

Vodafone Group Plc

Analyst and Investor Presentation
Interim Management Statement for the Quarter
ended 30 June 2008

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Arun Sarin**Chief Executive, Vodafone Group**

Good morning and thank you for joining us. I'm here with Andy Halford and we'll be giving you our perspective on the first quarter and the progress we're making in the business. Vittorio Colao and Paul Donovan are here with us and they'll join us for the Q&A.

Overall, this was a more challenging quarter. In our European results, we clearly saw a weaker economic environment in Spain but strong data revenue growth trends continue. In EMAPA (Eastern Europe, Middle East, Asia Pacific and Associates), growth remains strong in India, at about 50%, and whilst we continue to execute our turnaround in Turkey, growth has slowed here as expected.

So let me first turn to the numbers, beginning with the Group picture. Overall, Group revenues grew to £9.8 billion, up 19.1% on last year, including a significant uplift from the movement in the euro/sterling exchange rate. On a pro forma basis, including India and with constant currency, growth was 3.7%.

In Europe, where our markets remain competitive, total revenue was up 15.5%, with 13.5% benefit from the euro movement, and 2.2% from DSL (digital subscriber line) acquisitions. Revenue declined by 0.2% on an organic basis, with our strategy to drive increased usage offset by ongoing price reductions. Once again, we experienced strong organic growth in data, with revenues up 26%.

In EMAPA, we continue to deliver good top-line growth. Total revenue increased by 30.5%, reflecting in particular the acquisition of Vodafone Essar. On an organic basis, total revenue growth in EMAPA of 9.2% was still driven substantially by customer growth and includes Turkey for the first time.

Our customer franchise continues to strengthen. We now have over 269 million mobile customers on a proportionate basis and over 234 million customers on a statutory basis. Net additions were 9.1 million in the quarter. We posted 1.3 million net adds in Europe and 7.8 million in EMAPA, including 5.1 million in India.

Let me now take you through some of the important trends that we saw in the first quarter. In Germany, organic service revenue declined by 1.9%, with customers continuing to adopt better value price plans and ongoing pressures on SMS and incoming revenues. Usage growth remains robust, with outgoing call volumes up 19%. Data growth remains strong, at 25%, with good and strong trends in PC connectivity, both in enterprise and consumer. Vodafone Germany is also proving to be a strong reseller of Arcor DSL, with 104,000 adds in the quarter.

In Italy, organic service revenue growth was 0.6%. Whilst the Bersani decree is no longer impacting the growth rate, we've had a tougher comparative quarter due to new voice and messaging tariffs that benefited the first quarter last year. The business retains a strong focus on contract and business customers. Data revenue increased by over 40% again, with strong PC connectivity growth and an increased contribution from mobile internet.

Service revenue declined by 2.5% in Spain on an organic basis. Competition has been intensifying for some time, with rising penetration and new players. The Spanish economy has

also weakened significantly and we had a strong quarter last year, which makes for a tougher comparison. These factors led to a decline in voice revenue, with slowing customer growth and an acceleration in the rate of ARPU (average revenue per user) decline. Messaging revenue also fell, largely reflecting the timing of promotions. Data revenue growth slowed due to the absence of the 100-day 100-car promotion this year and the introduction of price caps.

It is difficult to split precisely the reduction in growth from the prior quarter, but we estimate around two thirds from the economic and competitive factors and one third from a tougher comparison. Unemployment is rising, particularly in the migrant worker segment, where we've been a strong performer. GDP (gross domestic product) growth is also slowing and we've seen rapid tariff optimisation, which is easier in the Spanish contract market, given lower monthly commitments. Whilst this has been a tough quarter for Spain, there are a number of initiatives underway to reinvigorate growth, and we should not forget how strong growth has been over a prolonged period.

UK remains one of our most competitive markets, with service revenue growth of 2.1%. Voice pricing pressures remain high, combined with slightly lower usage growth. Messaging growth slowed, as we are a year on from the refresh of our text bundles. The data story remains positive, with an increase in revenue growth, back above 30%, with 85,000 PC connectivity adds in the quarter, including strong take-up in our USB modems. While the competitive environment is clearly continuing to impact the UK business, we do feel there are signs of the current economic weakness, although it is hard to split the two effects.

Now let's turn to EMAPA, and to India and Turkey in particular. In India, we have continued to execute well. Total pro forma revenue growth in the first quarter was 52%, with a year-on-year customer growth of 60%. Monthly net adds in the quarter improved to a record 1.7 million, ahead of the launch in our Spacetel circles, which will occur later this year. During July, we exceeded the 50 million customer mark.

We continue to execute on our plans in Turkey, but the competitive, political and economic environment is very challenging. Service revenue growth in the quarter was 3.7% and was hit by a large cut in termination rates. Adjusted for this, growth was nearer 11%. The next key step is to complete our ongoing overhaul of the network to enable us to compete more effectively in the market, and this will be done by the end of the year.

In the US, Verizon Wireless has posted another strong quarter, with net adds of 1.5 million, resulting in over 10% growth in customer base since last year. Verizon will report its June quarter on 28 July.

Other highlights of our EMAPA performance include continued strong organic service revenue growth of 18% in Egypt, 15% from Vodacom in South Africa, and 8% in Romania.

Before I turn to guidance, let me briefly tell you about the progress in our strategy. In terms of cost reduction, our major cost programmes around IT outsourcing, network supply chain, data centres are all established and delivering savings. Cost remains an important focus for the management team and, from the beginning of this financial year, we have started to implement a wide range of further initiatives to streamline our business processes and drive costs out of the business. For example, in IT, we are consolidating software licensing, maintenance agreements, data storage; we are rationalising our property and our advertising production costs, as well as centralising our roaming activities. These are just some of the long list of ongoing initiatives in light of the current environment. Some of these, of course, will be accelerated to drive earlier savings. In addition,

we're even more focused on commercial cost discipline, particularly acquisition and retention costs, advertising and publicity.

Next, let's look at total communications, which is now 15% of our revenues. Data revenues for the Group have continued to be strong, with a 29% organic growth. Growth is coming primarily from PC connectivity, not only through strong business performance, but increasingly from consumers as USB modems become more widespread. Across the Group, we now have 29.9 million 3G devices, including 3.1 million 3G Connect cards, mostly in Europe, and double last year. We now have around 3.5 million handheld business devices, up 115% on last year. Fixed line revenues increased to over £600 million. We now have over 3.7 million fixed broadband customers in 13 markets across the Group, with 2.8 million in Germany, up 26% on last year.

Finally, there have been a number of portfolio changes in the quarter:

- We've strengthened our fixed broadband position in Germany by buying out the minorities in Arcor.
- We've been awarded the second mobile licence in Qatar and expect to launch services by the end of the financial year.
- Most recently, we agreed to take control of Ghana Telecom, a leading player in that market.

