Vodafone Q1 FY22 Trading update Live Q&A Webcast

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Introduction

Nick Read

CEO, Vodafone

Welcome

Good morning, everyone, and thank you for taking the time to join us, Margherita and myself, at our Q1 Trading Results announcement. You will find on our website hopefully a comprehensive set of materials to help you understand our results. But I thought I would just take an opportunity just to touch very briefly, 30 seconds, on just the key highlights before we then go on to questions.

Key Highlights

We are back to service revenue growth in Europe as well as Africa with over a 3% growth in the quarter, and we are growing in both Consumer and Business. Around 1 percentage point of that growth was clearly a lapping effect of COVID-19 last year that obviously suppressed our results. But even excluding that, I would say that is a very healthy growth rate for us as a business and we are firmly on track on our guidance.

Now, clearly, we are not back to normal yet on our trading activity, our commercial activity and sales volumes. Footfall in the big four European countries in aggregate was around 40% below pre-COVID levels. So we have yet to see that retail pickup that we are looking for, and this was particularly evident and heavy in Germany.

We have seen in more recent weeks as retail stores have started to open up volumes increasing, and therefore, we look forward to the back-to-school season that we are going to see. Obviously, if activity was low, you can see from our churn numbers that, in Europe mobile contract, if we exclude Spain, which had a specific legislation adjustment in COVID last year, you see that we were down 1.4 percentage points year-over-year. So we had good churn trends across the vast majority of our markets.

In Business, we saw service revenues grow 2.7%. We saw a good growth rate in our digital services. Clearly, the 2.7% was enhanced slightly because of obviously, again, the COVID impacts of last year, but we definitely expect and have been engaging with governments in terms of the EU recovery funds, which we should start to see coming through in the second half of this year. In Europe, more broadly, we grew service revenue in all markets, except Italy, and we had a particularly good rebound in the UK and our cluster Europe, other markets.

Vodacom maintained a strong momentum, and particularly in Financial Services, which were up 34% in Q1, and we are due to launch Vodacom's Super App, called the VodaPay Super App, in the coming months in South Africa.

Clearly, more to do, particularly in accelerating and improving shareholder value, and we remain still very focused on optimising our portfolio moving forward, to ensure that we keep our shareholder very much in our forefront of things that we are focused on.

And, on that, Margherita and I will take your questions.

Q&A

Andrew Lee (Goldman Sachs): I had a question on the revenue growth outlook. In the first quarter, as great trends with easy comps but suppressed commercial momentum, particularly in Germany. So the question is, is the first quarter 2022 growth rate a high watermark for growth during the year? And how should we think about commercial recovery through the years, especially in Germany?

Nick Read: Well, I will let Margherita answer in terms of service revenue sort of outlook or view. Just say in terms of trading, I mean, clearly these remain challenging times. I am not just talking our industry, challenging times for everyone. And it was always very clear that this would not be a linear recovery. So we should expect bumps in the road. We are expecting bumps in the road in terms of how we are looking at things.

Clearly, as I said, I am pleased with the 3% growth and the underlying growth rate that we had. And we are firmly on track on our guidance. I would say in terms of commercial activity, if I look, it clearly has been suppressed. If we pick Germany as your example, what we saw in April-May was footfall down 80%. It did then start to improve to June, but still down 50%. So we are by far not there yet in terms of normalisation.

If you look at examples of Spain, Italy on mobile net ports, these are still down year-over-year. So I would say overall you are just seeing a lower level of activity. And as I say, you see that in our churn.

So I think this is a case of let us see as we move into the back to the school period. I think that becomes a very important. We have certainly focused on the propositions, the promotions, the above-the-line campaigns that we will be hitting on back-to-school. And we think that that will reignite our commercial momentum.

Margherita Della Valle: On the service revenue growth, of course, Q1 was a very special quarter. We have seen roaming moving from being a headwind to a tailwind now. And on top of that, we have had these, what I call one-off effects from last year at this time, seeing the effectively shock of the pandemic in our markets.

If you remember the presentation we did a year ago, in Q1, we were calling out a number of effects, particularly things like business projects being delayed from Q1 into Q2 or prepaid top-ups being more difficult in some markets. And I would say, probably the market which was most affected by the beginning of the pandemic was Spain, where the Emergency Decree was particularly severe.

