is also the most important thing. A company that displays leadership, succession, good management practices and a solid management structure in the long-term – I might not sometimes hit the peak but we never really be in big trouble. So to me, that's the most important thing. Then if you look back, I'm very proud of this big transformation. I remember I got – I remember in my early tenure days, people saying, 'Vodafone is doomed, you are only mobile, the world is going to converge and you guys do not have content' and so on. Now the content guys I think are hiding somewhere now because it's probably not a great investment. But we have transformed the company into a different beast. We have distributed a lot of money – made divestments for 115 billion. I gave 120 shareholders but we invested 150 between capex, spectrum and acquisition. So I think we managed a pretty massive transformation in an effective way but if you ask me what will really remain, I'm convinced it's people: the quality of the people.

Nick Read

And on cost. What I would summarise is that Fit for Growth has really gone through sort of three phases: first phase was around things like ramping up shared service centres. So that was a lot of activities moving out of Europe to our captives, to our own shared service centres and getting the benefits from that. We had things like procurement that we centralised all our procurement, added categories to. If you like, being a true global company in terms of size and scale and advantages. I would say the second phase was then starting to get into standards, like network standards, IT standards, how do we buy IT more efficiently? What's insource versus outsource? So it's more around the productivity phase and we've been driving that. The third phase we're about to go into, digital goes up. So we haven't really had digital advantage. So if you look at it previously, sort of two thirds of the benefits were in the OpCos, one third in the Group-led activities. Now it's moving more into one third will be across the Group digital, one third is in the OpCos and then one third is Group-led further initiatives that we are doing. So the profile constantly changes. That's my way of really saying this is a multi-year ambition of how we are really reshaping the cost base and the operating model. Don't see it as we are flashing and burning cost in areas and then we run out of room; we are re-engineering in a considered way, our business.

Dhananjay Mirchandani, Bernstein Research

Thank you. Two questions related to network quality and capacity. So firstly in the near term, you've closed the gap versus the incumbents as it pertains to quality across your core markets and yet – this just might be an issue in terms of how you account for this – they seem to be outperforming you in terms of relative market share momentum. Firstly, how accurate is that observation and how do you intend to address that mid to long-term? There are three hundred megahertz at a minimum of reasonably spectrum coming to market on 5G, which implies a massive expansion in capacity across networks, even for the smallest scale operators. To what extent should we be concerned about the deflationary pressures these will exert on pricing? I am not talking about unitary pricing; I am talking about real like-for-like ARPUs that customers pay. Thank you.

Vittorio Colao

Your first observation I think is directionally right. On consumer mobile, we have probably a little bit underperformed here and there. I think it's part of the other side of the story versus convergence. Of course, we are focusing a lot on that. We will need to do a little bit of a better job on customer base management. However, we also hate when some old customers are squeezed, if I might use it, or the customer bases are managed in ways that we think in the long-term does not create big value. The 28 days example in Italy is very telling. We adhered to the law in the strictest possible way. Our competitors didn't, so now, of course, we're going to have some financial cost coming from that. Is that right? I don't think it is. It works well – better for us in the longer-term, probably. But of course there are these things that unfortunately make some differences.

On spectrum, yes what you say is right but don't forget again that we will be more and more converged. There will be more and more on not just the pure - I give a Netflix on the phone type of experience – but we give more. My impression is that it's more what Nick has said. I think we are getting at a point where we will spend probably less than what people think on spectrum. We'll use spectrum in a more efficient way. Does this mean that governments probably will start making less money on spectrum? I think over time this will be the case. But the jury's out. Let's see.

Nick Read

I think what you said on the spectrum side would be more valid if we had not done Spring. So I think opening up that sort of two-tier quality – because in the end, 5G is coming on top of a 4G infrastructure. So in the end, as Vittorio showed in his chart, you are building on that 4G quality. So if you're a second tier quality player, you're already behind before then you start densifying on top. So it doesn't necessarily mean that suddenly there's a quality gap change.