Let me conclude by looking at our guidance. This has clearly been a more challenging quarter for the Group, particularly in Spain. Overall, our pro forma growth rate in the quarter, at 3.7%, was somewhat below the growth rates implied by our guidance range for the year. Although it is too early to see a clear pattern emerging, we are beginning to see a greater impact from the current economic environment than previously envisaged.

There are also early signs of delays in handset replacement, with lower-than-expected equipment revenue, which is good for our profitability. We have already been seeing an increase in our SIM-only activity, and this is a trend we will encourage. As a result of these recent trends, we now see revenue around the bottom end of our outlook range. As I have said, we remain focused on driving costs out of the business, and the current operating environment will see us even more focused.

So we still see the outlook for the adjusted operating profit, capex and, therefore, free cash flow unchanged. This illustrates the resilience that I've discussed previously and demonstrates the benefits of Vodafone's strategy and the diversity of its assets and products. I will now hand you over to Andy, who will take you through the quarter in greater detail. Andy?

Andy Halford

Chief Financial Officer, Vodafone Group

Thank you, Arun, and good morning, everyone. In a moment, I will talk in more detail about the revenue trends across the Group, but first I want to say a few words about our outlook statement. In May, at the time of our full-year results, and in the subsequent roadshow, we were able to brief you on the basis of the first six weeks trading of the quarter. However, in June, there was a

slowdown in our trading performance, notably in Spain, which, as you would expect, we have been monitoring closely since then. I would stress we are reiterating the other elements of our guidance, notably operating profit and free cash flow.

Now let me talk about the revenue trends in more detail. I will comment further on guidance at the end. As Arun has already said, the Group's first quarter organic and pro forma growth is lower than the final quarter of last year. On an organic basis, total revenue grew 1.7% in the quarter, a sequential fall from 3.6%. Pro forma growth, in turn, has reduced from 6.1% to 3.7%, with Spain accounting for around half of this slowdown.

So let me provide some more colour on the drivers of this, starting with the Europe region. Total revenue in Europe reduced very slightly by 0.2% year-on-year on an organic basis, with an increase in customer base, voice usage and strong data growth offset by pricing pressures and the continuing impact of termination rate reductions. This represents a slowdown from 1.5% growth in the previous quarter. Within this, organic service revenue in Spain slowed sequentially from growth of 5.2% in the fourth quarter to a 2.5% decline in the first quarter. However, if we strip out Spain, organic service revenue in the rest of Europe combined only declined from 1.1% to 0.4%. Although there is some overlap between the dynamics of Spain and other markets, we do not see a direct read-across to the rest of Europe, given two important factors:

- In recent years, we have performed very strongly in the Spanish migrant worker sector, which has been dominated by Spain's large construction sector. As a result of events in Spain, we believe we have been impacted disproportionately by this strong market position.
- Secondly, a prevailing postpay pricing structure with a higher out of bundle component than we see in many other markets.

As I said, in Europe excluding Spain, service revenue rose 0.4% on an organic basis, compared to 1.1% last quarter, with the UK accounting for over half of the sequential slowdown. This is a robust performance, with the marginally slower growth primarily a function of strong take-up of specific messaging tariffs in the UK and Italy in the comparable period, and some signs of economic weakness in the UK.

Breaking down this organic service revenue into the main constituent parts, I will start with voice revenue. Voice revenue was 3.5% lower year-on-year, broadly in line with the 3.0% decline in the previous quarter. Within this, outgoing voice revenue was 2.3% lower, in line with the previous quarter. Outgoing voice volumes grew 15%, offsetting effective price declines of a similar level. This usage growth was driven primarily by Italy and Germany, reflecting the take-up of large-contract voice bundles and prepaid usage initiatives.

Incoming voice revenue in Europe declined by 5.7%, a similar rate to the previous quarter, as 5% minute growth was more than offset by the impact of mandated termination rate cuts of around 11% in effective rate per minute. Messaging revenue grew at 2.9% on an organic basis, somewhat lower than the 7.5% in the previous quarter. This slowdown was most significant in Italy and the UK, where strong take-up of the Infinity tariff in Italy and SMS bundles in the UK boosted the comparative period.

Data revenue in Europe increased by 31%, with strong growth continuing across our main markets and sustaining the level of growth seen last quarter. Including Spain, data revenue reached £552 million in Europe in the quarter. Increased penetration of 3G and business devices continued to be the main drivers of European data growth. In aggregate, data cards and handheld

business devices reached 5.3 million, up 83% on last year. 3G devices have now reached 24% of our European customer base.

Turning to fixed line services revenue, which represented 9% of European service revenue in the quarter, principally in Arcor, Arcor's DSL customer base reached 2.8 million at the end of June, up 26% on last year, and led to a 3% service revenue growth. The lower revenue growth compared to the previous quarter reflects a lapping effect on carrier revenue, as well as a mix shift towards wholesale, as Vodafone Germany added nearly 90% of Arcor's net adds in the quarter. Vodafone Germany now represents over 10% of Arcor's base, highlighting the ability to leverage our distribution channels in the fixed broadband market.

If we now turn to the EMAPA region, revenue continues to be driven by the strong customer growth that Arun highlighted previously. Average mobile customers grew by around 18% year-on-year, driving organic growth in service revenue of 8.7%, lower than the 13.1% of the previous quarter, principally due to slower growth in Egypt, Australia and Romania. This in turn reflects a combination of increasing competition and rising penetration.

In addition, Turkey is now included in the organic growth analysis. As Arun has said, a 34% cut in termination rates drove a slowdown in organic service revenue growth from 6.7% in the fourth quarter to 3.8% in the first quarter. This means that Turkey has been slightly dilutive to EMAPA's growth in the quarter.

India is excluded from our organic calculation but, on a pro forma basis, total revenue growth remains above 50%, driven by the sustained momentum in customer growth discussed earlier.

I'd now like to make a few comments on outlook. As Arun discussed, it is clear that revenue growth in the quarter is below the run rate implied by our guidance range set out in May, with the recent deterioration in Spain the main driver. We now believe our Group revenue for the year will come in around the bottom of the outlook range. This will be partly due to Spain and the tougher UK environment.

Another element of the shortfall is lower equipment revenue. We have mentioned before a belief that, in a weaker economic climate, we may see a lower rate of handset renewals and upgrades, and we are seeing and indeed encouraging this in several of our markets. This reflects both a shift in customer behaviour in response to pressures on consumer spending and our increased focus on SIM-only services and contract extensions without equipment upgrades to tailor our customer propositions accordingly. This can be good for our customers and for our bottom line.

This factor contributes to our view that we do not expect the revenue weakness outlined to impact on our guidance for profit. We continue to see adjusted operating profit in the £11.0-11.5 billion range, for three primary reasons:

- First, some of the revenue shortfall is offset by lower acquisition and retention costs, as discussed.
- Second, as I just highlighted, there are a number of cost initiatives underway and our accelerated implementation will mean that we benefit this financial year.
- Finally, this operating environment will require an even more disciplined approach to commercial costs, such as advertising and publicity.