Taken in aggregate, these one-offs are worth about 1 percentage points, which, as we say, is not going to recur as we move into the next few quarters. But we are well on track to deliver growth this year both in Europe and Africa, and we are pleased with the momentum, as Nick was mentioning, on service revenue.

One data point that I would call out from that perspective is that now we have all of the data from the last 12 months, and what we have seen is that if you take the 12 months to March 2021 through the pandemic, we have outperformed in retail service revenue growth, all the incumbents and all of the scaled players in our major European markets, both in fixed and in mobile service revenue growth. So we are pleased with where we are.

Now, you asked about the coming quarters, of course, and I would say different growth drivers that are affecting the profile for the remainder of the year. If I take in turn Consumer and Business, I would say in Consumer, near-term, we are going to get the headwinds coming from the lighter sales driven by the pandemic in the last 12 months.

As Nick said, we are now focused on reaccelerating after the summer with the back-to-school period. And then it is very much 'P-times-Q', so volumes but also price. And on price we need to see how the balance between the more for more inflationary pricing actions that we are taking works against the competitive pressures.

In Business, we are set for acceleration throughout the year. You have seen the good results already in Q1. We are also gaining market share clearly in business. And I think there the speed of the acceleration will very much depend on the European Recovery Fund and how it will support our demand for, in particular, digital services. And so timing of that will be critical. And in particular, how much of that will fall into the second half of this year and how much will be phased over the coming years. But if I step back, I would say definitely, as Nick mentioned already, on track to deliver our guidance this year.

Nick Delfas (Redburn): So just a question on African fin-tech really. Obviously, you have got a fantastic business there, particularly in Safaricom but also in Vodacom. It could be worth well over 10 pence per Vodafone share. How do you think about how you illustrate that value to, I guess, the London markets as supposed to within Nairobi, where it is relatively well reflective perhaps within Safaricom?

Nick Read: Yeah. Nick, I think, this is a really important topic. You know that I have spoken about M-Pesa now for 10 years. I mean, I am very passionate about the transformational nature of it. We have committed resource, investment. We have never constrained the M-Pesa platform and really tried to evolve it. I am super excited. I really think that it is one of those platforms you have to do an awful lot of investment over three, four years to gain scale and then become the default player within each of the markets, and we have done that investment over the last 10 years.

We are the number one player in all of the markets that we are in. So whether it is DRC, with Tanzania, Lesotho [inaudible]. So having built that position, now it is the question of how you can truly scale through more, if you like, user cases going forward. You saw that transaction volumes are materially up. I mean, you have seen that in Vodacom International, the service revenue for M–Pesa was up 43%. I mean, these are staggering numbers for a platform that is already number one in the marketplace. And this is because we are really breaking out of just peer-to-peer. This is now companies paying the payroll using M-Pesa, people doing their utility bills using M-Pesa.

So we really do think it is an ecosystem, a platform, that is our mindset. We are investing heavily behind it. One of the things we needed to start thinking about is that transition journey between feature phones and smartphones. So we are now doing mini apps that then will allow us to do things like savings, micro loans, funeral insurance, etc. And so this is a new product set that is coming to M-Pesa.

And clearly in South Africa, the financial services component will be done through what we are calling VodaPay, which is a super app execution, so slightly different. You add all of this together, it is talking 15% of Vodacom's service revenue. So when I have spoken to Shameel ad strategised about where we want to take that, we have said, look, we really need to start separating this business out into separate legal entities, make sure that we show complete transparency of this business and what it means to growth and margins.

And then that also allows us other opportunities inorganically going forward. And so I would say, at this moment, we are driving hard, we are investing heavily. We are doing commercial partnerships with Alipay. We may do other commercial partnerships with other people. I think there is an opportunity to take M-Pesa outside of our footprint in Africa because it is really getting traction. So many opportunities organic, may be inorganic in the future, separate out the platform and then think about how we drive for shareholder value.

Nick Delfas: How long would it take to separate out the platform legal entities?

Nick Read: We are running through that process. We have been for the last, I want to say, nine months. We moved the platform down from the Group, down into Africa because that was an important component as well, hosting locally. So there is a number of parts of the execution.

Georgios Ierodiaconou (Citigroup): I have maybe a follow-up on some of the comments you made around back-to-school and commercial momentum. If we look at these results, perhaps the one area of weakness has been some of your KPIs, particularly in fixed. And so I just wanted to ask maybe a general question about what are the issues you see in different markets, and particularly, in some of the more competitive markets like Italy and Spain, whether there is a point in time where the KPIs take a priority and you could perhaps take a bit more action in order to stabilise your KPIs and be more promotional?

