

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)

Consumer²⁰¹⁵

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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.

Strategy (continued)

Enterprise²⁰¹⁵

1 2 3 4

As enterprise customers embrace flexible and remote working to improve business efficiency, our fixed and mobile converged solutions and global footprint enable our customers to become more effective in their business operations. Our services enable our customers to make mobility a central part of the services they offer their own customers.

Market context:

The core criteria our enterprise customers use when choosing a communications service provider are speed, simplicity, flexibility, cost and security. We are well placed to offer enterprise customers all of these through our mobile and fixed converged services, applications and secure solutions. Enterprises are expected to spend €78 billion in 2014 in areas where Vodafone provides its services: mobile voice, messaging, data and fixed line.¹

Towards 2015:

Our 2015 enterprise strategy is based on six pillars: accelerating our converged offers; consolidating our lead in M2M; growing Vodafone Global Enterprise and our Carrier Services businesses; leveraging our hosting capability; and offering cloud-based software as a service.

Our enterprise customers range from small-office-home-office ('SoHo') businesses and small to medium-sized enterprises ('SME'), through to large domestic and multi-national corporates ('MNC').

Strengths:

Our broad geographic footprint allows us to offer customers cross border fixed and mobile converged solutions while realising scale benefits. Our recent purchase of CWW has augmented our ability to offer fully converged solutions and offer market-leading hosting capabilities in the UK.

Actions:

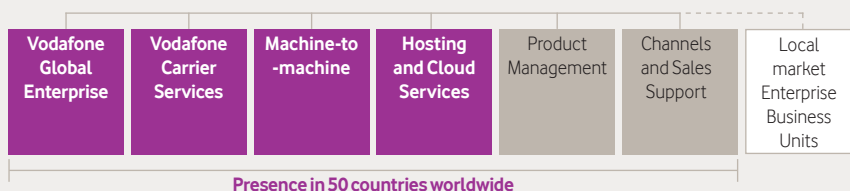
We have created a Group-wide enterprise services organisation, following the CWW acquisition.

Progress:

Enterprise now represents 27% of Group service revenue. Across the Group we have over 32 million mobile enterprise customers accounting for around 8% of all customers.

Our enterprise business

In conjunction with our acquisition of CWW and TelstraClear and to deliver our enterprise strategy, we created a Group-wide enterprise services organisation on 1 January 2013. The unit comprises four vertical business units, and two supporting units.

**Vodafone Global Enterprise ('VGE')**

VGE serves the needs of Vodafone's largest MNC customers, serving around 1,700 customers representing 5.9 million connections, including an additional 200 customers from the integration of CWW.

MNCs demand a consistent multi-country offer from Vodafone across our global footprint. VGE simplifies operations for these customers by providing them with a single account and service team, a single contract, single pricing structures and a single portfolio of products and services. VGE has created a market-leading portfolio of managed mobility services providing capabilities such as spend management or device security in addition to providing the underlying connectivity and devices.

During the financial year VGE achieved revenue of €1.7 billion, with growth of 5%*.

For more information on VGE visit our website at: enterprise.vodafone.com.

Vodafone Carrier Services

Vodafone Carrier Services was created in January 2013 to consolidate all the Group's carrier buying and selling into one dedicated unit to maximise efficiencies. The acquisition of CWW provided Vodafone with a market-leading carrier capability, and when augmented by existing Group capability gives Vodafone significant carrier scale. The Group carries nearly 28 billion minutes of international traffic annually, on a network of nearly 500,000 kilometres of submarine cable routes.

Machine-to-machine

M2M connections allow machines to communicate with one another through our network. It is our vision to transform lives and businesses by providing the most innovative M2M products and services for our customers. Smart metering, automotive and logistics are currently the key growth sectors, with the potential global market for M2M connectivity growing from US\$5.7 billion in 2011 to US\$12.0 billion by 2015². We are now serving around 11.1 million M2M connections globally, up from 7.8 million last year.

An increasing number of global businesses are incorporating M2M communications into their core operations, leading to greater productivity, enhanced customer service, lower energy use and decreased carbon dioxide emissions. For more information on M2M visit our website at: m2m.vodafone.com.