Our margin expectations are, therefore, likely to be better than previously anticipated.

On capital expenditure, we continue to see this being in the £5.3-5.8 billion range, with investment in our growth operations such as India and maintaining capital intensity in Europe by balancing the need for investment with the expected return.

Free cash flow expectations are similarly unchanged, at £5.1-5.6 billion.

The current-year outlook should also benefit further from recent favourable exchange rate movements, particularly with respect to revenue and to the sustained strength in the euro. I have said in the past that a 1% increase in the euro relative to sterling would boost our annual revenue by about £250 million relative to the 1.30 euro rate assumed in our outlook range. Therefore, if the first quarter average rate of 1.26 euros to sterling is sustained throughout the whole year, this would provide a revenue benefit of about £750 million relative to our outlook assumptions. This clearly provides some offset to the top-line pressures discussed earlier, and we will update you at our half-year results in November.

Before summing up, I wanted to make a quick comment on recent developments regarding two outstanding tax issues. In India, the hearing in the Mumbai High Court has recently concluded on the Tax Authority's claim that capital gains tax is due on our acquisition of Vodafone Essar. We await the written verdict but remain confident that we face no liability on this issue.

In the UK, the High Court recently ruled that CFC (controlled foreign companies) legislation is inconsistent with EU (European Union) law. We view this as an important decision relating to a specific tax case, for which we have provided over £2 billion on our balance sheet, although we wait to see how the tax authorities respond before deciding on whether this provision remains appropriate.

With that, I will now hand back to the operator for questions.

Questions and Answers

Robert Grindle, Deutsche Bank

Hi, there. When people delay upgrading their handsets to take a sort of SIM-only package, does that also hit your service revenues as well as your equipment revenues?

Then a second point on mobile data, which seems to have strengthened a little bit in some markets if you exclude Spain and Europe. Is the consumer picking up at all on mobile data? Is there any sign of that at this stage? Thanks very much.

Arun Sarin

Andy, do you want to take the first one and I'll take the second?

Andy Halford

Yes, on the upgrades, we are offering increasingly in a number of the markets an opportunity to take a lower ongoing airtime package in return for not taking the equipment upgrade. So, in the near term, that will actually take more out of the equipment revenues than it will take out of the airtime revenues although, over the full life of the customer relationship, the two will normalise more, hence why we get a slightly disproportionate negative impact upon the total revenues in the near term, albeit profitability-wise it's not too dissimilar.

Arun Sarin

Robert, on your second question on mobile data, really two parts to this: one is Mobile Connect cards where, here in the UK, for example, we're doing roughly 30,000-35,000 dongles, Mobile Connect cards additions every month. We've got a very good market share in that. On mobile internet, where we're selling things for typically either £5 or €7, all-you-can-eat kind of web browsing etc, those products are going well pretty much across the board.

Simon Weedon, Goldman Sachs

Could I perhaps just drill into your revision to revenue guidance a little bit more? In particular, if you look at Spain and the slowdown this quarter versus certainly what we had in mind, I think you're pretty much at your lower revenue guidance straightaway, without assuming any further deterioration as the year goes on. If you look at the coming quarter and how you exited the quarter, particularly in Spain but not necessarily exclusively, do you not see a full-quarter impact of the June slowdown potentially giving you a worse outcome as the year progresses and, therefore the revenue guidance is pretty much straightaway at risk as July comes in?

Second, sort of related to that, how much further down would revenue have to go before you start seeing a risk to the operating profit guidance? My guess is not much but I just wondered if you could give us a sense of sort of how much margin protection you feel is viable.

Arun Sarin

Andy, do you want to take this?

Andy Halford

Yes. So, obviously, with having to watch on an almost sort of daily basis what trends are going on, this is a sort of tricky one to monitor. We've gone back with each of our businesses, including Spain, particularly Spain, to actually look at recent trends, and we are working with the Spanish business on promotions and other activities that they can launch to try to address some of this. So we've got a best view here as we presently see it as to how we think the balance of the year will outturn, but frankly we are early days on this and we are doing whatever we can to make sure we get back into the pack on that.

In terms of the margin protection, we've said that we can still be in the profit range, even if we were to drop to around the bottom of the revenue range, so we clearly are working on the costs. Essentially, we've got the Spanish business that's sort of negative 2.5% on its revenue growth as being the sort of weaker area in Europe, but we are working on costs on other fronts and we are comfortable that, working within that range, we will still be fine on the profit front. We'll see how each month goes by, but our determination is obviously to keep the revenues there and to work the cost base as much as we possibly can do to make sure that the profit stays intact.

Arun Sarin

Andy, can I just add a couple of things to it? In terms of the kinds of things we are doing, we obviously have things we're doing to stimulate revenue, whether it's usage stuff, whether it's DSL, whether it's data, so we've got a lot of things going on here that we hope will kind of bring home better revenues as time goes on.

Simon Weedon

Can I just follow up on the Spain point? You've made the point about maybe about a third of the reduction quarter over quarter in the growth rate is related to the comparative. If you kind of take that into account, could you give us a sense of where Spain would be if the June run rate was to continue for the next quarter, given the change in the comparative versus the second fiscal quarter of last year? I'm talking about revenue growth here.

Andy Halford

Yes. Simon, we're not going to go into sort of huge levels of detail, but we've taken a view on the recent run rates and on the sorts of activities that Arun has referred to. We've got plans as we go forward, so that's what we're working to.

Will Draper, Execution

Good morning, gents, just a quick round robin on some of your European countries. Firstly, Greece looked like there was a fairly heavy fall in ARPU and I'm wondering why that was. Secondly, in France, a low level of subscriber adds, at just 6,000 proportionate; I wonder if you could give us some colour on that. Thirdly, in the Netherlands, it appears that you're engaged in a pretty heavy competitive struggle with T-Mobile for a second or even third quarter. I'm wondering how long you see that persisting in the Netherlands. Thank you.

Arun Sarin

Vittorio, do you want to take those?

Vittorio Colao, Deputy Chief Executive, Vodafone Group

Sure. On Greece, you might remember that we had declared that we wanted to be more competitive vis-à-vis the competitors. We're working on prices. We're working on price of SMS, price of minutes, and it is basically in the context of a declining market share which we did not want to go through. You also have to keep in mind that, in Greece, we have not launched a second brand; therefore, we are working with tariff plans under the existing umbrella brand to address the segments of the market youth and kind of lower end of the market, which usually our competitors address with other brands.

In the Netherlands, actually I think we are doing pretty well. We have gained revenue and profit share. You're right – you're absolutely right – it is a competitive market, but the trend has been very positive and our strategy, which is based mostly on online direct sale and gaining market share, is paying off. So I'm kind of optimistic that we're doing the right thing.