And then maybe as a slightly separate question for Germany. Do you expect when the footfall returns back to normal levels for the KPIs to fully recover, or are there any other headwinds you may be facing?

Nick Read: Georgios, maybe I would say a few comments and then Margherita can do some builds. Look, I think, we, as a company, have always been focused on value rather than chasing volume. So we are a good rational player in the marketplace. We compete in a structural way now increasingly on a dual-brand strategy. So for every market, from a pricing perspective, we go through an exercise where we identify the various brands that we are competing against and decide how we are going to position pricing versus those brands, and then we hold that position. So as they move up or move down, we adjust accordingly just to ensure that we have made it very clear what point of differentiation we have and where we need to match.

So I would say that we stay disciplined on that. Clearly, if shops are shut and footfall is down, the worst thing you can do is throw lots above the line marketing money into a market that is pretty quiet. And this is the example in Germany. So when we saw that the retail activity was low, footfall was low, what we said is for quarter we are not going to go above the line. This would be wasted marketing resource. And what we will do is we will store that up for later in the year when we felt that all the stores would open.

So I look as an example in Germany, and generally this has been our approach across all of the markets. So UK retail has been open. We have been above the line. We have been commercially front-footed because it was appropriate to do that. Clearly, we manage our base at lower churn and you will see that in statistics.

If I look at Germany specifically, I would turn around and just say, look, we have clearly shaped a series of propositions and promotions for the back-to-school. So I mean, we are good to go as we are through the whole of Europe. We have worked our TV portfolio. I think it is a strong portfolio. We have been disappointed. We have not been able to get the retail stores because that is a really important part of the TV portfolio in stores. So we are good to go on the TV portfolio.

We have harmonised our propositions and pricing. We have integrated our sales channels. These are all things we have talked about over the last couple of quarters. It is just we have not had the retail estate to really drive this. So our view is as soon as that retail estate is fully open, we are on the front foot again and we are confident that we have compelling propositions to drive.

Margherita Della Valle: Just maybe to add that fixed is not exactly the same in all the markets. I think there are different dynamics across different markets. And there were just a couple of points I wanted to point out. One is related to consumer and it is the fact that if you take a market like Italy, growth has now moved very much into FWA as a source of expansion. And for us, FWA is reported within mobile. So just to keep that in mind when you look at the numbers because the market growth has really shifted there in Consumer.

And the other aspect is Business. A third of service revenue in fixed are from Business, which is driven by very different factors. It is as much as 40% in certain markets now in Southern Europe. And as you have seen from our reporting in Business, we are growing well and we expect further acceleration because all the areas of growth in fixed that distinguish us, we have very little legacy products, we are focusing on SD-WAN and other new products, will be even more propelled by the European Recovery Fund. So I think it is just something to keep in mind when you project the fixed growth in the coming quarters.

Jerry Dellis (Jefferies): I have a question really related to what you are seeing as the retail store footfall recovers in the months of June and July. How are you saying that your footfall translating into net adds recovery? I mean, obviously what happens the rest of the year is highly uncertain. But perhaps if you could comment on what you are seeing in June and July, please, that would be helpful. And if you could make particular reference to the German situation, please, where I think we saw about 30,000 cable net adds in the last quarter, and those were essentially only migrations from DSL. So it would be very interesting for us to understand what recovery you may be seeing in June-July there?

Nick Read: Well, Jerry, I do not think it is appropriate to get down into weekly projections results, etc. On a slightly higher level, I would say that as stores have opened, footfall is not bouncing back across retail. Not our retail but just the retail, full stop. And I think it is because a lot of that has been the fact that the stores have opened back up just as we are moving into the vacation period. And so I would say people are prioritising other things at the moment, I do not know, but, I would say this is very much – the test will be back-to-school period. I am seeing that more towards the end of August and September as being a more normalised activity going forward. You have seen everyone talking about the double jab, the certificate, you have seen what has happened in France, etc. So I just think at the moment, we are nowhere near normalisation if we look at the month of June-July yet.