Hosting and Cloud Services

Our new Hosting and Cloud Services include fully managed hosting solutions as well as cloud computing, co-location, server and website hosting, storage and security, and build on the capability acquired from CWW, allowing us to target a leading position in a rapidly growing market. The hosted services market in Western Europe is worth over an estimated €21 billion,



Services that support SMEs

Irish Farm Computers, a software business based in County Meath, creates software solutions for farming businesses. It's a small, highly personal business that relies on Vodafone One Net to manage incoming calls. "The flexibility enables a far more professional approach to business, and our customer feedback has been excellent," says their operations manager.

The acquisition of Cable & Wireless Worldwide in July 2012

What was the rationale for the acquisition?

- To create the only integrated fixed and mobile player in the UK.
- To take advantage of CWW's UK 20,500 kilometres fibre network infrastructure which is within 100 metres of one-third of Vodafone's UK base stations, and the extensive international cable network assets spanning 425,000 kilometres.
- To drive significant synergies from the combined scale.

What are the financial implications and synergy benefits from this acquisition?

- We spent £1.3 billion to acquire the business.
- We expect integration costs of £500 million.
- We aim to deliver annual cash flow synergies of at least £150 to £200 million by the 2016 financial year.
- We aim to deliver operating free cash flow from the acquisition of £250 to £300 million in the 2016 financial year.

Cable & Wireless
Worldwide

What are the network and product benefits from this acquisition?

- CWW's UK base station backhaul circuits and the migration of Vodafone traffic onto CWW's international cable network enable us to reduce third-party wholesale payments and will help support the launch of 4G services.
- Rationalisation of the combined Vodafone and CWW enterprise product set aids procurement savings across network and IT services. Over 60% of products will be retired or merged to deliver a simpler and more customer focused portfolio.

What has been your experience so far?

- We have been realistic about the opportunities, investment requirements and risks for CWW.
- We have found the business is in better shape than expected and are stabilising its financial, operational and customer performance.
- We have accelerated the integration plan by forming a single integrated organisation and rebranded as Vodafone.
- Initial synergies have been realised through initiatives such as removal of corporate overheads, utilising Vodafone's scale for procurement and are in the process of transferring Vodafone's traffic onto CWW's network.

and the estimated compound annual growth rate is over 14% from 2011 to 2016³. Vodafone's Hosting and Cloud business generated revenue of £213 million in the 2013 financial year.

With a large portfolio of UK data centres and cloud-based hosting capabilities, we are well placed to capitalise on the growing technology and procurement link between hosting, cloud and connectivity. Vodafone will look to expand and deepen its hosting offer to all segments over the coming year.

Supporting units

The two supporting units within Group Enterprise, Product Management and Channels and Sales Support, will drive scale, consistency and excellence across the Group in sales; product management and development; and operational delivery; in order to sustain efficiencies and ensure customer service and experience is consistent irrespective of customer scale or location.

Enterprise convergence

As enterprise customers embrace flexible and remote working to improve business efficiency, so Vodafone's fixed and mobile converged solutions are increasingly vital to our customers' business operations:

- "Always on" is expected and demanded by customers: 78% of small firms agreed an instant response is the top factor in maintaining a competitive edge and 40% of small firms surveyed said customers expect a response to a social media query in under an hour⁴.
- Streamlining fixed and mobile communications can help businesses save money, boost productivity and increase responsiveness to customer needs.

Vodafone One Net offers customers a single telephone number which rings on both their fixed desk-phone and mobile handset. Vodafone One Net users have complete control over where and when they take their calls. As a result we help improve business efficiency, flexibility and cost control. Vodafone One Net users generate higher revenue and have lower churn than mobile-only customers. At the end of the year, we had around 3.0 million Vodafone One Net customers across ten markets.

Enterprise mobile data

Vodafone's device management solutions help customers manage the rapidly increasing number of mobile devices used in their business, such as smartphones and tablets. Our reliable and secure data networks allow our customers to make full use of the mobile internet for business. Enterprise data revenue grew 10.0%* this year driven by smartphone penetration of around 48% in Europe, as the use of the internet on smartphones has increased.



Vodafone's unique global footprint

Our global scale was key to ThyssenKrupp selecting us to provide 60,000 mobile voice and data connections across 30 countries and 50,000 M2M connections to aid remote management of their industrial products. This contract is able to meet ThyssenKrupp's specific needs, and offers excellent value for money and worldwide service management from one source.

Notes:

- 1 Sourced from IDC and Vodafone estimates.
- 2 Analysys Mason report M2M device connections, revenue and ARPU: worldwide forecast 2011–2021 (May 2012) and includes connectivity-related segments of the M2M value chain, such as M2M hardware and M2M application service.
- 3 Vodafone report commissioned by McKinsey.
- 4 Vodafone working smarter to succeed report, 2011 and Vodafone's critical response time index, 2010.