On SFR, I guess we need to wait for 24 July, when Vivendi report their numbers, and so I would prefer to let them answer the question.

Mark James, Collins Stewart

Apologies if I missed it, but can you maybe split out what the Spanish run rate was in June? I'm just thinking about the monthly sort of sequential deterioration in Spain, because it must have been very marked, given that, as you said, you were on the road in early June.

The second question was: in respect of the lower handset sales, are you able to put some numbers to that in terms of its impact on revenue or on volumes?

Andy Halford

Okay. Sorry, we did address the Spain profile. We have not given numbers within the month. Frankly, the difficulty here is, if you take one or two months, predicting trends off one- or two-month periods is really not a very easy thing to do. What we have done instead is a very detailed bottom-up exercise with the business, looking at each of the customer segments, looking at the spend profiles, looking at the promotions they've got coming up, and we've basically built up our forecast from that perspective.

In terms of the lower handsets, we've got revenues of over two billion or so coming through from acquisition and retention, and we are seeing and we are indeed encouraging people to sort of hang on to handsets for a little bit longer. We've not put a number on it but I suppose one observation I would make is that, in going from midpoint of the guidance range to lower end of guidance range, is about 1%. You don't actually need particularly large swings on handset revenue which are not profit-impacting to actually move us a reasonable proportion down the range and, therefore, the handsets and Spain really is the largest part of that movement.

Justin Funnell, Credit Suisse

Just a few questions please. I was just wondering: another economy that we're seeing slowing down quite fast at the moment is Ireland. I'm just wondering, just as a kind of benchmark, if you could compare what's going on in Spain to Ireland? Are you seeing a worse effect in Spain? Does that help us understand a bit more how much it's the competitive dynamic in Spain?

Secondly, we've obviously, going forward, got to try and model some sort of impact from the economy. I was wondering if you'd care at this stage to try and speculate what the relationship between GDP growth and mobile spend might be, now that we have to start modelling this in, if you'd care to give us a steer on that at all.

In terms of Italy, do you think you're actually winning some market share there? We noticed TI (Telecom Italia) has pulled back a bit; has that helped you a bit in Italy?

Finally, I'm just trying to understand a bit more how customers are actually behaving as the economy affects them. In Spain, you're talking about less usage on contracts. What about prepay? Are you seeing in Spain or anywhere else people not topping up as frequently?

Generally, in the UK, is it just the slowdown in usage you're referring to in terms of the economy effect that you're seeing, or are there other things as well?

Arun Sarin

Vittorio, do you want to take some of the European questions?

Vittorio Colao

Let me say, Ireland and Spain, it's interesting because there are similarities between the two economies, but there are differences in the position of Vodafone in those two countries. Yes, both economies have got real estate booms and, yes, both economies have got immigrant issues. However, in Ireland, we kind of come from the incumbent position, so we tend to be very strong in segments in terms of customer base, which are kind of the more traditional segments, while in Spain we have been very strong thanks to our dynamism and the things that Arun has described into the immigrant segment, into the kind of small to medium enterprises linked to construction and linked to the real estate situation.

In a way, if I had to say, in Ireland the issue for us is much more being competitive with price and with bundles with the competitors, so similarities in the two economies but different starting positions. In a way, in Spain, we've been incredibly successful in the last four years in terms of double-digit growth, and some of the segments in which we have tapped into seem to be recently have been hit more by the economic slowdown.

On Italy, I think we are doing well. We don't have the quarterly numbers from our competitors but it looks like we are doing well and we are, both from a pricing and from a commercial cost point of view, acting successfully and in a way which gives us some comfort about how things are going.

The behaviour – I'm not sure I would describe the behaviour of the customers the way you said. I don't think the customers are using less. I think the customers, as Andy has described, tend to trade a kind of lower price on a SIM-only tariff for getting newer handsets later, six months later, a bit of time later, which makes sense, because when a household is under economic pressure,

probably you prefer to pay less on a monthly basis and not renew your handset. I want to stress, as Andy said, if we manage well, this is not negative for the profit, because it's basically a trade-off between acquisition and retention and better utilisation of our networks. So I wouldn't – and again, it's early days, it's something that has happened very recently, we've been monitoring it and we'll see where it goes.

Arun Sarin

And, Justin, your question about kind of the relationship between GDP growth and mobile spending, frankly we don't have a strong view on precisely what the correlation here is. What is clear to us is that economies around the world are slowing, and that's what's kind of modelled into our thinking, but we believe that our sector, and we are reasonably resilient. That of course needs to be tested as we go forward in time.

John Karidis, MFG

A very good morning to you. Is it possible please to be a little bit more specific about the competitive threats, particularly in Spain and the UK? Who are the ones that cause the most problem and is it predominantly price-related or is it a sort of richness of bundles that are offered?

Secondly, I didn't quite catch the second point that makes the weakness in Spain country-specific – something about out-of-bundle minutes. If it's possible to enlarge upon that, I'd be grateful. Thank you.

Arun Sarin

Vittorio, Andy?

Andy Halford

Let me take the latter bit, just in terms of my comment on the construct of the bundles. What we've got in the postpay market in Spain is, essentially, lower price point bundles but lower minutes in them, so a higher proportion of minutes tend to be outside the bundle and, therefore, are sort of paid for on a per-use basis, whereas in other markets where there are bigger bundles with spare headroom in them, then essentially the sort of marginal minute does not necessarily appear to have a cost, so the Spanish market has a higher proportion of our customers who are actually paying what we'd call overage compared with markets like the UK or like Germany.

Vittorio Colao

John, on the pricing question, I'm not sure, at the end of the day, pricing or bigger bundles are really two different things. If I look at the UK, we are getting T-Mobile. Clearly you might have seen it aggressive on the big £30 bundle. We have 3 aggressive on the data tariffs and, again, it's either you go to £15 or you say that £15 are for 5Gb instead of three. So, at the end of the day, it's a price pressure.

The positive thing, if you want, is that we still have some kind of good volume reaction, which means that customers use more, but of course we have to face these things and to respond to these things.

In general, the other element in the UK is a little bit of slowdown in footfall in the shops, and again this is related to the general retailing situation.

In Spain, we have more competition from MVNOs (mobile virtual network operators). MVNOs take advantage potentially of the situation that Andy has described, so the low commitment-type of handsets. Clearly, we have a formidable competitor in Telefónica, who's very entrenched in the high-end corporates and in the kind of more traditional segments, a little bit the same way as we are in other markets.

Ottavio Adorisio, Société Générale

Good morning, gentlemen, three questions. The first one is quite straightforward: if you can give us the organic growth implied by the bottom end of your management guidance.