Jakob Bluestone (Credit Suisse): Good morning, thanks for taking the question. I have got another question on Germany as well. Just trying to understand the weakness in net adds in a little bit more detail for fixed. Your net adds are down 70% year on year, footfall in the shops is down 70%. But retail stores are not your only distribution channels. You have got online, you have got phone and so on. So just seems like the net adds drop is bigger than the footfall; so presumably there is something else going on. I presume your online sales are not down 70% as well. So can you just sort of help us understand, is it literally just low footfall in the shops and low conversion or is there something more broad happening here in Germany that explains quite why the net adds are quite so weak? And maybe you can just also contrast it a bit with the numbers we see from DT last quarter. DT is showing a much stronger fixed-line performance, so if you can maybe just help us understand the differences in your trend versus what they have disclosed so far.

Nick Read: Jakob, I would say just in simple terms, when you're in lockdowns and restrictions, it is always going to favour the incumbent, because they have a base, and they are constantly marketing to their base. Of course, we can market to our base but what we are looking to do is take share in the marketplace, and that's why retail is a very important part to take share within the market. So what I would say is that, effectively, churn levels are down, activity levels are down. If you were a customer at this point in time in semi-lockdowns, are you really going to change your fixed broadband provider? It is not going to be top of mind. So this is what I mean. We made a conscious decision, we are not going to run above-line campaigns because in the end, trying to stimulate demand when people are saying, 'You know what, I might think about it but I am going to do it when we are out of lockdown restrictions.' So it is a very natural thing in my opinion that people would say, 'In that particular product, I am going to wait until I know we are back to normalisation and then I may consider a provider,' in which case, we will be very much on the front foot.

Margherita Della Valle: I would say that for fixed in particular, you can subscribe online, but, in most cases, you still need an engineer to come into your home to do the modification, and again, not something I think people would have wanted to do particularly in April and May in Germany, and probably not something you are very inclined to do at this particular point in time.

Nick Read: I think there is a real – so you get the hard facts of Covid, and then you get the sentiment around concerns, and I think the Delta variant coming in to Europe has, if you like, suppressed a little bit, because people are concerned. And I think it is only when they see, yeah, okay, it has come through, maybe the cases go up, hospitalisation doesn't really move, confidence returns. It is a confidence thing. So I just think at the moment people are saying, 'I am going to stick with my current provider.' As evidenced by our historically low churn in Germany, it is not like we are underperforming on churn.

Jakob Bluestone: Got it, thank you.

Ottavio Adorisio (Societe Generale): Hi, good morning. Just moving away from Germany and going to another country, Italy. Reduction in churn has damaged Vodafone because in a market where you are winning market share, but it has helped you in a market where you are losing market share, particularly mobile. So we are just wondering if you can give us a bit of colour, what you would expect over the next few quarters considering that the economy reopens, Iliad is very likely to remain aggressive, and in fixed they're going to launch and match, very likely, the offering you have, particularly going to use the same wholesaler. On the other side, you have got also competition from the incumbent, who has recently signed a partnership in content with DAZN. So you have got basically two different drivers coming against you. So how your retention policy is going to evolve that market and what you reckon will be your trends you are going to experience over the next two or three quarters given what the circumstances are today?

And there is a quick one, of course I might have been able to ask in the past, but I want to ask this one on India. India this week has filed with the Supreme Court saying that no public sector bank is willing to offer a guarantee to Vodafone Idea, and all the assets already secured with the old banks. Since September they try to raise funds, now it is almost a year, no one has come with fresh funds because they want the controlling shareholders, i.e., Vodafone, to basically help out as well. So if you can tell us what's the strategy as it is now. You have been very firm in the past, at least in the last 12 to 24 months, not bringing fresh funds, and you tried to look in the market, but so far nothing, and of course the [inaudible] been deteriorating, to say the least. So how are you going to break the impasse from here? I could say there could be some repercussion also on the other investment in Indus, considering that you guarantee the sales coming from Vodafone Idea. Thanks.

Nick Reach: Very comprehensive. I tell you what, why do not you take your home market and I will take India? So do you want to go first?

Margherita Della Valle: Sure. Italy, very competitive, as you mentioned. We have some ups and downs regularly, particularly in the pre-paid market but I would say the last few weeks, the last couple of months in Italy have certainly seen an increase in competitive intensity. More allowances in mobile, we even had one of the three top mobile network operators going on TV with the headline of €5.99 for 100GB, which clearly we would not see as sustainable. And the competitive pressure on pricing has also hit fixed. By the way, fixed is another dimension what we were discussing earlier in Italy. We have seen after a spike at the beginning of the pandemic in the fixed market, we have seen demand drying up, moving towards FWA; and in that context, price competition has heightened. And to your point, I do not see this as reversing imminently, given that there is an upcoming launch of Iliad. So very competitive.

