

# Vodafone Group Plc

## Analyst and Investor Conference Call Trading Update for the quarter ended 30 June 2018

Wednesday 25 July 2018

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## **Vittorio Colao**

### **Chief Executive Officer, Vodafone**

Good morning, everybody. Welcome to our trading update for the first quarter of 18/19. I will take you through the quarter's highlights and discuss the important positives for Vodafone from the new EU electronic communication code, and then Nick will concentrate on the trading performance in our major markets, and his priorities as the incoming CEO, before we turn then to Q&A.

I will start on slide 4, with the highlights for the quarter, starting on the left.

During the first quarter, the Group's organic growth rate slowed in line with our expectations, to 0.3% on our historical accounting basis. This quarter, along with the rest of the industry, we have adopted IFRS 15, which eliminates the drag from handset financing, and therefore gives a more accurate representation at 1.1% growth. Nick will explain more about this accounting change later on.

The majority of our markets are performing well. However, we were impacted by increased competitive intensity in Italy in Spain, together with a seasonally higher drag from our EU roaming regulation. The foundation of our growth is our differentiated network quality versus the value players, which we continue to extend thanks to sustained investment. Mobile, our 4G coverage increased to 94% of the population in Europe, and we have the best network NPS in 14 out of our 20 largest markets. In fixed-term, our high speed broadband coverage is now 70% of households in the European footprint pro-forma for the acquisition of Liberty's assets in Germany and the CEE. We will have access to around 115 million homes, with 54 million on net, allowing us to compete head-to-head with the main incumbents. And this network leadership drives our three growth engines.

First, mobile data, which continued to grow fast at 57% in Europe and AMAP supported by 4G adoption and greater usage. On average, these customers now consume 2.5 gigabytes per month. This data growth reflects the success of our more-for-more plans, and personalised offers. However, the benefit to ARPU is typically being offset by a structural mix shift towards lower output SIM-only offers, and by the EC roaming regulation, as well as in a few specific markets by increased competition. Second – fixed and convergence is the second engine. 196,000 new broadband users in the quarter and a record 289,000 new converged users. And third, enterprise, which is 30% service revenue, 0.9% growth or 2% excluding EU regulation, which is similar to last quarter. This reflects good trends in IoT as well as in fixed and in cloud services, where we are gaining market share. And finally, on the right, the sum of all our cooperational efforts is shown by our net promoter score, which continues to demonstrate our leading or co-leading positions in 17 markets. Critically, we continue to have a very substantial gap with the third placed player. So overall, I would say that Q1 has been a solid quarter for the Group, and in line with our expectation, notwithstanding the rise of competitive intensity in Italy and Spain.

Moving to slide 5, our leading customer perception continues to attract and retain users, translating into solid commercial momentum. On the left of the page, starting with Europe, mobile contract customer growth in the light red bars has accelerated in the quarter due to strong growth in Germany, a

higher number of second SIMs in Spain, and improvement in customer experience and service in the UK.

In fixed broadband, the dark red bars, or growth in what is a seasonally slower quarter has been impacted by customer losses in Spain, and by our efforts to lead a reduction in promotional intensity in Germany. However, consistent with the rise in demand for high-speed broadband, we added a very, very positive 351,000 NGN households, similar to prior quarters.

On the right, in blue, AMAP. Customer growth continues to be positive in both contracts and in prepaid, due to our network quality, distribution range, and high standard of customer service. On the bottom of the chart, you can see the important service revenue. In Europe, reported service revenue declined, but underlying growth remained positive at 0.5%. This reflected recovery in Germany and in the UK, offsetting the weaknesses in Italy and Spain. In AMAP, service revenue growth eased slightly, but remained very healthy at 7%, which is above inflation in all of the key markets, driven by customers and data growth.

Turning to slide 6, a key indicator of customer satisfaction is churn, and I am encouraged by the improvement here across most of our markets, with the exception of Italy and Spain, primarily as a result of the competitive environment in both markets. This improvement translates into very low actual churn rate in a number of markets, as you can see at the bottom of the chart, which is a testament to our network quality, customer service and increased science we are bringing to our retention activity through big data analytics and one-to-one marketing. The best example is, once again, South Africa, where we have an NPS lead of 10 points versus the next-best operator, thanks to our personalised voice and data bundles strategy, leading to mid-single digit churn rate.

Moving to slide 7, which shows the contribution of our three growth drivers to our service revenue growth in green, and the dark, and the drags which reduced our reported performance in black. Consistent with our guidance in May, European consumer mobile – the first green block – turned negative in the quarter due to Italy and Spain. However, a large part of this fall was the delay in re-pricing in Italy, following the move from 28-day to monthly billing, as unlike our peers we complied with the requirement of the regulators. Excluding this, EU customer mobile would have contributed 30 basis points to our growth. The second block is AMAP mobile, which delivered a significant contribution to growth, driven by a rise in data users and customer penetration. Our fixed business, the third block, accounts for around a quarter of Group service revenue. Fixed revenue increased 3.6% in the quarter, reflecting broadband consumer customer growth and market share gains. Importantly, the quality of our fixed base continues to rise: 68% of the broadband base takes NGN speed, and 34% of consumer broadband customers are now in converged bundles. In enterprise, we continue to take share in fixed, and expand our IoT business, up 13% in the quarter due to our unique global footprint, and wide product set.

Now, on the right part of the chart you can see the drags reducing the growth by almost 2%. These include regulation, which will improve as this is the last quarter of the roaming impact. UK handset financing will disappear under IFRS 15, and Carrier Services and Wholesale, which continue to drag as MVNO revenues, fall away over time.

