

Strategy

Consumer²⁰¹⁵

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Data

We are reconfiguring our company to meet the growing demand for data services. We will differentiate our data services from our competitors through ongoing investment in technology, distribution and customer services, providing both a great customer experience and competitive value.

Market context:

Data is the fastest growing segment of our business as more and more people use data in their everyday lives, whether for work or home. Our data revenue grew by 13.8%* during the year mainly due to increasing demand for mobile internet and email services via smartphones.

Looking forward, both smartphone penetration and data usage are expected to continue to grow. In Europe, our smartphone user penetration is already at 36% and by 2015 we expect it to be above 50%.

Towards 2015:

We are adopting a new strategic approach to consumer pricing and bundling in Europe, in order to offer customers worry-free usage and, at the same time, stabilise average revenue per user (ARPU). We believe that this will both support and encourage greater data usage, particularly in Europe, which is at much lower levels than the US. Pricing is being radically simplified, giving clear visibility of the cost of ownership for the customer and simplifying our IT and billing.

As technology continues to evolve at a rapid rate we want to support our customers by providing the best retail stores, the easiest online experience and most accessible expert advice when needed.

Strengths:

We are among the world's largest retailers with around 15,000 Vodafone branded retail stores, helping customers choose the best device and price plan for their needs in an increasingly complex data-centric environment.

Actions:

We are launching new Vodafone Red plans which include a generous mobile data allowance and unlimited voice and SMS across European markets and selected non-European markets.

Progress:

We have 4.1 million customers on Vodafone Red plans within eight months of launch¹.

**Mobile commerce**

As more and more retailers roll out 'contactless' payment terminals at the checkout, Vodafone is developing services which will allow our customers to use their smartphones to pay for goods and services. We have launched Vodafone branded payment solutions in Italy and Turkey and are about to launch Vodafone SmartPass in four other countries. We are also developing the Vodafone Mobile Wallet to allow customers to use their existing credit and debit cards via their smartphones. Customers can use both services at thousands of retailers by simply waving their smartphone in front of a contactless terminal.

34%

of our customers use data.

48%

of our consumer contract customers in Europe are on integrated voice, text and data plans up from 27% last year.

**Leading in retail**

We are updating our retail footprint to a new Vodafone Retail concept delivering a differentiated customer experience. A core part of our promise to customers is to ensure that our technical experts in store transfer all their personal data to their new phone allowing them to walk out of the store with their phone fully functional. Extensive trials of our new concept store across ten markets have shown significant increases in both sales and customer satisfaction. The new concept will be rolled out globally over the next three years.

36%

of customers in Europe have a smartphone, up from 27% a year ago.

>70%

of smartphones users are expected to use video services by 2015 (compared to around a third today)².

US\$27bn

At US\$27 billion our brand is rated as one of the most valuable telecoms brands in the world.

Vodafone Red

Our Vodafone Red proposition offers consumers and businesses a simple and worry-free package, with generous mobile data allowances, unlimited calls and text messages, plus cloud and online services to secure and back-up personal data, all included as standard. Vodafone Red packages also incorporate a number of innovative services including:

- **multi device plans**, enabling customers to connect a smartphone and tablet under one Vodafone Red plan, making it simple and cost effective to own and manage multiple devices under a single bill;
- **family plans**, allowing individual family members to sign up to Vodafone Red at a discounted price;
- a much **wider range of device choices**, giving customers the freedom to have a new device included in the cost of their contract, receive a discount by choosing a 'nearly new' smartphone or choose to receive a new device every year for a small extra fee;
- the option to connect to new, **ultra-fast 4G services** where available;
- **safe and secure solutions**, including world-class cloud and back-up services plus device insurance, giving customers peace of mind in the event of theft or damage; and
- industry **leading roaming** plans for customers travelling in Europe, so that they can use their phone abroad as they do at home, for an additional daily price similar to the cost of a cup of coffee.



Vodafone Red

Vodafone Red offers consumers and businesses a simple and worry-free package with generous mobile data allowances, unlimited calls and texts, plus cloud and back-up services to secure personal data (see Vodafone Red story above).

Vodafone Red has been launched in 14 markets including Germany, Italy, the UK and Spain. Early take-up has been positive with 4.1 million customers within eight months of launch². We intend to extend it to all European markets within the next few months.

Future proofing revenues

Our Vodafone Red plans are designed to protect our revenues by providing unlimited voice and text services, rather than limited bundles or pay per event. Vodafone Red is the latest step in our journey over the last few years to migrate our customers onto integrated price plans that combine voice, SMS and data together in one single plan rather than buying these services separately. Including Vodafone Red customers, we now have 48% of our consumer contract customers in Europe on integrated price plans. These plans deliver value to our customers, reduce the need for customers to use IP-based substitutes and provide more stable revenue streams.

Driving data usage

Although our data revenue is growing strongly in Europe the amount of data consumed by each smartphone customer is on average around 250 megabytes per month, only around a quarter of the level seen in the US. We see a significant opportunity to drive more revenue from data services and see the Vodafone Red proposition delivering this by offering generous data allowances to encourage customers to use more data and over time purchase larger allowances.

Providing customers with devices in a cost-effective way

At Vodafone we are a major source of our customers' smartphones, having subsidised for many years the initial cost to access our network. During the year we spent some £5 billion or about 16% of our revenue in Europe on acquiring new, and retaining existing customers. In addition smartphone penetration in Europe increased to 36%, up from 27% in the prior year, and the mix of smartphones continued to move towards more expensive high-tier devices. Against this background and to protect our profitability we need to maintain discipline on the handset subsidies we pay.