The second one, going back to Spain: looking at the numbers you report today, we're talking a lot about the bundling in the postpaid, but the prepaid ARPU were almost in a freefall as a sort of 12% decline year-on-year. I was just wondering if that's really basically you expect that could be repeated going forward for postpaid customers that will basically go towards the end of the contract and probably trade down and therefore I think it could be a sort of late impact on the postpaid cycle. On that one, I would like you, if possible, to enlarge the discussion to the US. I appreciate that the US hasn't reported as yet, but do you reckon that that continent being a postpaid market has basically been one of the major factors why, so far, it's not reacted to the economy or to the weakening economy over there?

The third one: looking at your savings that you plan to make, two of them struck me that they really depend on what your competitors do. We're talking about low acquisition costs and the discount on adverts and publicity. How confident you are that competition will not increase from here and what will be Vodafone's reaction if it actually does?

Arun Sarin

Andy, do you want to take the organic growth and, Vittorio, you take the European questions and I'll take the US question.

Andy Halford

Yes. Roughly, it's sort of ranging, but order of magnitude about 2% organic growth is sort of essentially what's implicit within that revised guidance.

Arun Sarin

Vittorio, on Spain and...?

Vittorio Colao

Yes. Firstly, let me probably clarify a misunderstanding. I don't think we have said that we want to cut advertising spending. To be clear, Arun has said rationalisation of advertising production costs, which is cost synergies, not pulling out of the market.

On the other comment that you have on acquisition and the kind of commercial cost, I think you're right. Of course, it's something that depends on the market dynamics, but if the markets go more into lower prices, SIM-only-type of offers, and customers need or want or prefer to replace their handsets, instead of every 18 months, every 24 or later, almost logically we should go for giving more for a lower price and saving on commercial costs. But you're right: it depends on market dynamics.

Then you had the prepaid and contagion on postpaid question. The way we handle prepaid to postpaid migration is really basically on a customer-by-customer basis. We try to consolidate customers when their usage and their profile justifies going to a postpay. It gives more stability, it gives better churn management and it gives for us better opportunities to handle them. So I think it's a healthy thing as long as you do it on an objective basis, which is the value the customer can bring.

You mentioned Spain. Even in Italy – I can mention Italy as well – we don't have a particularly good performance on prepay this quarter, but again it was kind of deliberate because there's a part of the prepaid customers who just don't... are not worth a lot. So my guess is this is part of customer management is the answer and, as long as the value is there, it's the right thing to do.

Ottavio Adorisio

Excuse me, just if it's also possible to enlarge to the US, the question was also on the fact that the US, being a postpaid market, so far has been pretty resilient. While you see in Spain, and you also correctly say in Italy, the fact that it's not merely prepaid customer can adjust their consumption at will when they feel the pinch of the economy. Looking forward in the US, do you reckon the fact that that most of these consumers will go towards the end of the contract, there is a risk that they will trade down, they could be probably see the impact of the economy delayed also as it has in Spain?

Arun Sarin

So let me take this question here. First of all, let me remind everybody that Verizon will be announcing their results on 28 July so I'm going to have to be brief on this. So, first off, the kind of contract customers that you have in the US are quite different from the kind of contract customers that you have in Spain. If you look at the average spend, the big bucket sizes that you have in the US, you look at the number of minutes, for example, that people have, and typically longer kind of contract times, sort of insulates what's going on in the US.

Of course, the big factor in the US is really around the market structure and the fact that we have a weak fourth competitor, and that is all accruing to the benefit. But let me not go any further and give Verizon Wireless management a chance to kind of explain this in greater detail. As is obvious from the numbers that we've shown you, 1.5 million net adds is a very strong performance and we continue to see good performance in our Verizon Wireless company.

Nick Delfas, Morgan Stanley

I'm just going back to a question that Simon asked already, but just want to see if I can ask it a slight different way. Obviously, when you gave your guidance in May, you already knew of some of the weakness in Spain, but presumably it got worse in late May and June. So really the

question is: should we be expecting a deterioration in that rate? So 2.5% for Q1, above 3% decline for Q2 – is that a rational way to look at this? Thanks very much.

Andy Halford

Yes. As I said earlier, Nick, I entirely understand the question. It is the case that it was a little weak in the first month and weaker in the latter two months, and that's why we're doing the update now. Frankly, sort of two months of data is very difficult to actually draw a consistent theme or a consistent trend line off it, so the business has done a detailed exercise. It has looked at what is happening in its customer base, it's looked at the promotions it's got coming up, and it has done its own projections now going forward for the balance of the year. When we've got another few months of data and evidence, then I think we'll be much more comfortable with knowing exactly where this will end, but at this point in time it's just genuinely difficult and it's the primary reason why we've notched down the revenue guidance.

Paul Howard, Cazenove

A couple of questions. Just going back on something you said before, did you say that the organic growth implied by your new guidance is around 2% for the Group? I guess I'm just trying to understand why, if that's the right figure, that would represent an improvement on the first quarter, given that the economic situation feels like its getting worse.

Then, secondly, just a question on EMAPA: could you give the figure for organic growth ex-Turkey, just so we can see the trends ex the introduction of Turkey, and again explain how they developed in the quarter and what the assumptions are for the rest of the year within those emerging markets? Thank you.

Andy Halford

Yes. So, on the growth rates, the 2% organic, first observation is the organic excludes India, so obviously India needs to be overlaid on top of that. Secondly, it does imply a modest improvement but it is only modest, and that's going to be a combination of things, more DSL revenues coming through the back end of the year, renewed focus on promotions as we go forward, so directionally that's where we're at, that's where we're focusing with the business, and we'll come back later in the year, obviously, and report out on how that's going.

Turkey –

Paul Howard

Could I just follow up on that? I guess it just feels a bit strange, given the trend's deteriorated within the quarter and, certainly, economies are slowing globally, that we wouldn't expect things to get worse, even ex-DSL. I'm just trying to understand what your link is between the GDP trends you're assuming and the sort of volume and revenue growth trends you're assuming.

Andy Halford

Yes. I think it's very difficult. We're calling some of these very much at the margin. Whether it's plus 1% or plus 0.5% or whatever, it's just genuinely tricky to do. Each of the businesses has got

its own plans, it's got the promotion they're putting in place, it's doing things on equipment pricing and SIM-only pricing. It's the aggregation of a lot of efforts and a lot of plans that are going on in the individual businesses. Really, it's just difficult to say more than that, Paul.

Paul Howard

Okay. And, sorry, on EMAPA?

Andy Halford

So Turkey took about 0.4 percentage points off the organic growth rate of the region quarter on quarter.

Paul Howard

And the trends within the quarter, because that's obviously a slowdown from, I think it was 13% in Q4 for things like Egypt and Romania, did things deteriorate at the back end of the quarter?

Andy Halford

I think it was more progressive than that.

Jerry Dellis, JPMorgan

Three questions, please. Firstly, on Europe, Andy gave out some organic service revenue growth rates for Europe excluding Spain. I think he said that the trend had gone from 1.1% to 0.4%. I just wanted to confirm that 1.1% was for Q4. It would be useful to understand what the quarterly trend was prior to the Q4 stage just so that we can say something about the run rate here.