Now, I move onto slide 8, the EC regulation and EC code. As you are all aware, regulation plays a critical role in our sector, so I would like here to make a few comments about the code, which was finally

agreed in early June. In our view, this is a key long-term positive for Vodafone's position in fixed line. The most important elements for us are the ones on the left of the page. The clear performance and stimulus for pure fibre rollout through prioritising passive infrastructure access as a key regulatory remedy, creates additional opportunity for us, particularly in enterprise. A second further positive is that deregulation of fibre access is only possible with credible co-investment partners, and this removes the risk that incumbents can gain a regulatory holiday with fibre. Third, non-regulation of genuine wholesale-only operators is also important, as it protects fibre builders like Open Fiber or CityFibre, and strengthens the case for full structural separation by incumbents, which would create, again, a level playing field in fixed, favourable to Vodafone.

Taken together, all these three measures create new opportunities for industry consortia and infrastructure funds to invest, increasing long-term optionality for Vodafone and at the same time pressuring incumbent operators to provide reasonable wholesale prices. On the other hand, we think that symmetrical access regulation on cable is unnecessary, given that the wholesale options will be provided by incumbents. Moreover, the good news is that this can only take place if competition is at risk, and it is also subject to EC veto. In any case, we do not think that cable wholesale will be likely to have a material impact on us financially, as we can offset retail price pressure with wholesale share gains.

Now, on the right there are other areas that are less material to us. Slightly longer spectrum licenses will harmonise availabilities, only a small positive here. National authorities continue to have a leading role. Regulation of international calls will only have a small financial impact next year. And finally, a more level regulatory playing field versus OTT players is clearly welcome.

Overall, we think that the code positively maintains the balance between the need for infrastructure competition and the need for investment, which perfectly reflects our unique position as a pan-European fixed challenger, with a scale to invest in Europe's digital future.

Moving to slide 9, I remain very focused on ensuring that our merger in India completes, and Nick and I visited India this month. Let me update you on this market before Nick talks you through the rest of the business. India remains challenging, as a result of intense competition between the new entrant and the current market leader. Our customer losses in the quarter mainly reflected customers consolidating spending into a single SIM, driven by the increased penetration of unlimited offers, and the rapid disappearance of smaller players. We continue to retain our high-value customers, with larger bundle sizes at lower price points, but of course at a significant cost to ARPU, as you can see in the chart. In Q1, data prices fell 81% year-on-year, although this has been partly offset by a four-fold increase in traffic, pushing average usage now to 7.5 gigabyte on 4G.

As a reminder, our strategic focus is on our 12 leadership circles, which account for over 90% of our EBITDA, and in these areas we achieved 1.5% sequential improvement in revenue market share in fiscal Q4, supported by our leading net promoter scores. In the middle of the chart, you can see the service revenue trend in absolute terms, and our growth rate excluding MTRs, which were cut sharply in October. Year on year, the underlying fall was around 10%. However, the sequential decline was less than 1%.

Moving onto the merger with Idea, I'm pleased to report that we have received conditional approval from the DoT, and so now we aim to close the merger before the end of August. Consistent with our

previously-announced plans, the JV has now paid the spectrum liberalisation fee of around €0.5 billion, and has provided a bank guarantee under protest for certain disputed historical items. Nick and I are pleased to see that we have moved quickly on pre-integration work, and we are targeting a fast starter to synergies for Vodafone Idea. We are also pleased that the Indus BIL merger has received competition commission approval very quickly, and we are on track to complete the deal by the end of March.

I will now pass to Nick, for the rest of the financials and the detailed comments on our three markets.

## **CFO Update**

**Nick Read**

**Group Chief Financial Officer, Vodafone**

Thank you, Vittorio, and good morning, everybody.

Turning to page 11, let me start with a short explanation of the impact of the new S15 accounting standard, on our financial reporting. I will not go into the changes in great detail, as you have already heard this many times before from our peers with the December year-end. We are adopting S15 for the current fiscal year, and will not restate our historical reported results. We will, however, provide you with pro forma data for the last four quarters, on an S15 basis, prior to our H1 results in November. Through this year, we will continue to disclose our results on the historical basis, so you can understand our like-for-like performance.

In our presentation today, we are focusing on our growth trends under the historical basis, however the key impact can be seen on the charts. Our total revenue was around €300 million lower under S15. This primarily reflects the requirement to net off certain dealer commissions from service revenues. On the other hand, our organic service revenue growth under S15 is 80 basis points higher. This is entirely due to S15 eliminating the impact of handset financing in the UK, which dragged on our growth rate at a Group level under the historical basis. Importantly, our guidance for underlying EBITDA growth of 1 to 5% this year already excludes UK handset financing effects, as well as settlements, so we do not anticipate a material impact on our EBITDA growth from the move to S15, and there is no impact to our free cash flow guidance.

Moving to page 12, as you can see in the chart on the left, on a historical accounting basis, our underlying service revenue growth adjusted for EU regulation and UK handset financing slowed this quarter, to 1.7%, from 2.4% in Q4, as we expected. This slowdown was primarily due to our decision to delay the re-pricing of our plans in Italy, in conjunction with the move from 28 days to monthly billing, following the intervention of antitrust authorities. Secondly, we had a seasonally higher drag from roaming, which as Vittorio highlighted will end next quarter. The third factor is the commercial actions we took in Spain, to reposition the business, which I will comment on later in more detail.