Amongst the various factors you mentioned the agreement with DAZN, I need to say I would not put in this intense competition football on TV as a key factor in the Italian market. Much less Italian subscriber even less paying for football, it is nowhere near a market like Spain, and of course also football is available fully over the top as well. So I do not think this is going to be a critical factor.

But back to what we see in terms of growth in the coming quarter, competition will continue to be intense, but at our end we have seen the results improving. We are benefiting now of course from lapping the roaming drag, which was particularly strong in Italy. But in the coming quarters we will also see the benefit of our new wholesale deals coming into line in service revenue. And then a little bit more in terms of medium term, the European Recovery Fund, we are mentioning it many times today but Italy is the market that will get the largest allocation, €190 billion, of which €70 billion is grants, and it is fair to say that we are very well positioned ourselves in Italy to benefit from the increased demand on business services from the European Recovery Fund. I was mentioning earlier a third service revenue is business. We are consistently taking share of the market and therefore we have a really great asset to get advantage from this. We need to see how it will phase in terms of timing, but a general improving trend on the back of these factors.

Nick Jeffrey: Just turning to India but, really, India is a question for Vodafone Idea. But within the going concern statement, they highlighted very clearly, they are dependent as a going concern on refinancing debts that are coming June in terms of monetisation of assets, in terms of government support, so, AGR or floor pricing, etc., and raising funds. So, I mean, it is, as you say, a highly stressed situation, a difficult situation that they are trying to navigate. I mean, we as a group try to provide them as much practical support as we can but I want to make it very clear, we are not putting any additional equity into India.

Emmet Kelly (Morgan Stanley): Yes, good morning, Nick. Good morning, Margherita. Thank you for taking my question. I have a question just on your introductory comments, Nick. You mentioned that you, the management and the board, are still looking at the portfolio and options relating to the portfolio to deliver shareholder value. Can you maybe just expand a little bit on your remarks and what options are opened to you and what [inaudible]? Thank you.

Nick Jeffrey: Yeah, look, I think, we have demonstrated over the last two and a half years since I have been CEO and Margherita CFO, that we are constantly optimising the portfolio to drive shareholder value and we will continue to do that very actively. What do I mean by very actively? I mean, if I give you some sort of examples of areas. So, Vantage Towers, we are really pleased with the fact that Vantage Towers is now up and running. While the share price has moved on just over 20% since the IPO; so, I think, that was vindication of the fact we kept the initial sale quite moderate, retaining approximately 82% of the interest in that company. I think, we did the timing was a good timing because now we are poised to help drive 5G but also consolidate in, if you like, the early rounds of the sector in Europe. So, I think that is a really good growth opportunity for us going forward and we would want to take that. We are clearly opened to, as I have said before, co-control scenarios. We are, sort of, like-minded industrial players wanting to do combinations in the future, so we would certainly explore and entertain those type of discussion. So, we definitely want to do more things with Vantage Towers going forward.

I would say second space would be in Africa. Clearly, we have Egypt and you saw that we did a new shareholder agreement with Telecom Egypt. That gave us the optionality, not obligation, but optionality to move it within the group. We could, potentially, move it to Vodacom. That could always be a scenario. You know we did that with Safaricom and, I think, that was very successful. Clearly, no obligation but that is an option for us to explore.

Then, finally, I would just say just in general, consolidation through Europe. I still think that there is opportunity to consolidate. I think that in terms of how governments are now viewing consolidation, I think, they have seen how critical we are as critical national infrastructure, they understand the returns issue of the sector now. I really think they understand and have a series of very good conversations. I have been talking to the Secretary of State for the UK as an example earlier in the week on this particular topic. And I think they want to make sure we are a healthy sector because they understand that we enable. We are a sector of sectors. So, we enable all other sectors and, therefore, they need to have competitive infrastructure for the country to be competitive globally.

So, what I would say is that conversation around what is the right amount of infrastructure in the country, whether infrastructure could consolidate versus retail and other permutations, we are exploring a lot of different aspects, I would say, to see what can be realised. So, I would say, very, very active in this area and we see, of course, it comes with complications because you have got EU competition commission, but even Commissioner Vestager was commenting saying that she was holding a meeting in October to really, sort of, stand back and start the conversation around the competitive framework that exists today.