The second question is just in terms of competitive pressures in your European markets. Are you finding that your competitors are generally sort of easing off here because everybody's experiencing the same sort of headwinds?

The third question is that I guess that the shift to SIM-only takes away a major barrier which would ordinarily prevent smaller operators within European national markets from taking your customers; i.e. the barrier in the past has, to a large extent, been the handset subsidy. Is that something that you're concerned about going forwards?

Arun Sarin

Andy, do you want to take the first?

Andy Halford

Yes, let me take the first one. So just to confirm, Jerry, that 1.1% was the fourth quarter, so I was saying it was 1.1% in the fourth quarter and 0.4% in the most recent quarter. The quarter prior to that, the third quarter, I think was about 1.0%, and the second quarter was – I don't know – about

1.9%. There's a little bit of accounting adjustment in there but, directionally, it's of that sort of order, and some VAT (value added tax) in that period as well. So prior quarter was 1.0% as well.

Arun Sarin

And on competitive pressures etc, I don't think there's anybody backing off, frankly. When you think about what's going on here in the UK or what's going on in Spain or Italy or Germany, I think Europe remains competitive. Vittorio, anything else you want to add to that?

Vittorio Colao

Yes. It's difficult to give a kind of uniform picture, but as Arun said in his introductory speech, the average price reduction is still 13-14% in Europe. Some markets a little bit more, some markets a little bit less, but it changes by the quarter with different initiatives and different things, so difficult to give a kind of uniform answer.

The SIM-only barrier question, I think what you say is true but up to a point. If we reduce... if we move, actually, resources from acquisition and retention to pricing, scale becomes important, and especially if you think about data, for example, we have almost in every country the best network in the country, the better-performing in terms of speed and in terms of capacity. Brand matters, distribution matters, number of shops, number of point of sales, so at the end of the day it's a, in a way, healthier competition. Everybody can subsidise a handset; not everybody can have shops, brand and network.

Terry Sinclair, Citi

I've got two questions. First of all, I'd like to learn a little bit more about the timing of what went wrong in Spain. The construction slowdown has been underway for a long time. There weren't any particular competitor moves that I'm aware of in June. Why does this start to fall apart at the beginning of June? Is it to do with different promotions, contract expirations? Has it continued to worsen during July?

The second question is about USB modem take-up. This is a product which I would have thought would be economically sensitive, and I wonder if you've seen any weakness in any markets that we ought to be aware of?

Arun Sarin

Andy, do you want to take the timing, or Vittorio?

Andy Halford

Yes. The trend there was the latter two months were worse than the former two. In promotional terms, Vittorio, do you just want to comment upon whether there were changes in the market that impacted the second and third months?

Vittorio Colao

I think that we have got some lapping effects, but probably of the, let's say, 7.5 points that go from one quarter to the other, probably a couple of points – 2.5 – are lapping effects and remaining is just the real thing. It has happened, you are right, quite sharply and quite, I would say, very concentrated in June, and with some late-May signals, which of course we picked in June, however, because the number is coming in June. One thing that we are sure is the migrant effect, people going home. As we said, we are stronger there. That probably is another point – I don't know, two percentage points of the total – and it has apparently catalysed more in the last part of the quarter, but it's very recent news, so it's difficult for us to be more specific.

On USB modems, I would say it's one of the things that we like. You might have noticed that, in the UK, we're actually back to 30% growth and we are betting on these things. There was an earlier question: yes, we are betting in the consumer space. We are pushing them heavily in television, we are pushing them heavily for singles, for families without children and, as Arun said, we get a fairly good share of this market.

Arun Sarin

Vittorio, the only thing I'd add to that is this is very early in its lifecycle, so we're picking up people early in the lifecycle. These people are not that sensitive to the kind of on-the-margin economics. They're using it for convenience etc. Some are using it as kind of cross-elastic with wireless broadband and wireline broadband, so I think it's just early days and I don't think you'll find a high correlation between sales of USB and the current environment – macroeconomic environment.

Guy Peddy, Macquarie

Hello, gentlemen, a couple of small ones. Andy, on your outlook statement, you suggested that there was going to be another incremental £700 million of FX (foreign exchange) benefit in the numbers if the exchange rates stay as they are. Is that now implied in your new guidance?

On a secondary point, particularly in Spain, are you worried about sort of incremental bad debt in the coming quarters as some of the migrant populations just abandon the contracts?

Then a question for Vittorio: you mentioned that distribution is obviously one of your key sort of opportunities to invest in and differentiate yourselves. Given that some of your competitors have announced a more expansive network of retail distribution shops, especially in places like Spain, do you see there's an opportunity to increase your retail footprint in these market environments to try and sort of increase your customer retention? Thank you.

Andy Halford

Okay, Guy, let me just take the first one. To try to simplify things, we have not done an FX true-up on the guidance ranges at this point in the year. Instead, we'll do that when we come to November. So the actuals have got the benefit of the FX uplift for the first quarter but, in essence, when we've talked about the revenue being at the lower end of the range, we have said that on the basis of the same exchange rates as we had in the outlook originally. When we've said that we expect the operating profits and free cash flows and capex to be the same as before, that is on the same basis as previously. If the present exchange rates do continue out through the rest of the

year, then we would expect roughly that the revenue guidance would be uplifted by around £750 million for the full year when we come to November.

On your second question, which was on Spain and bad debt, we are obviously monitoring bad debt closely around the business. I think, fortunately, a good proportion of our business is actually prepay, so we actually do get the cash in advance. The bad debt expense in the business is very, very small, but we have seen a bit of an increase and part of that is in Spain, but overall, as a Group, it's actually been sort of reasonably moderate, but Spain is the particular market, to your question, that we are focusing upon.

Vittorio Colao

And on distribution, the answer to your question is yes, we are betting or we want to bet more on direct distribution. Direct is not just the shops; it's shops, it's online and it's telesales. The countries where we are making these investments are the UK, Germany and Greece mainly, the other markets being already at a kind of, we think, satisfactory level. Yes, we feel that managing our own customers is going to be essential and direct control over the channels is an important part of it.

Andrew Beale, Arete Research

I was just wondering, from your detailed work on Spain, can you give us a bit more of a sense of what's happening by sector and customer type so that we can understand how broad-based the slowdown is versus concentration in the areas that you've mentioned, like construction, migrant workers and so on?

Secondly, have you fully reflected in your new revenue and EBIT (earnings before interest and tax) guidance a much stronger push into SIM-only? Are there potentially further adjustments to come as you see how you execute on that?

Finally, in terms of cost reduction, you've obviously highlighted advertising, acquisition and retention costs and so on. I'm sure, below that, there are a lot more cost programmes, but can you give us a sense of some of the more material ones that will help you reduce costs? Thank you.