Strategy (continued)

Network²⁰¹⁵

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We aim to have a great mobile network in all of the markets in which we operate, supported by leading IT systems. This means giving our customers far-reaching voice and data coverage, a very reliable connection, and increasing speeds and data capacity.

Market context:

The industry is seeing increasing demand towards data services such as watching videos on the web and internet browsing. This trend is being driven by a number of factors including the increased take-up of high powered smartphones and an increased choice of apps for business and social use. As a result data traffic increased by more than 53% over the last year and data now accounts for 73% of the total traffic on our network. Against this background our Network 2015 strategy is designed to ensure the readiness and capability of our network for the future for both consumer and enterprise and for fixed and mobile services.

Towards 2015:

Our network strategy continues to focus on supporting higher speed data in both mature and emerging markets, and delivering a consistently excellent data experience to our customers through the widespread deployment of 3G and 4G capability and high capacity backhaul and high speed fixed access. We will continue our consistent level of investment so that Vodafone customers can be assured of a video-standard data service across our footprint in Europe and we can successfully manage the high growth in data volumes anticipated. We will also continue to maintain the broad and deep network quality for our standard voice and text services.

Strengths:

We have nearly 250,000 base station sites transmitting wireless signals – making us one of the largest mobile operators in the world.

Actions:

We are consistently investing around £6 billion a year to deliver a high quality mobile and fixed data experience for our customers.

Progress:

We now have 42% of our Europe 3G footprint which can deliver peak downlink speeds of 43.2 Mbps (up from 15% last year) which at least doubles the average data speed with a 43.2 Mbps capable smartphone.

Future proofing our IT infrastructure

Vodafone's five main data centres that host our IT systems, three in Europe, and one each in Africa and India, are linked together to form an internal 'Cloud'. The servers within these centres use virtualisation technology to more effectively run multiple applications to enable customer services, such as M2M platforms, to be provisioned and scaled up very quickly and easily. It also provides the flexibility to run services for any market from any centre, within regulatory limits. Within Europe, data is backed-up from one centre in one country to another, to provide business continuity and additional resilience.


The leading Vodacom South Africa network

Our superior network in South Africa enables us to provide a leading overall customer and broadband experience. We have just over 9,400 base station sites, significantly ahead of our main competitor in the country. We were the first operator in South Africa to launch 4G services in October 2012. We have renewed around 77% of our 2G network and about 74% of our 3G network to date. We have also progressed well with the implementation of our own self-built fibre and microwave and 65% of our base station sites now utilise high capacity backhaul.

Strong network reach

As demand for mobile services moves from voice and text to data we have been investing to build a superior data network. Our data network now covers 91% of the European population, and we are aiming to reach 95% coverage by 2015 – nearly on a par with our voice coverage.

At the same time, smartphones are only going to get faster, so we are constantly upgrading our networks to support these future speed demands. Today, we provide base-level theoretical speeds of 14.4 Mbps across 98% of our 3G network, typically giving customers actual speeds of 2 to 3 Mbps – more than enough to stream video or music, for example.

The next goal is to deliver another significant step up in the customer experience, with the move to peak speeds of 43.2 Mbps across much of our European 3G network. We are aiming to upgrade 80% of the 3G footprint in our five major European markets to this level by March 2015. For customers with the latest smartphones, this will more than double the speed they are currently enjoying, and allow them to view video in high definition, for example.



UK 4G is nearly here

In February we successfully bid £803 million in the UK spectrum auction for crucial low frequency (800 MHz) spectrum as well as more higher-frequency spectrum to boost our existing network. 800 MHz spectrum is great for transmitting a stronger, more reliable signal and one that works well indoors. We expect to launch our ultra-fast 4G service later this year. The roll out of our 4G service is all part of around £1.6 million we invest every single day in the UK on our network to bring our customers coverage where it matters.

73%

of the traffic on our network is due to data services such as video, email and internet browsing on a mobile device.

91%

of the European population where we operate is covered by our 3G network.

one trillion

minutes of calls were carried and more than 330 petabytes of data were sent across our networks – enough data for 4.4 trillion emails.