James Ratzer, New Street Research

James Ratzer, New Street Research. Firstly, Vittorio's congratulations on everything you've achieved over the past decade and Nick and Margherita, congratulations to you too and good luck for the future. Two specific questions. One just on digitalisation, which has been a big topic for this morning. As that ramps up and accelerates, how do we think about personnel costs in particular going forward? BT announced last week a major restructuring programme, restructuring costs involved with that. You've been spending around €250 million per annum on restructuring. Is that something goes up as the pace of digitalisation increases? And then the second question was around the dilemma between microwave versus cable and fixed wireless. You were talking quite positively there about microwave backhaul. At the same time, you're investing a significant amount in cable and I think to date have been more sceptical about the fixed wireless broadband business model. How do those statements around microwave sit alongside the other comments around cable and fixed wireless? Is that not a potential threat?

Nick Read

Okay. So I would on digital, the first thing I'd say is the focus on that transformation is not about cost cutting and headcount reduction. It is about giving a fantastic customer experience. And let's face it, telecoms as an industry is not known for giving outstanding service. We really want to differentiate on that business. We've got a fantastic quality of network, whether it is mobile, whether it's fixed and now we want to put that great service layer on top. At the same time, you get efficiencies. Yes, fine, we get efficiencies and we will work those efficiencies but we've been working efficiencies for all these years. So your point of restructuring, I anticipate FY19 similar level of restructuring cost, €200m. We factor that in our thinking as a sort of long-term average.

Vittorio Colao

Yeah. On the second point, let me clarify what I really mean. One thing is the backhauling story. So do you need fibre to backhaul back from sites that will be more and more loaded with data? The answer is not necessarily. With progress of microwave – and the problem with microwave is always the hops - the more hops you have, the more you have latency. You accumulate the latency, the service becomes bad. With the new microwave, the latency on the hops is actually really reduced, so as long as you can have straight-shooting with microwave, we will depend less, not more, on fibre in the future, which is good. And that does not mean that if a motorway company or a city fibre ring says, 'Hey, I have the city fibre ring, do you want to use it?' we will not use it. But it is another smart-capital type of deployment decision that Johan and his people will have models. And again with a lot of analytics and a lot of analysis, we just decided which one is the best.

Different story to talk about last mile access and fixed wireless into the homes. Now, what I said is while there is some story about this being appealing in the US, we haven't found that the density of most situations in Europe with – together with – the low price of getting fibre or an NGN access in most places make this solution viable in most of our situations. In other words, when you pay €80 versus 16 or 17 or 20 or 25, clearly the room to have a radio deployment is more limited because people say, 'I get the other one'. Plus, we have the density thing that is very important that creates more of an issue in places like this. That does not mean, again, that in some situations more rural, more kind of spread, we might actually look because the cost of doing fibre becomes higher and higher with the distance, the metres of distance, and the density's lower - so wireless might make sense. But I'm saying it's two completely different things. One is backhauling. The other one is access the homes. Was I right, Johan? Yeah, thank you. I always look at him because when we talk about E-bands, multi-bands, these things. I think we need to come this side.

Andrew Lee, Goldman Sachs

Thank you. It's Andrew Lee from Goldman Sachs. I just wanted to echo everyone else's sentiments on congratulations and best of luck in the future for all of you. I have a question on returns, first of all. You sold well. You streamlined your business. You've bought a position for convergence as you laid out in your presentation and you are growing faster than your peers but your returns are below the cost of capital and so now you're set up, it seems, for the future, what's the opportunity to get those returns above the cost of capital? How quickly can you do that and what are the key obstacles for that?

Just a second question on B2B and barriers to entry have cropped up a lot in the questions you've had so far. I just wondered on your views on changing barriers to entry in B2B, do you think the barriers to entry are coming down as ICT becomes a bigger chunk of the pie? Does cloud maybe give the access greater scope for competitors? Any comments that you have on that.

Vittorio Colao

What was coming down? I didn't get the word.

Andrew Lee

The barriers to entry. Is it easier for new players to come in, particularly ICT competitors?

Vittorio Colao

First of all, let me say I would love to say that return on capital will grow immensely now but I think it's your answer, not mine, that matters here.

Nick Read

I think you've seen a focus on EBIT over the last couple of years. That was one of the changes I made. It was on saying, 'Okay look, we're going to drive EBIT'. We put it into our bonus scheme; so we changed from EBITDA to EBIT. I know you all love EBITDA but we are very focused on improving returns. I think over the last two years, we have started to improve returns and I think you can see it in the number here. What I would say is what, effectively moving forward, gives you faith that returns will improve is that, look, we've done some big transformational steps on reshaping the group: India obviously, the Liberty transaction. Off the back of that, leverage stands at – it is going to be a very organic focused execution over the next three years. We need to drive the top line. We've thought about all the opportunities we have with the assets that we have to drive that top line. We are going to stay very, very disciplined around costs, lowering costs, through digital. And you've heard it, whether it's spectrum or whether it's capex, we're really driving the optimisation and there's more science in how we are deploying capex. And I think there are opportunities. So if you get EBITDA growing and you are holding your capex down with spectrum and amortisation, you are going to get returns moving in the right direction.