Arun Sarin

Andy?

Andy Halford

Yes, on Spain, I think that the immigrant sort of part of the customer base is the most obvious area where we have seen a reduction. We have got a little bit of weakening, frankly, across sort of a variety of other segments and across different sort of voice and data and messaging products, so I wouldn't pull out any particular segment other than the sort of immigrant one.

Secondly, on SIM-only, as I said earlier, we've got two billion or so revenues coming from equipment sales and we have taken the view that we will be encouraging and structuring price plans to try to take out some of the equipment element of that. You only need small changes in that number to actually account for a reasonable proportion in the shift in the guidance range

we've got. So, again, market by market, we're going through it, but you can take it that we are now assuming that we'll do a little bit more SIM-only than we were assuming a while ago. It isn't just about SIM-only, because SIM-only is sort of largely for new customers; it's as much about existing customers when they come up for renewal as to whether actually they need a new device at the same stage or whether we'll do it on an ongoing airtime price plan.

On the cost reduction question, you are quite right: there are a whole myriad of areas that we are looking at. We're looking at sort of the headcount in the business and contractors and a whole variety of initiatives. It varies very much market by market. We do a lot of benchmarking in the business and, frankly, we'll just turn the heat up, as we are doing at the moment, on various areas to make sure that we squeeze even more out without damaging the business as we go forwards.

Vittorio Colao

Andrew, if I may, I might add some kind of colour on that. First of all, again, I have to reiterate that, because I don't want misunderstandings, we have not said advertising – we have said advertising production cost, because advertising is a different thing. In terms of costs, if you want a little bit of colour, I would say initiatives go under three headings: one is consolidation/elimination of activity; one is outsourcing; one is efficiency. On the consolidation/elimination, network is an important thing. We are putting together testing, we are putting together functions, we are putting together terminal testing. We have put together and we are reducing the cost, or we have a product to reduce the cost, of logistics of terminals, and we are also consolidating property and trying to make property more efficient.

In the outsourcing space, we are continuing with the IT development outsourcing/offshoring project that you are very familiar with. We're working on customer care. We have done helpdesk and we're working on maintenance of IT contracts. I would say, on the efficiency, it's basically putting everything as much as possible under the same standards and then negotiating contracts at the central level, which is why, at the capex level and at the opex level, you see that we are able to give still very good service, but respect the commitments that we have made a couple of years ago.

Arun Sarin

Paul, do you want to add something?

Paul Donovan, Chief Executive, Vodafone EMAPA

Yes. Andrew, in the EMAPA markets, we again have a very strong on cost control. In the markets with higher penetration, we are kind of adopting the European standards of really capping opex growth. In those markets where we still have high growth, we're seeking to make sure that that is as efficient as possible. So, for example, in India, a major IT outsourcing which goes further than we have done in our European operating companies, which we're doing together with IBM and, again, in the emerging markets, the rapid introduction of ERP (enterprise resource planning) systems, which will allow us to grow our businesses, but without growing the traditional headcount associated with them, stand us in good stead going forward.

Dean Tenerelli, T. Rowe Price

I just had a question about how the economic slowdown is affecting the business. Especially when I look at the use trends, specifically in Spain, which are pretty strong and actually accelerated in the second calendar quarter in growth, why is it that the minutes of use don't get hit and you're seeing the effect all in ARPU?

Vittorio Colao

As we said, it's mainly a price effect. It's lower price customer optimising using big promotions and optimising for a lower price, plus using different SIMs for, again, taking advantage of what is in the market.

Dean Tenerelli

But doesn't that mean that it's more an effect of... Because if I look at it and I didn't speak with you, I would assume it was the competitive environment, so I guess it's hard to separate what is competition as opposed to what is economic, so what makes you think it's economic and not just competitive environment?

Vittorio Colao

You're absolutely right – it's very hard to separate the two – but clearly both factors are there. As we said, clearly we see people optimising themselves and clearly we see some segments in which we have been very successful, by definition retrenching and reducing their costs. How to separate exactly two things, especially considering that we really have a very recent history, it's probably early to know a bit more.

Dean Tenerelli

So, if I understand, what you see is more consumers are chasing the cheaper promotions so, before, the promotions could have been out there but no one bothered to take them up; now, people go after them.

Vittorio Colao

No, it's not bother to take them up, it's to go beyond the optimal point, so going over, and that's the mechanism of any promotion in any sector, at the end of the day, which is to give something to the customers which is advantageous and the customers like it so much that they use it beyond the optimal point so...

Arun Sarin

Dean, the other thing is, in every one of our markets, we have a lot of usage stimulation programmes, so there's part of the base that's actually using quite a few minutes. There could be other parts of the base that are actually using it less but the part of the base that's using a lot of minutes are using them at a lower price, so you've got two effects happening simultaneously.

Darren Ward, Liberum Capital

Just a couple of questions from me. Firstly, this effect that you've talked about a couple of times, where the Spain problem is caused largely by the low monthly minimum commitment and high usage charges and overage charges, where else do we see that in Europe? I know you said Italy and Germany didn't have that structure, but could you just run us through any areas where you see that danger occurring in future?

Secondly, just a question about data: can you give us any data on underlying volumes of data usage and how you're seeing network utilisation at the moment, and any pressure on capex, just looking a little bit ahead?

Finally, just a sort sideways question: on this immigration point, where are all the Spanish immigrants going back to and are they countries where you've got representation? Are you going to see usage growth and customer growth in those markets as a result of this... people leaving Spain?

Arun Sarin

Sorry, please go on.

Andy Halford

Okay. So, just to take those in order, Spain is by some way the market in Europe that has got the highest proportion of customers who are paying outside of their bundles, so I think there is really quite a big gap between Spain and any of the other markets; certainly the UK and Germany are probably down at half their levels, and the Italian market, being very sort of prepaid, is somewhat different in its structure anyway.

Data, we're seeing the volumes picking up, the revenues are picking up, and obviously that is good news. As we've said before, the network is coping with that fine. There are, as ever, some hotspots where we'll have some pressure, but in terms of overall capital commitment, we have got savings on other fronts and we're focusing the investment instead on the sort of hotspot areas, so we remain comfortable with the way that we are on the capital front.

In terms of immigrants and where they go back to, yes, it's a good question. We'd prefer they go back to a 100%-owned Romanian business to a 20%-owned Polish business, I suppose, but time will tell as to where exactly they do return to.

Darren Ward

Just specifically, I know you don't want to talk much about SFR because... out of respect of Vivendi's reporting, but is that a high overage market?

Arun Sarin

A high what market sorry?

Andy Halford

Overage.

Arun Sarin

Overage market.

Andy Halford

No, I don't think so. I think they're fairly big bundles, generally.