Now, in by what change at all, it might be slightly moderated or they might do something more substantive, but I think conversations around things like the definition of the market in which you participate become a more relevant conversation. We argue they might[?] too tightly define it at the moment and it is broader than it looks; and things like ensuring that they are reinforcing and enforcing competition law when needed more rigorously than they do in certain situations to stop abuse. These types of things I think could be all positives in terms of direction.

Emmet Kelly: Okay, thank you very much.

James Ratzer (New Street): Yes, good morning. Thank you, Nick and Margherita. A, sort of, question, really on your business outlook that you are seeing in the commentary you have given there. So, first, yes, I suppose the full year results you announced increase in your capex spend, focus on business initiatives, and you said some of that was going to be success-based. So, would love to hear an update on what success ratios you are seeing at the moment in some of those IoT and campus network projects.

Then, second, you talked a bit about the European Recovery Fund which I think we all agree has potential to be very significant. We would love to hear what you are seeing now bottom up on the ground on your ability to actually then bid for some of these contracts, what you hearing from the SMEs who some of these funds are going towards to digitalise and your ability to then win some of the contracts from them indirectly.

Nick Jeffrey: First of all, we announced saying we are going to invest in digital services. It does take us a while to build these digital services. If you remember, we were talking about a lot more integration of other people's services onto our platform so that we can bring those services to light.

So, can I give you a tangible example, because it, sort of, somewhat answers both. Spain is a really good example, the EU Recovery Funds. So, the Spanish government, I have been impressed at the speed the government had moved up. I mean, since I met them in April and I went through, 'Here is what you could do to make a difference for our sector,' I mean, they have heard every single point that I had discussed with them. So whether it was the good spectrum outcome that we had with a lower pricing, etc., whether it is lower taxes that we are going to get, sort of, tens of millions benefit moving forward. The third was around where could you really make a difference on accelerating digitalisation and SMEs. So, they have vouched EUR 3 billion for the digitalisation of SMEs, but already had said that they will release half a billion in November. They are setting up effectively a digital hub to claim your subsidy. And what we are doing is they are targeting that first half a billion on companies with employees 1 to 49; so, let us say, Soho and Small, the S part of SMEs; and they are going to give a 90% subsidy level on digital services. What this will mean, and we formed a consortium, as had Telefonica, so really the two of us. This will be the same you are going to see in all markets. Ourselves and the incumbent, because of our business profile, tend to be the two operators that can form consortiums to then we form a series of companies that come behind us, in terms of offering digital services integrated with our offering, that we can bring to our customer base and they can use a 90% subsidy against those services. And importantly, the 90% is paid upfront. Then we put the customer on a 2-year, 3-year contract for those services.

We are really working very hard to – I mean, we have contributed a lot to the shaping of this, but also to ensuring that this will be a seamless experience for our customers. I would say this is the best case we have at the moment. What we are doing to other governments around Europe is saying please replicate this, this is a really good model for us, and we are hearing good traction across the board. Now, everyone might do it through tax vouchers, whatever, so some of the other countries might be more complicated, but this is a really good example of volume now.

I do not know if you have got some builds?

Margherita Della Valle: No, the only build would be the type of services that will be bought with the bundles. You will have, I do not know, a security bundle, an e-commerce bundle, a business support systems bundle, so that it is easy for companies of this size to know how to satisfy their needs, and within each bundle you will have a combination of services readily available from the consortium.

Nick Read: And one final build, because you specifically mentioned it, was mobile private networks, which again I think we take a real leadership position. We believe in mobile private networks. We are investing behind it. We are standardising it. The key thing here is how do you make a series of products, as opposed to it is always a bespoke expensive solution. We want to make sure that we can do this at scale, so we are prioritising effectively through pilots.

What you are going to see, I think, is traction in dedicated mobile private networks. Then there is a more sophisticated version; so that is like a customer's campus, factory, etc., manufacturing plant, logistics, support, versus a hybrid one. You have got dedicated and you have got hybrid. The hybrid then mixes the ability to use a macro network and a dedicated, and that is slightly more sophisticated and that needs some more technology roadmap development.

James Ratzer: That is great. Thanks so much.

Nick Read: I would love to spend more time on it because I think we have a really exciting proposition roadmap ahead of us. I think the hardest thing we have at the moment is prioritisation. The demand is there. You can hear what we are saying shifting our proposition, prioritisation and sequencing for the EU Recovery Funds; where the money moves, we want to make sure we have got the strongest proposition. And partners lined up, and it is a good seamless experience for vouchers or whatever, and then develop more broader strategic differentiated products over time.