4G technology

We are beginning to build 4G (or LTE) networks, which will at least double the data speeds achievable over our 43.2 Mbps footprint. It will also give us significant additional capacity, allowing us to stay ahead of the significant growth in data traffic that we forecast. We aim to upgrade 40% of our coverage in our five main European markets to 4G by March 2015.

To maximise the potential of 4G, we have invested £7.9 billion in spectrum in the last four years. Much of this spectrum is in the very valuable, low frequency 800 MHz band, which allows much broader coverage, and much better in-building connectivity, than higher frequencies used in wireless networks.

We now have 4G services in seven countries (Germany, Portugal, Italy, Romania, South Africa, Greece and New Zealand). We are also preparing for 4G launches in the UK, Spain, Australia and the Netherlands in the 2014 financial year.

Future proofing our network infrastructure

We are well prepared for rapid growth in data traffic and a fast, but cost-effective, roll-out of 4G services. At our base stations we are consolidating equipment across several technologies, including 4G, into a platform called “single RAN” – allowing us to reduce capex and operating costs. We have already upgraded over half our European sites to single RAN.

We are also increasing capacity in our backhaul – the link between our base stations and our nationwide core networks. 57% of our European backhaul footprint is now capable of handling one gigabit per second – which is more than even the busiest base station at full capacity will require based on current technologies and projections.

Technological innovation

We are always looking for ways of innovating in our network to improve our customers' experience.

Recently we have been changing the way we use spectrum to improve data coverage. By moving 3G data traffic from its traditional spectrum band (2.1 MHz) down to the 900 MHz band – a process known as “re-farming” – we can significantly improve our data coverage and in-building reception, and we have done this in ten markets.

Fixed network

In addition to our mobile businesses, we also provide fixed broadband and calls in 16 markets. We have started to modernise our fixed networks to deliver much higher data speeds to the home, through a combination of upgrades to traditional copper lines and the introduction of the latest fibre technology.

In Spain we are upgrading copper lines. In Portugal, we are extending our fibre network, and in New Zealand, the acquisition of TelstraClear gives us a high speed fixed network. We have also announced plans in conjunction with Orange in Spain to build a fibre network which will pass 40% of homes by 2017.

Elsewhere we are securing wholesale access to third-party fibre networks. In Germany we have announced a next-generation access agreement with Deutsche Telekom. In Italy we have an agreement with Metroweb to lease their fibre in Milan. In New Zealand we are interconnecting with a government fibre initiative called Ultra Fast Broadband, in Qatar we interconnect with Qatari National Broadband Networks and in the Netherlands we are accessing KPN's fibre network allowing us to cover 20% of homes.



Vodafone, the most preferred operator in Turkey

Over the last 12 months the Turkish network has been enhanced with the modernisation of nearly 1,100 legacy 2G sites with the latest single RAN hardware and the implementation of around 1,200 and 2,500 new 2G and 3G sites respectively. We have attained the number one position in independent benchmark tests for data transfer speeds. Vodafone is the first telecommunications firm in Turkey to be awarded the BS25999 certification for business continuity, underlining our commitment to reliable communication services for our customers. As a result of our actions we are now seen as the preferred operator in Turkey measured by benchmark net promoter scores.

Strategy (continued)

Operations²⁰¹⁵

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We are using the benefits of our global reach and scale to standardise and simplify the way we do business across the Group. This will both improve cost efficiency and reduce the time to launch new services and products to our customers.

Market context:

Against a background of challenging economic, regulatory and competitive pressures, in our European markets in particular, we are taking a number of actions to improve operating efficiency and reduce unnecessary processes and costs. We are also experiencing a trend towards greater data usage, which requires us to reconfigure our IT systems and standardise operating practices to support new pricing plans and new data centric services such as mobile payments and M2M solutions.

Towards 2015:

Over the next three years we will simplify further our business processes both across and within countries, eliminating legacy structures, reducing non customer-facing costs and moving towards more standardised offerings. This will enable us to maximise the benefits of our scale and share commercial, technical and support functions across geographies in Europe, and to speed up and co-ordinate our time to market for new propositions and services. We see a significant opportunity in unifying network and IT management across multiple markets, in further centralising and standardising functions and processes, and in offshoring more business functions to shared service centres of expertise.

Strengths:

Vodafone is one of the world's largest mobile companies. Our scale enables us to secure considerable unit costs savings through various measures including bulk purchasing, standardisation of processes and transferring activities to lower cost locations within the Group.

Actions:

We are targeting an absolute reduction in European operating expenses ('opex') from cost saving programmes of £0.3 billion in the 2014 financial year.