Vittorio Colao

On the data, I can just add, if what's behind the question is 'are people really using the 3Gb/5Gb per month? the answer is no. Clearly, the average of the customers are at a fraction of that. There are, as usual, very few customers who kind of go beyond what we think is reasonable and we handle it commercially with the customers and then, in case of very, very identified hotspots, eventually adding some capacity, but I would say, for the time being, we are well within our capacity limits.

Arun Sarin

And we have fair usage policies and all of that so...

Vittorio Colao

And we have our usage policy, which, by the way, it's only a small part of customers, but the average number in all markets is very reasonable.

Christian Kern, Lehman Brothers

I've got three questions, if I may. The first one is like on the visibility. You've reduced your guidance period when you give it from 18 months to 12 months, so we probably would have expected a bit more visibility on a 12-month guidance frame versus the 18-month at half year, so I was wondering what's your views on visibility. Has visibility clearly reduced is, I guess, the question here. Embedded in that, do you think that the economic slowdown could also be hitting Vodafone more specifically than the overall sector?

The second question would be around market comments from market participants seeing downgrades from contract to prepaid customers. I believe that's different to the SIM-only move, which you have been describing so far.

The final one: if you have any update with regard to your views to recent communications out of Brussels, specifically the MTR (mobile termination rate) situation. Thank you.

Arun Sarin

Andy?

Andy Halford

Sure. Let me pick the first one up on visibility. I suppose, for us, the difference has been that the economy generally has been clearly going through a more difficult period. I do go back to the point that moving from the middle to the lower end of our revenue range is a 1% movement, and trying to predict things to that degree of accuracy is really quite difficult. So I do think we need to see things in that sort of context, we need to understand that part of that adjustment is on the equipment side, which is not profit-affecting for the current period and, therefore, is just a part mathematically of what we're doing. So I think the biggest issue on the visibility is just that, if the economic environment does change, we are not going to be immune from that and, as I've said a couple of times, we saw more of a change in the May/June period than we had seen in the period immediately before that.

The thing on are we, as a sector, going to sort of suffer worse than the rest of the sector, I think if I pull out Spain and just go back to that point that the rest of Europe, 1.1% growth the previous quarter has become 0.4%, that is not a huge swing. It is a small swing, it is downwards, but I guess, compared with other sectors, that probably would be a level of reduction that some of them might actually be okay with. So I think we're still sort of in an okay space on the rest. Spain has clearly been very tricky, but the rest of it, 1.1%, 0.4%, it's not a huge swing.

Contract prepay, Vittorio?

Vittorio Colao

Christian, to me, there's not just contract prepaid. SIM-only is a contract with 30 days' commitment, so it's a contract in a way with a very limited commitment. To me, the crucial thing is to do what's... to make the commercial investment which is consistent and right with every type of customer segment and manage the three families – the kind of contractual, German, UK big bundles customers in the appropriate way; the Italian prepay, which could be, or Portuguese prepay, which could be still high value but still they are prepay, so you have to manage them on the assumption that they might go away next day; and then there is this in between thing, which is *de facto* a contract with very limited commitment. The issue for me is managing the cash per customer investment.

Arun Sarin

Christian, let me take your Brussels question. I think there are three components to Brussels. One is SMS roaming and I think the numbers that are being bandied about there, with effect, kind of middle of next year, are sort of in the ball park of what we have been talking to our shareholders about and we have kind of baked into our plans.

The second part is around data roaming and, thankfully, I think there is no vigorous attempt to kind of have price caps here because it's a very young market. As is known to everybody, we are all competing pretty hard in this sector. Because it's a young market and competition is rife, as it were, I don't think data roaming is likely to be regulated. It remains to be seen when the Commissioners come back in the September/October time period.

I think the core issue is around MTRs. Our belief continues to be that this is a local European regulator, country-by-country, regulatory thing, because it's local and because you need cost models to be able to develop kind of what the costs here are. Our sense is we are currently in the kind of eight, nine range, going down to five, six range by the 2011 time period. That's 15-20% decline year-on-year. We're confident that that is the right track to be on, but if you ask me 'where is the debate likely to be?' I think the debate is likely to be on that. We will, of course, stay vigorous in terms of making sure that that is the outcome but, of course, there will be a debate and we will know more in the October time period.

Graham Ruck, Merrill Lynch

I won't ask any questions about Spain. I was wondering how you're thinking about the balance sheet right now, with, I guess, the trade-off between how prudent a buyback would be, given obviously disappointing share price performance but also wanting to retain flexibility as potentially visibility isn't quite as high.

Secondly, could you elaborate a bit on how you're thinking about the 3G iPhone? Obviously, you're going to benefit from it in 10 markets, but then, in some of your biggest markets, you're going to be competing directly against it.

Arun Sarin

Andy, do you want to do balance sheet?

Andy Halford

Yes. Graham, in terms of the balance sheet, we have a stated policy that the primary return to shareholders will be... the focus will be on the dividend side, but that we will keep an eye on the balance sheet, we'll keep a look at what capacity we've got. We are split on the credit ratings, but equally, to your point, we are very mindful of where the share price is at the moment, and I think it would be fair to say we are keeping a very close eye on that issue at the moment.

Arun Sarin

Vittorio, iPhone?

Vittorio Colao

Yes. I think our position on the iPhone has been basically the same since the beginning. We think it's a good device and it will appeal to a number of customers. The market is very wide, there's many segments, there's people who like a touch screen, people who don't like a touch screen, people who like full QWERTY and would even not consider having a normal keypad, and people who hate the full QWERTY. There's plenty of stuff around. Our offer is not just for the iPhone customers, it's for everybody, so we have a wide range of products. Somewhere we have the iPhone, somewhere we don't, but we will play like we have been playing for 10 years with all the devices.

Graham Ruck

Do you think that the iPhone in that segment you're talking about will pressure subsidy levels?

Vittorio Colao

Well, I think it's a good handset which attracts a high end of customers who really like and need a lot of data and a lot of usage. So at the end of the day, as long as the ARPU is balanced with the subsidy, I don't see a big difference between the iPhone and many, many other things... devices that we have been pushing in the past, sometimes even with less success with the customer. So again, it's a matter of balance of what we can generate in ARPU – especially data ARPU – and subsidy and commercial costs.

Closing Comments**Arun Sarin**

Well, unfortunately, I have to bring this to a close because we are out of time. We have a press call after this. The IR (Investor Relations) team will call those who did not get a chance to ask their questions, so thank you for your patience. As you know, this is my last reporting cycle and I want to thank all of you for your support for the last five years, and for the advice and wisdom over the years, so thank you very much for that. I'd like to wish Vittorio and Andy and Paul and the team here the very best in the future, and we'll keep you posted. The business is strong. It has the diversity with the kinds of businesses that we have in EMAPA and, frankly, we will work hard to find our footing in terms of revenue and usage and costs so that we can kind of execute on the guidance that we've given you today. So with that, thank you very much, bye-bye for now.