Our Vodafone Red proposition is designed to control handset subsidy costs by helping customers more clearly identify the difference between the price to access our services and the price of the handset. We achieve this by setting a base price for Vodafone Red plans that does not include a handset (SIM-only), charging a slightly higher service fee for a basic smartphone and more above that for a high-tier smartphone.



Vodafone Cloud

Vodafone Cloud allows customers to safely store their personal digital content such as contacts, photos and videos in the Vodafone network and to access it on the move from any connected device. Vodafone Cloud was launched last year in multiple markets and works across the most popular smartphones, tablets and PCs, forming part of the Vodafone Red proposition.

Notes:

- 1 At 12 May 2013.
- 2 Vodafone internal estimates.

Strategy (continued)

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Emerging markets¹

Emerging markets are important to us – they account for 68% of our customers and 75% of the total call minutes across our networks. These markets are likely to become even more relevant due to a combination of strong population and economic growth, and the increase in mobile penetration.

Market context:

Emerging markets such as India and Africa are already a significant part of Vodafone. They account for 30% of the Group's service revenue, and our business in India alone accounts for around half of our base station sites and voice calls across the Group.

Emerging markets represent a significant opportunity for future growth. Almost all of the 1.5 billion new mobile phone users by 2015² are expected to come from emerging markets. Smartphones are also proving popular in emerging markets, and this is expected to continue. For example, in India, the number of smartphone users has grown already from 11 million in 2010 to 33 million in 2012².

Towards 2015:

These markets offer very attractive long-term opportunities from sustained GDP growth, the scope for widespread mobile data adoption and the fulfilment of unmet needs such as basic financial services. We aim to maximise these opportunities through smart data pricing, the development of low-cost smartphones and selective innovation in areas in which we can truly differentiate.

Strengths:

We are a leading operator in our emerging markets with either a number one or two revenue market share position in most countries.

Actions:

Through our ongoing investment we have built a strong platform of high quality networks, a broad distribution reach and attractive add-on services, such as mobile payments.

Progress:

Emerging markets represent our fastest growing geographies. During the year service revenue increased by 8.4%*, including: India 10.7%*, Turkey 17.3%* and Ghana 24.2%*.

**Access to energy**

Extending access to energy in remote regions without grid electricity enables more people to use our mobile services and brings wider social and environmental benefits. Our new solar-powered solution, ReadySet, is able to charge up to eight mobile phones per day and provide electric lighting, offering a greener and cheaper alternative to kerosene lamps. Entrepreneurs in Tanzania use ReadySet to earn around US\$44 a month, while families in Kenya use M-Pesa to pay towards a similar system, M-Kopa, designed for home use.

Notes:

- 1 Vodafone's emerging markets comprise Vodacom, India, Egypt, Turkey, Ghana, Qatar and Fiji.
- 2 Refers to calendar year.

Mobile penetration opportunity in emerging markets

Emerging markets represent the regions with the most potential for future mobile revenue growth driven in part by lower mobile penetration. For example 1.2 billion people live in India (the second most populated country in the world, after China) but only around two-thirds have a mobile phone, implying good potential future market growth.

The data opportunity in emerging markets

For many people in emerging markets their first internet experience has been on a mobile device due to the lack of alternative fixed line infrastructure, and we expect this to be the case going forward. In South Africa mobile broadband accounts for around 80% of all broadband revenue including fixed. The demand for data is expected to grow strongly as only around 28% of our customers in emerging markets currently use data services, compared to around 48% in Europe. In India we have 37 million data customers, most of which are 2G data users mainly consuming services such as messaging, email and internet browsing. Within this some three million customers are 3G data users, stream videos and downloading more heavy content. During the year we launched 4G services in South Africa.



Extending our global presence with partner market agreements

We enter into partner market agreements with local mobile network operators in order to extend our global reach and better serve our global customers without the need for capital investment. Our partner markets community has grown rapidly to cover around 50 countries. During the year we established a partner agreement with Polkomtel in Poland and Zain Group, which extended our reach to Saudi Arabia, Bahrain, Kuwait, Jordan and Iraq.

Financial services in emerging markets

Our Vodafone money transfer service, M-Pesa, enables people in emerging markets, who have a mobile phone, but with limited or no access to a bank account, to send and receive money, top-up airtime and make bill payments. We now have just over 18.1 million active M-Pesa customers, up from 14.4 million a year ago, who transfer around £656 million per month. The service is now available in Kenya, Tanzania, South Africa, Afghanistan, Qatar, Fiji, the Democratic Republic of Congo and India.

M-Pesa is already a major contributor to our businesses in Kenya and Tanzania, accounting for about 18% and 14% of revenue respectively.

Looking forward we intend to extend the M-Pesa service to other emerging markets within the Vodafone footprint, and to expand the products and services available. For example in April 2013, India became the latest addition to our M-Pesa footprint. Following a successful trial, the service will be offered in a limited number of areas of the country and will be progressively rolled out nationwide. The opportunity in India is particularly attractive as some 700 million people do not have a bank account. Other new products, such as international money transfer, savings and loans, salary disbursements and access to insurance products have also been introduced in different markets.

30%

of our service revenue is from emerging markets.

28%

of our customers in emerging markets use data; compared to around 48% in Europe.

£656m

transferred person-to-person each month over our M-Pesa money transfer service.



M-Shwari, Mobile banking

M-Shwari is a revolutionary new paperless banking product for M-Pesa customers, delivered by our associate Safaricom, in partnership with the Commercial Bank of Africa. This was launched in Kenya in November 2012. M-Shwari enables customers to save and borrow directly via their phone, while earning interest on the money saved. At 31 March 2013, 1.2 million people were actively using the service in Kenya.

M-Shwari builds on our successful M-Pesa money transfer service, which has 18.1 million active customers across the globe.