Vittorio Colao

Yeah, on B2B, I think on B2B I want to be very clear and honest with analysts and investors because it's very important that B2B does not – and cloud does not become the next content thing. The answer to your question is yes and no at the same time. Yes, we think there is an opportunity coming from cloudifcation and there is an opportunity if we leverage on the assets that we have, which is why I made the comment about the assets that we have. If we leverage on the assets we have, we have reasons to believe that Vodafone can continue to grow even when others are actually going backward. It's easy to say why because they have legacy services which were, let's face it, overpriced versus the technology possibilities of today; we did not. If we deploy in an intelligent way communication services on top of cloud in a smart way with the right sales force and the right international footprint, it's an opportunity for Vodafone. But I want also to say we have to be very honest in saying – it's a bit like with content – we need to do what we're good at. Can we be better at cloud, at hardcore cloud, than Microsoft, Google, than Amazon? The answer is no. Therefore, we will need to partner and work with them. Therefore, our opportunity will be exactly what I said: the integration of communication services on cloud services, which will be mostly given by others and we will integrate with them. If then telcos start thinking, 'Oh, I'm going to go into cloud', it's a huge market. You look at the scan of – in our reports from industry specialists with $30 billion, $40 billion, $50 billion, then you inevitably have to retrench at some point because it's too big.

So again another area where I think Vodafone is deploying the right strategy, playing where we are strong and cooperating with others where they have better assets.

Nick Read

And just to build, that's in a capex light execution.

Vittorio Colao

Yeah because otherwise you can spend all the money – it's like in content, you can spend all the money that you want in the world of cloud without really being competitive with the big guys.

Emmet Kelly, Morgan Stanley

Okay, thank you. It's Emmet Kelly at Morgan Stanley. Just two questions, please. The first question is on slide 23 where you highlighted pro forma leverage of eight times on the Indian JV with Idea. Nick, can you just say a few words and what makes you so confident that the JV can support the leverage during the three to four-year integration period and maybe just say a few words about the long-term plans for your stake in the enlarged Bharti Infratel group?

And then second question, again, Nick, if you look at Vodafone over the last 10 years under Vittorio, he's definitely left his stamp on the portfolio, the network and cost-cutting. Just any early thoughts you have on what stamp you would like to leave on the company as you enter the position of CEO? In particular, maybe any opportunities you see for the sector because the sector looks quite unloved by the stock market at the moment and where you see the greatest opportunities going forward.

Nick Read

No pressure then. Right, I mean, just on leverage, what I'd say is obviously we've had a chance to form a team, obviously, within the right boundaries, if you like, to look at all of the integration plans, synergy potential, etc. We're very positive on the synergy opportunities and where there can be some fast starts: so network rationalisation, duplication of sites, I think we can have some really quick wins on that; procurement, I think we can have some quick wins. So there's a number of areas I think the team are very positive about how we can make an impact quickly.

What I would say is I did put on that chart a dotted line. 80% [of pro-forma net debt] is to the Government on future spectrum payments. You would like to think that both the Government and banks associated want a healthy three-player market going forward and therefore I'd like to think that they will all work with us to make sure that it's a good, rational market.

So what I'd say is good synergies, brand's doing well, spectrum network and then the profile of the debt is the normal bank covenant debt, if you like.

In terms of the stake, as you know we have dropdown agreements effectively with Birla going forward, so he can increase his stake, so we can equalise and therefore there is optionality for us. I think that's the best way of saying it. I mean, the Indian market has great long-term potential. It's at a very difficult time – I know we've said that in the past. We've had highs, we've had lows. Let's see how it develops. But I would call it optionality for us.

I was really pleased with the transaction that we did for Indus Towers. I think converting what was an illiquid stake into a liquid stake, with again optionality to sell down our position while still effectively having a good degree of control of the asset.