The chart on the right shows our growth by major market on both accounting standards. As you can see, growth rates are not materially different, with the notable exception of the UK, where the 5.4% drag from handset financing is eliminated.

Looking ahead to Q2, we expect a broadly similar performance, with slightly lower growth on an S15 basis. Spain will slow further, given a full quarters impact from the commercial actions we took in May, and there is a tougher quarterly comparison in Germany, somewhat offset by the end of the drag from roaming.

Moving to slide 13, which shows the service revenue growth for Q1 by operating business. You can see that in the majority of our markets, we are performing well with the clear exception of Spain and Italy. In particular, I would like to highlight the good momentum in our European cluster markets of Portugal, Greece, Ireland and Central & Eastern Europe. In aggregate, these markets contribute a similar amount of EBITDA to Spain, but are often overlooked given their smaller individual scale. It is inevitable that there will be competitive challenges in some of our markets each year, but this diversification is a core strength of the Group, and underpins the predictability of our dividend. Overall, we expect a robust financial performance in Germany, the UK and the [European] Cluster markets, to broadly offset the competitive pressures we are seeing in Italy and Spain, supported by our intensive focus on delivering a material net reduction in opex this year. Together with good progress across AMAP, this reinforces our confidence that we will deliver the targeted guidance for EBITDA growth this year.

Let me now walk you through the key developments in our major markets during the quarter, starting with Germany on page 14. We are pleased with the consistent growth our German business is delivering, in an environment that I would characterise as competitive, but generally stable. The foundation of our success is the wide gap in customer perception of our network quality, and customer service compared to the value players, which as you can see on the chart on the left has increased significantly compared to last year. We continue to invest in mobile network performance, now evolving 4G Evo with speeds of up to 500 megabits per second, in 40 cities. This differentiated experience is driving lower mobile churn, and accelerating mobile contract customer growth, along with a strong service provider performance in the quarter, driven by specific handset promotions. Our momentum slowed somewhat in broadband, largely because we attempted to lead a reduction in promotional intensity, which DT did not follow. We have now readjusted, and expect a recovering in broadband net adds during Q2. In contrast, we were very pleased by the strong acceleration in convergence, where we added over 400,000 households during the quarter, including the first time recognition of 200,000 fixed accounts who had prepaid mobile products.

As you can see in the right-hand chart our customer service growth recovered compared to Q4, which was dragged by a tough year-over-year wholesale comp. As a result, mobile growth recovered sharply to 1.7%, versus 0.3% in Q4. Looking ahead, we see a slightly tougher comparison during – given a strong Q2 wholesale performance last year, but remain confident that the business is on a healthy growth trajectory under a strong team.

Turning to Italy on page 15, let me start by highlighting the effective commercial actions which our team have taken to prepare for and respond to the new entrants. Over the last 18 months we have used advanced data analytics to make personalised more for the same offers to millions of customers, refreshed our propositions, advertised our lead-in network quality and driven rapid adoption of converged offers. In addition, we have developed a loyalty programme called 'Vodafone Happy', which

offers increasing benefits based on tenure. It's delivering exclusively through My Vodafone app, and now has 7.7 million registered customers, with around 1.5 million checking Happy Friday promotions each week. These attractive offers, for example discounted rail tickets, or extra data for a month based on tenure, have a minimal cost to Vodafone but drive higher NPS and lower churns.

The final commercial action we have taken is the launch of our second brand, Ho, in mid-June, which means I have in Italian. Ho offers only one simple price plan, with a launch price of €6.99 for 30 gigabytes of data, and it's sold online through third party stores and at news kiosks. We are pleased with the commercial response since the launch, and it allows us to compete effectively in the value segment, while minimising cannibalisation risk on our main brands.

Moving to the middle chart, we will be able to retain a strong and broadly stable active customer base in the quarter, despite significantly increased competitive intensity following Iliad's launch, although ARPU is under pressure as value-seeking customers spin down to lower price offers. In fixed broadband, we would retain good customer and revenue growth, despite Wind Tre's increased commercial activity. TI's recent decision to raise broadband prices by €2.50 will add further tailwinds to this market.

Moving to the right hand chart, the services revenues decline compared to Q4, had two main components. Firstly, our decision to comply with the antitrust authorities, the delay in the price adjustment driven by the shift from 28 days to monthly billing accounts for around half of the quarter on quarter decline, with the remainder due to the lapping of prior year price increases, along with heightened competitive intensity. Although the delayed price adjustments have now been fully implemented, we do not expect much improvement in Q2 growth, given increased competition in the market. This is in line with our expectation in May, and the prudent guidance we gave for EBITDA growth this year.

Turning to Spain, on page 16, as we discussed in May we have taken a number of commercial actions to reposition the business, given Orange's structural decision to wholesale its fixed as well as its mobile network to Másmóvil on discounted terms. The chart on the left hand side of the page shows the progress we've made during the quarter, on mobile contract portability. After a deteriorating trend through FY 18 and steep losses in Q4, we were pleased to move almost net port neutral in June following our below-the-line commercial responses to Másmóvil, and the realignment of our pricing plans and promotional offers with our primary competitors in mid-May.