Progress:

Over the last three years we have reduced the absolute European opex base by some £0.3 billion, which has been used in part to offset inflationary pressures or cope with the volume of extra traffic on our networks.

**Vodafone and Telefónica UK (O₂) network collaboration**

Together with Telefónica UK we have started a collaboration to operate and manage jointly a single network grid in the UK that will run two competing nationwide mobile internet and voice networks. These networks will be able to offer indoor 2G and 3G coverage targeting 98% of the UK population by 2015, delivering mobile voice coverage and mobile internet services to the vast majority of UK households. We also intend to offer indoor 4G coverage targeting 98% of the UK population at speeds of at least 2Mbps by 2015.

10.4%

represents our supply chain saving as a share of controlled spend during the year, which exceeded the Hackett world class benchmark of 7.6%.

>69%

of the new radio sites deployed across the Group were shared with other mobile operators, which reduces the cost of renting or building new sites.

We are taking a number of steps across the Group to improve our cost efficiency and simplify our processes:

Cost efficiency

Over 69% of the new radio sites deployed across the Group during the year were shared with other mobile operators, which reduces the cost of renting or building new sites and reduces the environmental impact.

During the financial year we commenced a UK network sharing agreement with O₂ and we are targeting 18,500 sites to be shared by 2015. In Ireland, we have entered into a site sharing agreement with Three Ireland, targeting 2,000 shared sites by 2015.

With a clear focus on driving greater standardisation and simplification, we are optimising the supplier base across our operations. In India for example, following supplier segmentation exercises and a rigorous drive to improve operational efficiencies, we rationalised our supplier base by about 75% over the last two years.

Unifying network management

During the year we reduced the number of network engineering teams in Europe from 13 individual country teams to four consolidated teams. We also consolidated our network operations centres, which provide service level monitoring in Europe, to two from 13. In India, the 12 separate regional network operations centres have been consolidated into one single centre in Pune.

Unifying IT management

We are progressing well in decommissioning, with over 100 legacy IT applications during the 2013 financial year. In addition, common customer operations processes are being progressively deployed throughout the Group, which are supported by a single set of tightly integrated IT applications. These actions are expected to both reduce costs and improve the time to market for new offers such as mobile commerce services.

We have developed one integrated data centre cloud across Europe and Africa and are well underway to extending it to Asia this year which enables us to operate highly resilient services and to be faster to market with our new services.

Centralising and standardising functions and processes

Our central purchasing function, the Vodafone Procurement Company (the 'VPC') in Luxembourg, consolidates spend across our global operations allowing us to leverage scale, and achieve better prices and terms and conditions. During the financial year the spend managed through the VPC increased to €6.9 billion up from €5.3 billion in the 2012 financial year.

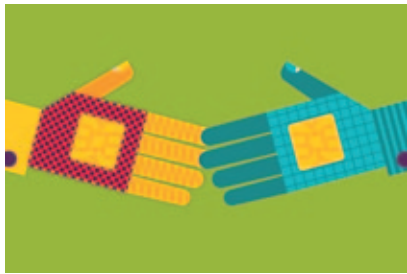
In addition we continue to centralise procurement of software and licences, which is anticipated to generate around £100 million of cost benefits over the next three years.

Shared service centres of expertise

We use shared service centres in Hungary, India and Egypt to provide financial, administrative, IT, customer operations and human resource services for our operations in over 30 countries which helps us to standardise and optimise the way we run our businesses. The number of shared centre employees has increased from 6,000 in 2012 by nearly 30% to over 7,800 by 31 March 2013, and we are targeting around 10,500 by March 2014.

M2M solutions for energy savings

Applying our M2M solutions to monitor energy at our network sites, offices, retail premises and data centres has allowed us to optimise energy consumption, procure competitively and reduce our carbon footprint. This has delivered savings over the last two years of about 25% across 11 European markets winning us recognition at the European Supply Chain Excellence Awards 2012.



Modernising the UK business

In the UK we are introducing a simplified organisation and enhancing our IT systems in order to improve our customers' experience of interacting with Vodafone. This will, for example, enable the UK business to reduce the number of different price plans from 5,000 to just 500. Additionally we will be able to better integrate the various routes our customers use to interact with us – retail shops, online, call centres and mobile devices – to make it easier for customers to order online and pick up in store.

>7,800

of our employees are now in four low cost, high skill locations, to provide shared services for the Group.