And finally I think it's a bit too early to say what my legacy will be. I just think we have a fantastic foundation. Vittorio talks about the next chapter for Vodafone. Vodafone has always been a fantastic business and has always been transforming, and I think we've done some big things over the last five, 10 years in terms of transformation. It's a great foundation now to go forward. We've collected some fantastic assets. We've got a great team and I really think that probably the one thing if we look back three, five years from now, being a real digital telco where others might talk about it, the speed at which we are moving I think is really impressive, and we want to keep that speed and, if anything, accelerate.

Robert Grindle, Deutsche Bank

The real Robert. Thank you. Two questions from me: one on tax, actually. One of your competitors has flagged higher cash tax because of IFRS over the next couple of years. Is your guidance tax at IFRS 15 free? Nick, have you got some wiggle room there. Does it even affect Vodafone?

And then secondly, coming back to 5G, I took on board your reassuring comments on the fibre and the microwave. On reusing the grid – the cell-side grid, I assume your comments are based on using full-fat 5G at the higher frequencies and that you can achieve that within your capex guidance rather than some re-farming plan – this is a proper 5G, 3.5ghz that you can reflect in your guidance?

Vittorio Colao

Yeah, so the second answer is yes. And the first one is?

Nick Read

And the first one is: so we have a slightly – well, I don't know whether it's unique – a different profile in the UK. We carry a lot of capital allowances and so where it might be an issue for others having S15 with higher profitability, effectively it's not an issue for us, so we don't have any sort of cash tax impact over the next couple of years.

Stephen Howard, HSBC Investment Bank plc

Thanks. It's Stephen Howard at HSBC. I wanted to ask you about techlash, the backlash that's underway against the OTT players and formed a central part of your address in Barcelona a few month ago.

So, first, a general question, what are the opportunities here that might be available to Vodafone and indeed the broader industry now that the tech giants are coming under a lot of scrutiny?

And then as a follow-up to that, it's a subset of the above: can we talk about privacy? What do you think Vodafone's track record is on privacy and is that something that you can leverage to your advantage or alternatively do you think that there are potential pitfalls in that direction?

Vittorio Colao

Yes, both very good questions and actually it's one single question really. So techlash, what gives the opportunity for Vodafone? I think our opportunity is really on identity and security. These are the two things that historically Vodafone and, I would say, all telcos have been good at and that customers value. And they are the things where the business model of the OTT, no matter how much they adjust and they have all the measures we are receiving these days with GDPR and so on, it's increasingly difficult for them to do it because their business, most of the times – not Netflix, but the others – is based on advertising and on monetising something about ourselves. So that is where we can have, I think, the biggest opportunity, which means that we potentially have – and we are looking at it, but this is really for Nick to talk about it in the future – also the potential advertising opportunity; do we have a way to sell our data in a healthier way or to manage our data in a healthier way, contribute them to datasets of third-parties in a way that is more consistent with what legislation and customers feel? Again, here the jury is out and I leave it to the future meetings to discuss.

Privacy is linked, quite frankly, to identity and security. So I believe – first of all I believe that we are more sensitive than the average person in the street to privacy so we should be careful in not over-emphasising. I always ask when we go around our operating companies, 'who has stopped using Google Maps?' And, by the way, who has stopped using Google Maps in this room because Google knows where you go and how many beers you take at the pub at night because they can link the pub, to the location, to the time you stay there and divide your body mass which they get from somewhere else by whatever, and your salary and then say, 'Stephen, you got three beers last night'? I don't think anybody has stopped using that and I don't think anybody has really stopped Facebook. And if I have to choose between receiving advertising which is relevant to me and advertising that is relevant instead to Nick, I prefer the one which is relevant to me. So we have to be careful in thinking that the whole world will move, but for sure we have something in identity and security that we can give and we are working on that.

By the way, our secure net product is already €160 million in revenue, something like that, yeah. So there is something that we have been building quietly and we will leverage on.

And on GDPR and so on, Rosemary is here. If you are interested you can ask her later. We have a compliance programme like every company. We are working very hard to make it safe. I cannot say we are completely safe, but I think we are as good as one can be in complying with it, touching wood because you never know what happens half an hour from now.