This supports an improved mobile contract net add performance in the quarter, in addition to higher secondary SIMs in converged bundles. In fixed line there is still more to do, as we address high churn levels of our standalone broadband base, through below-the-line targeted offers. There will be some further impact on our fixed base in H2, following our decision not to renew the content rights for the Champions League and the Match of the Week in La Liga, for the 18/19 season. We may also choose not to renew La Liga rights for 19/20 onwards, unless the price becomes more attractive. Football rights in Spain are, quite simply, uneconomic. Even if we lost every one of the 300,000 TV customers who pay for football, which we do not anticipate will be the case, we will still be financially better off.

We intend to focus this investment in our other commercial activities, which offer a higher rate of return, including enriching our film and series propositions, which appeal to a much broader part of the market than the 2.6 million homes, less than 10% of the total, who are willing to pay for football.

Together with our lead in network quality and customer service, this will maintain our premium brand position in the market.

Given these actions, as you can see on the right hand chart, our revenue growth turned negative during the quarter. We expect an increased decline in Q2, given a full quarter's impact of our commercial actions, however we are confident that the customer trends will improve in H2, leading to a subsequent recovery in financial performance.

Moving to the UK, on page 17, we are very encouraged by the significant operational and commercial recovery that has taken place, which is now starting to become apparent in our financial performance. These operational gains are reflected in record low contract churn, excluding talk mobile, and a sharp improvement in consumer NPS, where we now have overtaken EE. In enterprise, we continue to enjoy a market leading position. This, in turn, is fuelling better subscriber momentum in mobile, and we maintained a strong performance in consumer fixed. Excluding the handset financing drags and roaming impacts, which increased in the quarter, our service revenue growth accelerated to 1.8%, also supported by the stabilisation of our fixed revenues in enterprise after a lengthy period of decline. Together with significant cost reductions, we expect this to support a strong recovery in profitability during the year.

On page 18, you can see the good growth performances across our AMAP region, where in every major market our growth is ahead of local inflation. The macro and competitive environment is relatively stable across the markets, although inflationary pressures continue to build in Turkey, and our customer growth remains robust. There will be some impact in South Africa from the new regulations on out-of-bundle data, which will be implemented at some point in calendar H2, however we expect a good overall growth in AMAP to continue in the coming quarters.

So to summarise the results on slide 19, we've performed in line with our expectations. The majority of our markets are producing solid growth, with Germany, our largest market, maintaining good results and the UK gaining momentum. Though we expect highly competitive markets in Italy and Spain throughout the year, we have taken extensive commercial actions and continue to evolve our plans to strengthen our long-term position. Revenue declines are moderating in India, as the market has rationalised down to three plus one players, and we now focus on the fast start to synergy realisation. In May, we announced an EBITDA guidance range of 1 to 5% underlying growth, with a midpoint of 3%, along with the free cash flow pre-spectrum of at least €5.2 billion. Overall, after our Q1 performance, we remain absolutely on track with this plan, and confident in meeting our guidance, building on our long track record of consistent delivery.

Finally, turning to slide 20 before I hand back to Hugh for Q&A, I would like to conclude the call by sharing some of my priorities for the year as I step up to the CEO role at the end of September. Both the board and the management team are highly frustrated by our recent share price development, which does not in our view reflect the fact that the majority of our business is performing well, or the strategically attractive and financially accretive benefits generating from the acquisition of Liberty Global's cable operations in Germany and CEE.

We are directing this frustration into an even stronger focus on execution in five priority areas. We must continue to strengthen our commercial performance in order to systematically lower churn. Churn is a significant driver of our costs, and there is still a lot of scope for further improvement in many of our



markets. A key enabler of churn reduction is the speed at which we grow in fixed and drive convergence through our base. The acceleration in converged customer growth this quarter is encouraging, and we must sustain this momentum. Digital Vodafone is a huge opportunity to transform our business, substantially lowering operating costs, while at the same time improving the customer experience. I believe that speed is of the essence, and there is a real opportunity to differentiate compared to incumbents, who may be more constrained on this journey. This programme is accelerating, with almost 1,500 employees engaged in agile squads, and I'm confident that this intense focus along with other costs initiatives will deliver another year of material net opex reduction in Europe and at the Group operations.

Last week I was in Brussels with Vittorio, for the initial discussions with the EC about the Liberty Global asset acquisitions. We are on track to make our submission to the Commission shortly, and remain confident that this will be heard in Brussels and will secure the necessary approvals.

Finally, as Vittorio already highlighted, we visited India this month. Now that we have clarity over the closing of the merger, we will focus on supporting the JV management team in making a very fast start on synergy capture. The JV management will share its commercial, technical and financial plans at an investor event in Mumbai, post-closing.

With that, Vittorio and I are ready to take your questions. Please restrict yourselves to one question only, so that we have time to take as many questions as possible.

## **Questions & Answers**

### **Dhananjay Mirchandani, Bernstein**

Thank you very much. Good morning, gentlemen. First of all, my very best wishes to you, Vittorio, for your future endeavours, given that this is – if I'm not mistaken – your last earnings call.

Now, moving onto my question, which is related to Spain but is much broader, given that your portfolio strategy in Europe will see you as a fully converged player with the benefits of owner economics across most of your important markets, Spain is a convergence market and yet the benefits of churn protection against insurgent pricing have been thrown into doubt. To what extent is this a peculiarity of the Spanish market, versus a fundamental question mark of the benefits of being an integrated operator of fixed and mobile infrastructures?

### **Vittorio Colao**

Dhananjay, thank you for your kind comment. Let me say that you basically answered yourself. I really believe that Spain is a special case, and it's the only case that I'm aware where one of the other operators – main operators enabled a newcomer to have not only full unrestricted access to 4G, but also access to fibre. It's the only market that I know where you have four players, all of them selling –

or with the possibility and capability of selling converged. In the other markets, we see different market structures, and there we see benefit in churn.

