

Always Moving Forward

An Interview with Vittorio Colao,
Chief Executive, Vodafone Group Plc

EDITORS' NOTE Vittorio Colao joined the Vodafone Group board in October 2006 as Chief Executive, Europe and Deputy Group CEO of Vodafone Group Plc. He was appointed Chief Executive on 29 July 2008. He spent the early part of his career as a Partner in the Milan office of McKinsey & Co. In 1996, he joined Omnitel Pronto Italia, which subsequently became Vodafone Italy. He was then appointed Regional Chief Executive Officer, Southern Europe for Vodafone Group Plc in 2001, became a member of the Board in 2002 and was appointed to the role of Regional Chief Executive Officer for Southern Europe, Middle East, and Africa for Vodafone in 2003. Between 2004 and 2006 he was Chief Executive Officer of RSC Media Group. Colao holds a Business Degree from Bocconi University and an M.B.A. with Honors from the Harvard Business School.

COMPANY BRIEF Based in Newbury, United Kingdom, Vodafone Group Plc (www.vodafone.com) is one of the world's leading mobile telecommunications company, with equity interest spanning 25 countries, including China, Europe, the Middle East, Africa, Asia Pacific, and the U.S. and more than 42 partner networks worldwide. As of 31 December 2008, the Group had 289 million customers, calculated on a proportionate basis in accordance with the Vodafone's percentage interest in these ventures. Vodafone had a total market capitalization of approximately £74 billion on 31 December 2008.

As China is celebrating the 30th anniversary of its open-and-reform policy, how would you summarize Vodafone's eight years of achievement in China? What are the key lessons learned in the past and Vodafone's vision for its future in China?

To say that it has been an extraordinary 30 years would be an understatement. China's reemergence as a global economic and political force has been one of the most rapid and successful developments the world has seen. The extent of this success is difficult to comprehend. For example, China is forecast to account for more than 20 percent of total global economic growth in the next 10 years.



Vittorio Colao meeting with SASAC Chairman Li Rongrong

It's fascinating to think that shortly after China announced its open-and-reform policy, the World Administrative Radio Conference set up a research group to define a common international mobile phone standard. This became GSM, the standard which has now connected over three billion mobile customers worldwide, with China accounting for nearly 20 percent of that total. Given the strong relationship between increasing mobile penetration and increasing economic growth, it is no accident that mobile and China have both grown from strength to strength in the past 30 years.

Vodafone has been in China for eight years now and I would summarize our achievement as "always moving forward." We've moved from a shareholding in China Mobile to a Strategic Alliance Agreement. We've established a Representative Office, and now a China Sourcing Centre, which coordinates Vodafone's global demand for Chinese handsets and network equipment which are being deployed across the Vodafone Group – from Spain to India, and from South Africa to New Zealand. Vodafone's presence in China is a long-term strategic priority and I'm sure that this will be even stronger in another eight years.

You are known for speed, which is also reflected in the two speedy trips you've taken to China within two months. In a country where telecom is still heavily regulated and controlled by government, how would you apply your style of speed to a country that is known for patience and long-term planning? How would you

differentiate your strategy for China from other emerging markets such as India?

Speedy trips are unfortunately a fact of life for global executives, but since I became CEO of the Vodafone Group, I have actually managed to visit China as many times as I've visited any other market in the Vodafone Group. I had the great pleasure of attending the opening ceremony of the Beijing Olympics – a phenomenal event which deeply impressed the world.