Guy Peddy, Macquarie Capital Securities

Thank you. I'll be brief. It's Guy Peddy from Macquarie. It is probably a question for Nick as much as anything. Looking at your EBITDA range there's basically a €0.5 billion delta between the top and the bottom, and we seem to have focused on all of the negatives this morning, like Italy and Spain where there are potential headrooms coming. What are the positives that you are looking at or which particular geographies have you got where you see you might be able to deliver towards the higher end of your EBITDA range rather than talking constantly about the bottom end of the range? Thank you.

Nick Read

I think if you were talking to all the CEOs of the markets, they all feel like they will be contributing to the top-end of the range, so how we set targets is we push more stretch targets to each individual operating company and then we take a view of the level of combined risk at the group level, yeah, to basically get a feel for what we think is unacceptable.

So what I'd say is that all targeting stretches. I would say that the top-end is more to do with: how does Italy play out? Does Spain through its repricing and actions have a stronger second half? So we've already got good plans, for instance the UK, Nick in the front row here contributing more, Germany continuing to contribute. So I would say most of the portfolio is performing well. it's just more about where those two markets, how favourable or otherwise they come out.

Nick Delfas, Redburn

Thanks very much. Nick Delfas from Redburn. So I'm afraid it's quite a boring two questions from me. One question is just on Spain. Could you be a little more specific? We should expect, I guess, some kind of reinvestment in Spain in H1 and therefore presumably profits might go backwards, EBITDA might go backwards?

Nick Read

The answer is yes.

Vittorio Colao

Yes.

Nick Delfas

And then secondly on South Africa, which we haven't spoken about at all, there seems to be quite a wide range of regulatory pressures on bundle pricing. Could you talk a little bit more about how you will respond to that and what the impacts could be?

Nick Read

Yeah, bundle regulation has come up. We're feeling that there are a number of items – actually, sort of, it was a lot more extreme and has moderated. That's not to say that there aren't important changes coming. I'm not too sure we're looking at them being a big hit, if you like, to the service revenue performance. I think there are things that we can put in place to moderate.

Nick Delfas

So no big impacts? Okay, alright. Thanks very much indeed.

Georgios Ierodiaconou, Citi

Hi, it's Georgios at Citi. I've got two questions, the first one in Italy. It's probably two years too early, this question, but there's been talk of NetCo and Open Fiber getting together and I know there's a lot of things in between, but you have some contractual agreements. I was wondering first to get your perspective of what you think about the combination, and secondly do your contractual agreements mean you get a seat on the table when the negotiations start?

And my second question is on EBIT. I think there was an earlier question about being a key target and returns on capital employed. There was a reduction I believe in the amortisation this year. I just wanted to know if this – you believe it's aligned with the way Liberty is amortising its own cable network, so getting an understanding of the pro forma numbers. Thank you.

Nick Read

No, the very simple answer to the EBIT, I called it out in my presentation, which was: in Germany we basically felt that in cable – we have very conservative accounting on life of assets and we got to the point where the cable asset had a lot longer useful life than we were amortising, so we had to reset it. So that had a benefit in the fiscal year.

Vittorio Colao

Yeah, and thank you for allowing me to conclude this session with a question on Italy. Listen, on Italy first of all we will not comment on what's going on at Telecom Italia because it's not our business. Our loyalty is to the Open Fiber project, so yes we have a commitment there that as soon as they deploy in areas where we are, we will move to them our lines. So we are completely committed to that. We are committed to Open Fiber. I met the CEO last week. We are – they are on track, they will deploy and we will continue to work with them, and that's message number one.

Message number two, in case there is a spin-off of network from Telecom Italia, first of all we have to see whether it's a true spin-off or just a legal separation. A legal separation, as we have here, or functional even worse, as in the UK, it is really not – it doesn't make any difference. If it is a true separation with different shareholders it's a different thing, but at that point Open Fiber, we'll start talking to them. Whether it's possible to separate the network from Telecom Italia, I don't know. Maybe the fibre network, yes. Could the fibre network of Telecom Italia go together with Open Fiber? That would be fantastic for us. Any other combination we'll have to look and sit at the table, as you say, and if we like it, good; otherwise we will go to the antitrust table. But our main loyalty is to Open Fiber and we will work with them until something changes in Telecom Italia.

I thank you all very much. It's always been a pleasure to interact with you. We have one more interaction over the phone for Q1. Let me tell you, I really enjoyed working with you, hearing your questions, being challenged. It's been a great pleasure, so thank you. You have an important role in the market and please keep doing it very well, as you are. Thank you.