The other specific thing of Germany is this thing – sorry, of Spain – we have been trying to change, which is the fact that there are no contracts in Spain. So you have homes, for example, with students, that get a fixed broadband subscription for nine months, they finish the school year, and then they disconnect and then they reopen in the new apartment where they live, or the new ones open. So there is much more fluidity in the market. It is not good practice. And of course, it has to be addressed, but it requires the whole market to go there.

So I would say both commercial practices and structural characteristics of the Spanish market are a bit unique.

**Dhananjay Mirchandani**

Thank you very much.

**Vittorio Colao**

Thank you, Dhananjay.

**San Dhillon, Exane BNP Paribas**

Hi, guys. My question is on the dividend. The market gives you very little credit for the dividend or, put another way, the market thinks that the current dividend is unsustainable. Is there any point at which you think it's just better to rebase the dividend to a more prudent pay-out ratio, or at the very least change the composition of the shareholder remuneration? Thank you

**Nick Read**

I think we stand back and we say, really reinforcing, we are on plan from what we communicated in March. In March we communicated that at the midpoint LTIP we had €17 billion of free cash flow before spectrum. So after dividend distribution, you're talking about €5 billion of headroom for spectrum, which is significantly above our long term average of €1.2 billion. We're reinforcing EBITDA guidance today. That EBITDA guidance is growth going forward. We think digital is a big opportunity to contribute to growth going forward. We're also actively working the portfolios. So I think we have a number of levers on top of also the Liberty Global transaction being accretive to free cash flow over time. We feel that we're in a good position regarding the dividend, and we remain committed to that.

**San Dhillon**

Thank you.

**Georgios Ierodiconou, Citi**

I just wanted to ask your views around some of the co-investment models that are available. You mentioned the broader approval in Europe for co-investment arrangements. There are some specific proposals from Deutsche Telekom, both with regards to co-investment with wholesale only network [inaudible] and also for ISPs to co-invest. If you don't mind sharing your views of the proposals and where you stand, thank you.

**Vittorio Colao**

Yeah, I think I can basically reiterate what I said in my remarks. First of all, what was Vodafone's objective? Vodafone's objective is to be a player in convergence, and not be at a disadvantage versus incumbents. Of course, there was very heavy lobbying from incumbents to try and get what I would call not completely genuine co-investment solutions. The outcome of the EU process is that co-investment must be genuine in order to relax the regulatory provisions, which we think is fair, because if there is genuine co-investment – which, by the way, Vodafone might be part of – it is then not restrictive of competition, and therefore it should be encouraged. This is coming out in the right space.

Then, of course, the second one is a wholesale only network becomes an infrastructure for the market, gives the same conditions to every operator, and therefore as every operator, and therefore should not be subject to regulation. This also came out in the right space.

So in each market, there will be a situation, you can have the Italian Open Fiber solution. Open Fiber is wholesale, is open to everybody, we are perfectly happy to cooperate with them, but also of course to have others that we use their infrastructure. There could be instead situations where we decide to co-invest together with others. It could be specialised, it could be a competitor. In that case, again, it would be open to everybody. It's pro-investment, not a restriction on competition. I would not call it a victory for Vodafone, because of course Vodafone is one of the players, but for sure the outcome of the EU process is very aligned with what Vodafone has been working for the last three years, I would say.

**Jakob Bluestone, Credit Suisse**

Hi, good morning. I had a question on Italy, please. There are obviously a lot of moving parts during the quarter. Could you maybe comment a little bit on how you exited the quarter? Did you see a significant step change in competition in terms of net adds, ports, revenue trends during the end of the quarter? Just to give us a sense of what sort of impact Iliad's entry has had since they launched. Thank you.

**Nick Read**

Yeah, I don't think we'll break down by month our results, but what I would say broadly is if we look at Iliad, I think they had a decent commercial entry into the marketplace. We're not surprised by the numbers. When you analyse the port data, about 25% are coming from us, as opposed to say 25% from TI, just over 40% from Wind Tre. MVNOs are under a lot of pressure, so I'd say that the first ones feel a lot of pressure. I would say when you analyse the type of customer profile we're losing, these are customers that are typically – the ARPU's are lower than average, and their usage is higher than

average. So I think there is a degree of questioning the sustainability of the offer and profitability, potentially, for Iliad in that situation. Let's see.

From our perspective, I think the team have done a great job in terms of the commercial actions. I think they've done a lot of base management work, driving convergence, done the loyalty scheme, promoting the network, and of course we've launched our second brand. And I'd say our second brand has performed well. The question now is more about optimisation. At the moment it's sort of – cannibalisation is in line with our broader market share, and we want to obviously bring that down over time.

**Jakob Bluestone**

Thank you very much.

**Akhil Dattani, JP Morgan**

Hi, thanks very much. Just a question on spectrum, please. I guess in the context of both your dividend comment earlier and I guess broader debates about industry returns, I'm just keen to get your views around how spectrum conversations are going in your markets at the moment? And where the question's coming from is, firstly, in France we've seen the French authorities agree to a new spectrum for free, in return for operators agreeing to address white spots. Are you seeing any similar conversations taking place in any of your markets? Are there any hopes that the way auction processes work are changing at all?