While China has indeed moved cautiously to open its communications market, I wouldn't describe the rate of growth and change in the Chinese communications market as slow at all. In the eight weeks be-

tween my two most recent trips, China added 15 million mobile subscribers – more than the population of Greece and New Zealand combined. China has set itself very clear long-term goals including the role that the communications industry needs to play in domestic economic growth and reestablishing China's intellectual property rights. Vodafone's global scale and scope means that we have been able to play a productive role – moving ahead with our business in China, while also working with China to strengthen Chinese businesses and to move the industry forward. For example, we've worked closely with many Chinese equipment and handset suppliers such as ZTE, Huawei, and Coslight and helped them to leverage into global markets. We awarded Huawei its first major European contract (to build our 3G network in Spain), and have recently awarded them a 3G contract in Turkey, and a 2G contract in Ghana. We now have a relationship with Huawei in 15 countries across the world. I also had the privilege of signing a recognition of this growing relationship in the presence of Premier Wen Jiabao on his recent European trip. We've partnered with ZTE to develop the Ultra Low Cost Handset, which is being marketed across the globe. So it's been a gradual, but very productive relationship with China.

The key differences between China and India really came home to me in my dialogue with SASAC Chairman Li Rongrong during my recent visit to China. China's great strength is the stability of the regulatory structure that allows for more long-term planning – both by

the government and by companies operating in the market. This has been the bedrock of China's success. It has been extremely useful for me to share Vodafone's experience and receive Chairman Li's insights into how Vodafone might move forward in China.

During the two trips, what kind of encounters have you had with your Chinese collaborators and the government officials? What's your general impression of them as business and political leaders representing a company with immense challenges and opportunities?

I have had a number of substantial interactions with China Mobile, Chinese vendors, and the Chinese Government over my years with Vodafone, including my two recent visits to China. I have been extremely impressed with the long-term vision and capability of all the people I have met. The most consistent requests that I get are for Vodafone to share its world-class expertise in global management practices, particularly corporate governance and corporate social responsibility. Again, it was my dialogue with Chairman Li that confirmed my impression that China will continue on the path of the past 30 years and continue to open its economy to the world over the next 30 years.

What does China mean to you? Is China a market, partner, a strategic resource? What are the values that Vodafone can bring to China and to your Chinese collaborators?

China means many things to me and to Vodafone, so it is difficult to sum it up in a few words without missing the essence and complexities of China. However, partner is the description which I think comes closest to the mark. If I think, for example, about how Vodafone has worked with the Chinese government and with China Mobile to drive global agreement around the standards for the long-term evolution of global mobile technology, that is partnership at its best. And the important thing about a partnership is that both partners look to what they can contribute to the other. At Vodafone, we have a great deal to learn from our partners in China Mobile, and from the strategic approach the Chinese government has taken to the development of the telecommunications sector. In return, I am always interested to learn how Vodafone can best serve the Chinese market. If you think about it, partnership can create very strong propositions. For example, China Mobile is very strong in China, which is a very large market in itself. Vodafone is very strong in Europe, Africa, and India. Verizon Wireless (Vodafone's partnership in the U.S. with Verizon) is very strong in the U.S. If these three companies could work more closely together in the management of customers, procurement, and service creation, we could, quite frankly, be unbeatable.

Vodafone is known for its rapid global expansion. How has the current global financial crisis impacted Vodafone's business, specifically with regard to China?

Vodafone has developed a substantial international footprint over the past 10 years. We have moved from our core base in the major Western European markets, into the U.S. through our partnership with Verizon Wireless, and into the major emerging markets including India and South Africa. However, Vodafone has always

had a patient long-term view and a highly disciplined approach. We have always been able to demonstrate clearly and practically to our commercial and government partners that we are the partner of choice, and that we are able to add more value working with them than other companies would be able to. This has allowed us to move forward in market after market at the right time, at the right price. This has brought us into more challenging times in extremely good shape. Our balanced global portfolio insures us, to a significant extent, from economic impacts affecting either developed or emerging markets alone. Our balance sheet shows how healthy we are; in our interim results, we just reported that Vodafone has net debt of £27 billion with expected full year revenues of £38-39 billion, operating profit of over £11 billion, and free cash flow of over £5.2 billion. Vodafone is starting from an extremely robust financial position.