James Ratzer: That is great, thank you. Appreciate all the colour there.

Adam Fox-Rumley (HSBC Bank Plc): Thank you very much. You mentioned that the above-the-line marketing is pretty limited at the moment, and I think the reasons you put forward there make a lot of sense. But I wondered how you think that is affecting customers' perception of and desire for 5G. I am not so much talking about customers on the bleeding edge here, but more the larger pool of customers, or do you think it is, kind of, unlimited tariffs, where bill worry and bill shock is being removed, that is really the thing that is driving up-sell at the moment. Thank you.

Nick Read: Adam, can I give a view on this? Because for a consumer customer, 5G makes no difference, no difference on performance, for any user case that they are using today, and what we can see over the next five years. Thus, 5G is not for consumers. I mean, it is nice to say I have got a 5G phone and I have got an icon, but this is a business application. You heard my passion around mobile private networks, etc., that is where the monetisation is. What we are focussed on is building our 5G network for businesses, and, secondly, in cities to lower our unitary cost, where it goes to your point about unlimited, because it has a lower unitary cost, in which case unlimited, we can deliver a lower unit cost.

We want to build the lowest unit cost factory in the industry in Europe, so that we can compete at any level against any player and earn superior margin. We are building it for that. So we are not doing some of these deployments that some of our other peers are doing, which is using DSS, which is just trying to run a coverage plane for 5G. Actually, what we have seen is degradation in performance on the blend of 5G/4G on that network with DSS.

I would say, so going back to your marketing point, I think what we want to be marketing is the merit of a high-quality network that is a blend of 4G/5G. You just want to know it is there. You want to know it is reliable, that you have got the coverage, that you have got the performance you need, that you do not get dropped calls, etc., it is a seamless experience. We want to deliver that for our customers and that is our priority.

Our priority for consumers is a high-quality network. For businesses, we are targeting 5G because we think that that is a monetisation and transformation for our customers' experience. Of course, above the line, we could talk about network broadly[?], high quality network; we can talk about propositions, depending on which quarter we are in, and whether we have exciting things to talk about.

Carl Murdock-Smith (Berenberg Bank): I just wanted to ask about the decision to stay with Carphone Warehouse in the UK and what the new agreement gives you. I suppose it is particularly interesting, Nick, given your personal history with that, given that when you were CEO of the UK business you actually left Carphone, so I was just wondering if you could add some comments there. Thanks.

Nick Read: Look, clearly, it is a confidential commercial contract, but let me give you the essence to answer your question. I think there was a feeling that a lot of operators have left Carphone and were exiting the indirect channels. The answer is no, they are not. They just left Carphone and went into a lot of other, I would argue, more aggressive and more expensive indirect channels. And so, if you stand back in the UK setting, even though I did exit Carphone, I have always felt indirect channels have a role to play to complement operators because they are offering something to a different target audience. The issue I always had was we made no money on the first life of the customer, and secondly, there was a high churn profile. Those two together are not good economics for us. What I wanted was something where we work together to develop a loyal base; and this is the agreement we now have with Carphone.

The big difference is we make money day one. It is SIM-only. So they carry on selling their handsets, but this is SIM-only, so you get your handset and then it comes with Vodafone on a SIM-only offer. Importantly, we are working together on the base to improve the loyalty, lower the churn, give more products and services. What I would say is it is a fundamentally different arrangement between the two of us. I think it will prove to be successful for the both of us because it has the right constructs at the start, which is these are our customers together, and how do we take them on a journey of more products and services and embed loyalty over a period of time, and I think we can do that together. That is why we were pleased to move forward on that basis. We would rather work with indirect channels that have that philosophy rather than a high-sell, high-churn, let us say, not so ethical, what would I say, approach to commercials.

Carl Murdock-Smith: Okay, that is great. Thanks very much.

Nick Read: Thank you all for taking the time to join us. I hope that you all take a bit of out over the summer, because I think everyone needs a little bit of a break, one way or the other, and we look forward to the back-to-school. Please, if you are not a Vodafone customer – I cannot think why you would not be – you need to become one. We are going to have great propositions in the marketplace, and we look forward to seeing you all in November. Take care.

[END OF TRANSCRIPT]