And then secondly, in Italy, I don't know to what extent you can comment on this but obviously there have been a lot of headlines around operators saying that they may not want to participate in sub-1GB auctions. Obviously I understand the broad rationale, given new entrant issues and returns, but just really trying to understand from a comfort perspective how do you think about need for spectrum? And any sort of colour you can give around utilisation rates, and things like that, would be really interesting. Thanks

**Vittorio Colao**

Yeah, Akhil, Vittorio here. Let me say first of all, I don't think we can comment specifically on Italy, because I think we are now too close to the moment where making comments could be not completely legal or advisable.

Let me give you a general answer rather than an Italian specific one. Of course, we are engaged in a lot of conversations – I had the last one this Monday, actually – with prime ministers and governments on spectrum, and I would say the type of conversation you referred to is actually taking place. So it's not that policymakers or governments are not sensitive to the fact that they want and they need quality coverage, introduction of 4.5G, 5G, and they understand that by squeezing too much out of spectrum they might actually delay or make the investment more selective. So that conversation, yes, is taking place and is more frequent than in the past. In that sense it's a positive.

I cannot tell you that everywhere we are successful in translating that conversation into the type of solutions like the French one that you describe. Because of course then there are short-term budget issues in some countries, and in other countries there are also competitive issues. In the UK, for example, we had a pretty heated auction, which was, for local reasons, turned out to be expensive.

I would give a mildly, mildly optimistic comment, saying yes, there is more sensitivity to what you say, but still the budget pressures in some markets might be the number one factor in the minds of governments.

The good news is that with the wide range of spectrum available now, and the ability to combine different bands, as I already said in the last call over time we are seeing a less dramatic and urgent need to get spectrum at any cost. Now, we do that, our competitors do that. This could ease off some of the pressures in the coming years. But I cannot be country specific, sorry.

**Akhil Dattani**

That's fine, thanks a lot.

**Mandeep Singh, Redburn**

Thank you for taking the question. I wanted to come to EBITDA. I know you've reiterated the range of 1 to 5%. Consensus appears to be anchored firmly at 3%. I'm just trying to think about the quarter you've just delivered and the quarter you will deliver next, given some of the pressures you've articulated. So it's just really to be able to understand what that should give the market confidence in – or what the levers are that you have that the market feels confident that the – you're not going to come in at the bottom end of the range, versus the midpoint of the range, or anywhere else for that matter. Just – we understand that Italy and Spain are under pressure, but if you could just tell us what the other moving parts are, that should give us confidence that consensus is on track as well.

**Nick Read**

Yeah, Mandeep, I think that's a real key question, because I think that we reinforced when we went out with the guidance that it was a prudent guidance, and that was our way of saying that we understood the commercial actions that we would need to take in Spain, and we did not underestimate Iliad's entry into the market. And I'd say that we have called those correctly, in terms of what we anticipated. We have actioned the commercial actions we had planned in the quarter. So we're in line with what we wanted to execute. I think that what I would just do is stand back from that situation. So you've got two situations where we're on track with our plans of what we're executing. Maybe Spain is a little tougher, but I would say – and maybe we had the re-pricing challenge of Italy. But as we stand back from that, I'd say Germany's performing well overall. The UK is recovering well. So the UK will be a good contributor to our results as we move forward, especially in the second half.

You look in the second half, and you've got Italy and Spain also will be lacking, if you like, tougher comps, and so that will underpin the results to some extent. And then we're working costs very hard across the portfolio. It was always part of the plan. We see digital as a big opportunity, and we've got a comprehensive fit for growth programme. And then finally, what I'd say is look at the rest of the

portfolio: whether it's AMAP, whether it's the cluster, or the other smaller European countries, we're getting good performance.

So I would say we're a big group, broad based, we've got some challenges. We always tend to have a few challenges. We've taken the commercial actions, and so we're confident that we remain on track.

**Mandeep Singh**

Thank you.

**Jerry Dellis, Jefferies**

Yes, good morning. Thank you very much for taking my question.

As you look ahead across the whole year, you've indicated that a main driver of the pace of cost reduction will be your ability to deliver convergence and churn reduction, and so forth. So is it your current expectation that the current pace of net cost reduction in the Group will be similar to last year, or could it be better than last year? Leaving aside, I suppose, the discretionary items such as the Spanish football rights. Thank you.

**Nick Read**

I think – so we've historically talked a lot about operating costs, but actually if you go one level lower and look at net operating expenditure, so opex, last year in Europe and our Group activities, we saved broadly €300 million in absolute terms year over year, and we'll at least be targeting that level, if not higher, for the year ahead. So I'd say we definitely see opportunity to keep that pace of improvement. Obviously last year, we had a slight offset that reduced that net operating cost because of AMAP inflation. Clearly that remains a factor to consider, but I would say on Europe and Group we see a substantial improvement year over year.

**Jerry Dellis**

Thank you, could I just quickly ask whether – is it fair to say that that stuff might be overtaken by whatever commercial initiatives you have to undertake in order to keep competitive in Italy or Spain, or are you confident that enough is already taken into account in the guidance?

**Nick Read**

No, we feel confident that our commercial plans are in line, so if you're looking at the previous definition, if you like, of operating costs being absolute down, they will be absolute down again for the third year running, and we think that there's probably a higher opportunity than we had last year.

**Jerry Dellis**

Thank you.

**Jonathan Dann, RBC**

Hi there, thank you for taking the call, with 5G – since the UK auction one of the smaller competitors had talked about 5G as a '4G like opportunity' to take share. Do you think that we'll start to see more 5G announcements from the larger operators, including Vodafone?