I have also seen that the communications industry, and Vodafone in particular, are well positioned to endure the global financial crisis and economic downturn. Mobile communications is now such a core part of peoples' lives, and offers them such significant increases in productivity, that it is one of the last things on which they will reduce their spending. There will be impacts, of course, but I expect to see that many customers will prioritize their mobile phone over their fixed line, reduce their spending on fixed lines, or even disconnect the fixed line. We also have a great ability to deploy new products and services that consumers can really use – such as our MPesa money transfer service, which is changing the lives of millions of people in our global businesses every day, allowing them access to the low cost-efficient money transfer services they have never experienced through other means.

China is also extremely well placed to survive and prosper in these challenging times. Chinese consumers have always prioritized investment and savings, and the government has maintained extremely healthy cash reserves. In tough times, international companies are looking to reduce their cost base, which places Chinese suppliers in particular in an extremely good position. I expect that Chinese suppliers will continue to perform very strongly in the global marketplace. Vodafone will be working with our Chinese partners to increase functionality while reducing cost.

As a newly appointed global CEO for Vodafone, how will you lead Vodafone through this challenging economic transitional time?

Given the challenging financial environment, we have recently announced an updated strategy at the time of Vodafone's half-yearly financial results. This new strategy sets out an extremely solid roadmap for Vodafone. We will inevitably face challenges with weaker global growth, emerging market inflation, increasing competition in communications markets, and regulatory interventions. But Vodafone's economies of scale give us a strong base from which to reduce costs and leverage global products and services. We have a great ability to manage our capital expenditure through more difficult times, especially since much of our incremental capital expenditure is only required to the extent that consumers make additional calls or send more text messages.

Overall, Vodafone's new strategy focuses on a single macro-objective of cash generation. We will achieve this through four key strategies: driving operational performance, pursuing growth opportunities in total communications (mobile data, services for enterprise customers, and broadband), focusing on execution of our strategy in emerging markets, and strengthening our capital discipline. We have launched a number of strategic initiatives to deliver on these objectives: the formation of a wholesale roaming hub in Luxembourg, driving greater coordination and synergies through our European networks, and reducing general administration costs. We expect to achieve annualized cost savings of £500 million in 2009/10 leading to a total of £1 billion in 2010/11 through these measures.

How is corporate social responsibility [CSR] being defined for global leading companies in this global crisis? What has Vodafone done in the past to fulfill its CSR obligations and what will you do in the future?

This is an important area which I believe will receive increasing focus over the coming months as life becomes more difficult for some communities and consumers. Again, Vodafone is fortunate in that it starts (as Lewis Hamilton usually does) from pole position – we have taken corporate social responsibility very seriously for many years now. We established a full-time global CSR team over eight years ago, and have local CSR teams as a core component of our strategy and operations in most markets in which we operate. One of our key initiatives has been energy efficiency, where we have again worked in partnership with China Mobile and Chinese vendors to commercialize practical means of reducing the energy used by our mobile networks. This is a classic win-win – these technologies reduce our cost base and reduce carbon emissions, and they benefit Vodafone's global business as well as Chinese companies.

We have also established 24 Vodafone Foundations across the world, each of which invests millions of dollars in important social projects. The Vodafone Foundation made one of the first donations in the aftermath of the Sichuan earthquake. It went to the China Charity Foundation to provide food, water, and medicine. We have a global partnership with the UN Foundation, which provides funding to the World Food Programme and Telecoms Sans Frontieres (Telecommunications Without Borders) which provides emergency telecommunication assistance to UN missions and the NGO community.

What is your personal reflection on the kind of leadership needed at this special time for global company leaders? How have you prepared yourself in taking that role?

At all times, leaders should be genuinely interested in their people and the organizations they lead, and should promote a vision for where the company should be. This is even truer at this particular time, which requires a careful balance between the realities of the shorter term streamlining of an organization and the promise of the longer term vision being offered to all employees. I try to visit as many parts of our organization as possible to ask my people for their inputs. This facilitates the development of a strong and balanced strategy and vision for the whole group. 