**Vittorio Colao**

Listen, I wouldn't call out a specific country. You will see in the coming months and year more announcements of trials. We ourselves are running some very large and important pilots or trials in several European countries. Yes, you will see much more of that. Will this be a single technology opportunity for newcomers? I doubt. 5G integrates, or will integrate, very well with 4G. 4G is already evolving into 4.5, which gives a lot of speed and a lot of capacity. And over time, as we've said many times, networks will be 4, 5 and 2 in overlap, and 2 will remain as a safety layer.

So we see more 4 and 5 as an integrated network, and a single technology player is not very likely to be at scale, let me say.

**Jonathan Dann**

Thank you.

**Andrew Lee, Goldman Sachs**

Good morning, everyone. Thanks for taking my question.

I just had a question on Germany and the fixed line growth outlook there. We saw DT's announcement in terms of the support it will receive to rollout fibre to the home there, and I just wondered if you had any updated comments on the regulatory setup, and how that affects your confidence in the growth outlook and returns for German cable, given a potentially accelerating fibre to the home rollout. Thank you. From DT, sort of thing.

**Vittorio Colao**

Listen, I can only repeat what we said when we did the acquisition of Liberty. With the completion of Liberty, we will be able to reach in a relatively short time, 25 million homes in Germany. With DOCSIS we'll be able to take gigabit speed. We announced an extra plan for business parks, and we have another plan for incorporation with municipalities. So as you could imagine, we see this as a very strong and powerful platform in Germany. If Deutsche builds more fibre, it's fine. It's more competition. Building is slow and expensive, so I'm happy if they do it. It will take time and money, but we are convinced that our acquisition will give us an entry into the majority of the German homes. That doesn't mean that we'll be owning all of them, but we'll be a formidable competitor to Deutsche. I always welcome when competitors invest. There's no problem with competition at our end.

**Andrew Lee**

Thank you.

**Usman Ghazi, Berenberg**

Hello, thank you. I had a question on spectrum again. If you look at the UK, there's a coverage obligation – or it seems there's a coverage obligation on the 5G spectrum for three years. I was just wondering how that aligns with the slide that you presented in the last set of results where you were seeing that, look, 5G deployment will happen over a much more extended timeframe than 4G, and therefore the capex risk can be contained? Thank you.

**Vittorio Colao**

I'm not sure I can answer, in detail, your question. I don't know if, Nick, you have anything.

**Nick Read**

I'm not aware of any conflict.

**Vittorio Colao**

Let me say in general, 5G will start in highly dense areas, so I can see areas in the UK where definitely we will go. And of course, we will then integrate it as I say with 4.5. In terms of total envelope, keep in mind that we are already making a lot of investment, again, to extend 4 to many areas and 4.5 to even many more. So the way we see it is, with our current guidance of mid-single digits – sorry mid-teens. I wish I was mid-single digits. With mid-teens, we can really deploy in an organic way a combination of good wireless broadband and fibre. It would be progressively more 4, 4.5 and then 5.

As I said in my earlier answer, we don't think about a single – we think about customers and broadband experience, we don't think about single technology.

**Usman Ghazi**

Okay.

**Maurice Patrick, Barclays**

Good morning, guys. Yeah, Maurice here. So question on UK fibre. Currently you're using wholesale-only providers as your strategy with fibre in the UK. But with the change in regulation on passive infrastructure, before I think it was just for residential access, now there's talk about it being applicable for wireless backhaul and enterprise, I wonder if you're ambitions for UK fibre investment had changed, in terms of whether using others or doing it yourself? Thank you.



**Vittorio Colao**

Maurice, thank you for your question. Again, it's very consistent with everything we already said. First of all, we welcome the increased pressure on BT to give access to passive infrastructure. We welcome the higher pressure for lower prices in accessing their services. All of this, clearly, is consistent with our strategy. From the beginning we always said we will build, or we will co-build, or we will cooperate, depending on the make versus buy economics. Everything that provides an alternative is positive.

Having said that, Nick, who will run the company, I'm sure will continue to look at pros and cons and make very disciplined financial decisions. If there is a case for a co-build or a build accessing existing ducts or poles, fine. If the incumbent provides services at reasonable and equitable conditions, fine as well. It's just more choice. It's what I said in my presentation. I think we've said for a long time that things were going in the right direction, and actually it is going in the right direction, for both the customers and competitors like us.

**Maurice Patrick**

Thank you.

**David Wright, Bank of America Merrill Lynch**

Okay, good morning everyone, thank you very much. I'm just interested a little in Spain. I think, Nick, you made a comment that even if you lost all of your football paying customers, you would be economically – let's use the word beneficial. It would be economically better. I just wanted to double-check that maths, because I think with a €60/70 ARPU, I think it's 340,000 customers, you'd be losing about €270 million of EBITDA. I think the content in total costs you, with the new contracts and the new rights, probably about €280 to 290 million. So possibly yes, you might be €15 million or so EBITDA better, but you're losing 25% of your customers in Spain in that scenario. Does that feel like a risk/reward you could even consider?

And then does it not also expose you more to the mid and lower end, your whole value proposition, where competition is clearly much tougher? I just don't quite understand the strategy in Spain that's clearly not been good over the last 12 months, how you could possibly look to reduce your customer base and expose yourselves more to the price intense element of the market. Could you explain a little? Thanks.

**Nick Read**

David, just on the maths side of it, I would just say that you were mixing somewhat ARPUs, which is just revenue, versus then pure cost that's coming out of the business. So I'd say that the delta is a little bit different from that. You're not taking into account other related costs.

But I'd stand back from this. When you look at it, we're already saying 10% of household's care about and will pay for football. And if you look at those households, we have over the last couple of years done several promotions, Orange has done several promotions, and we've not really expanded that universe of people that are willing to pay. Then you take into account that TEF has locked in,

effectively, over 50% of those customers or that marketplace. So our ability to use it as a lever to attract more customers is proving very difficult.

And then you stand back from that and say, 'Well, okay, given that amount of investment, could we earn a higher return in other things, and we still believe in high quality networks, we still believe in giving compelling commercial offers, and we still believe in premium content, which would be films, series, etc. This is a lot of money that we can invest, to basically give a stronger commercial offer that people really care about going forward. And at the same time, this formula has a way of basically taking that cost and putting it back onto our competitors. So the cost, then, to service those customers increases.

**David Wright**

And just – I know you – in your presentation you gave the monthly contract adds, but I think that's the less important statistic. The sensitive one is the monthly broadband adds. Can you give us an indication, given you launched mid-May, of how the broadband adds have progressed through the quarter and the exit run rate, please?

**Nick Read**

Look, we're not going to break down by month, but what I would say is that the key lever that we've been focused on was in the retention side, so this was very much a retention play. So if you like, we are ramping those retention offers up. We've seen a slight improvement, I would say, but at this point in time it's about fine tuning the propositions in retention to drive the redemption rate, so at the moment the redemption rate is not quite where we want it to be, and that's what we're optimising going forward. We've obviously – it goes back a little bit to the point Vittorio was making about the contracts. At the same time, we've been wanting to implement contracts, also to lower churn, and so we're just trying to get that balance in the market.

**David Wright**

Thanks very much, Nick.

**James Ratzer, New Street Research**

Yes. Thank you very much indeed and, Vittorio, very best wishes for the future. I think my question might be slightly more for Nick at this stage. I mean, I'm really interested in kind of drilling a bit more down on the cost side of the business, I mean, given that service revenues are currently running below your EBITDA guidance growth rate, and I think a lot of the focus for hitting the full year targets will come down to the cost side. I mean, you gave some commentary at the full year results around digitalisation and talking about an €8 billion addressable cost base within that. I mean, I was wondering if you could help us to kind of quantify a bit more clearly how digitalisation can bring that cost base down, the pace of that. You've also this quarter talked about churn improving in a number of your markets. How should we think about that variable as well helping to support your cost base for this year? Thank you.

**Nick Read**

Can I – without sort of going back and repeating everything I've said previously for the March results, what I would say is where are we really focused on the digital aspect of the execution, I would say very much in terms of our sales online. So we are driving an increased ratio of sales performance. We are very much increasing the amount of data analytics we're applying to CVM so that we're getting a better return off our retention spend. So I would say this is in the, sort of, commercial space. I would say, in terms of customer management, this is where we're doing the AI and the bots, and we're getting good success there, also driving My Vodafone app, and we're also doing it on the back office activity.

So I'd say that, sort of, digital is improving, if you like, all of our cost metrics across the board as we ramp to scale, and then of course I would say, we stand back, don't forget the rest of the 'Fit for Growth' programme. I mean, we are simplifying our business all the time. We are rationalising areas, whether it's IT, whether it's network, whether it's procurement, across all the moving parts. So I would say that we'll expand in more detail in the November presentation, in terms of where we're seeing the traction and where we're delivering the results.

**James Ratzer**

And I mean, do you think the cost reduction from these initiatives in FY19 should be higher than what was delivered in FY18, and then is there an incremental benefit from that churn improvement too?

**Nick Read**

I think you'll see that the net operating cost, which was down, let's say, €100 million last fiscal year, we will deliver a higher number this year. And really where we see greater opportunity is in the Europe and Group activities, where we're making faster progress.

**James Ratzer**

Thank you.

## **Closing Remarks**

**Vittorio Colao**

Very good, thank you. As this is the end of Q&A, I would like to give some final remarks as we wrap up my last call as CEO of Vodafone. So clearly it is very disappointing for me to be departing with a share price at this level. Obviously I believe it does not reflect the progress that we have made and the significant opportunities that we have ahead of us. Having said that, I'm very confident that Nick, as the CEO, together with Margherita and the whole team, have now, especially after the Liberty Global

acquisition and the merger in India, not only the right assets and commercial strategy, which I will comment a little bit more at the AGM on Friday, but above all have the personal qualities and determination that will be required to ensure that Vodafone fulfils its potential as a converged communication leader, ready and competitive for the gigabit future and with a share price that will be much higher than today. And as long-term owners of Vodafone, our investors can count on our and their determination to succeed and reward them.

Now, this is also my last investor interaction, other than the AGM, and I hope you give me 30 seconds more. I have counted 40 results calls and seven M&A calls over the last decade, and I would like to thank all of the analysts, the ones who are on the call today and the ones who were on the calls before, and investors for the support and engagement over the years. I believe that all of you play a very important role in making the capital markets effective and efficient, but you also have an important role in checking, verifying and, when needed, also challenging our thinking and our strategy. As many of you know, as a CEO I have truly enjoyed and learned from our interactions, and I'm sure Nick will do the same. And last but not least, for nearly all of this time our operator, Hugh, who is on the call today, has been an invisible but wonderful orchestrator of these calls, so, Hugh, I'm very pleased also to thank you for your help for 47 calls across 10 years. Best wishes to all of you.