

Chief Executive's review

A defining year for the Group...

Our emerging markets are performing well, although our mature European markets continue to face challenging conditions. However, we have continued to make good progress in delivering our long-term strategy, by building firm foundations for the future with our substantial investments in Vodafone Red, Project Spring and unified communications.

Review of the year

It has been a year of substantial strategic progress. The sale of our Verizon Wireless stake has rewarded shareholders for their support, and enabled the acceleration of our strategy through the acquisition of Kabel Deutschland, the pending acquisition of Ono and our Project Spring investment programme.

Our operational performance has been mixed. The Group's emerging markets businesses have performed strongly throughout the year: we have executed our strategy well and have successfully positioned ourselves for the rapid growth in data we are now witnessing. In Europe, where we continue to face competitive, regulatory and macroeconomic pressures, we have taken steps to improve our commercial performance, particularly in Germany and Italy, and are beginning to see encouraging early signs.

Verizon Wireless transaction

The sale of our 45% interest in Verizon Wireless, the leading mobile operator in the United States, was the culmination of a highly successful 14 year investment which began when Verizon and Vodafone entered into a partnership to create Verizon Wireless in 2000.



We had been very happy to stay invested in the business over the years, despite our minority position, because of the strong growth and returns generated, and the attractiveness of the US market. However, the Board viewed the offer of US\$130 billion as a very attractive price at which to exit. The completion of the transaction enabled us to return a record US\$85 billion to our shareholders, while retaining ample financial flexibility to pursue our own strategy both organically and through targeted acquisitions. See page 14 for more information.

Strategic progress

We have made very substantial progress on our strategy in the past year, despite the significant challenges faced in Europe. With the acquisition of Kabel Deutschland in Germany and the planned purchase of Ono in Spain, our continued fibre build in Portugal and Spain, and our fibre plans in Italy, allied to last year's acquisition of Cable & Wireless Worldwide in the UK, we are becoming a leader in unified communications across Europe. This enables us to access a large and growing fixed revenue pool where our market share is currently much lower than in mobile, while also helping us defend our mobile business from converged offers.

We continue to provide a market-leading network experience in most of our markets, and now have 4.7 million 4G customers across 14 countries – all our major European markets, as well as South Africa, Australia and New Zealand. Early experience from 4G shows us that customers use roughly twice as much data compared to 3G data usage, driven principally by video streaming.

Smartphone adoption continues to grow strongly in all markets and the increased availability of mobile applications and low cost devices is driving significant growth in data usage. Data traffic in India increased by 125% year-on-year, and at the end of the year we had 52 million data customers in India alone, with seven million of these being 3G data customers. Data adoption is becoming truly mass market.

Our Vodafone Red plans are now available in 20 markets, with 12 million customers at the year end. The footprint of our money transfer service, M-Pesa, continues to grow and we expanded the service with launches in the year in India, Egypt, Mozambique, Lesotho, and our first European market – Romania. In India the service is now nationwide.

Enterprise now represents 27% of Group service revenue. The creation of a discrete Enterprise unit is also beginning to bear fruit, as we focus on a smaller number of products with the potential for global application. Our strategic focus areas – Vodafone Global Enterprise, serving our biggest multi-national accounts and our machine-to-machine unit, where we are a global leader, delivered further growth. We continue to develop Vodafone One Net to provide converged services for small- and medium-sized companies.

Where we aim to be five years from now

Consumer Europe

A leading mobile data provider

Unified Communications

Converged services in all key European markets

Consumer Emerging Markets

A strong leader and first choice for data

Enterprise

Major enterprise provider with full service offering

Supported by:

An excellent network experience

A simplified and cost-efficient business model and operations

Project Spring accelerates and extends our strategic priorities through investment in mobile and fixed networks, products and services and our retail platform, to strengthen further our network and service differentiation.

Read more about our strategy



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Project Spring

Project Spring is our organic investment programme which will allow us to accelerate and extend our strategic priorities through investment in mobile and fixed networks, products and services, and our retail platform. Announced alongside the Verizon transaction in September 2013, Project Spring will strengthen further our network and service differentiation. The transition to 4G and unified communications, coupled with an improved economic outlook for Europe, lead us to believe Vodafone has a unique opportunity to invest now.

We expect total investments, including Project Spring, to be around €19 billion over the next two years. The main elements of our investment are:

- ▶ 4G in Europe: we aim to reach 91% population coverage by March 2016;
- ▶ 3G in emerging markets: with 95% population coverage in targeted urban areas in India by March 2016;
- ▶ next-generation fixed line infrastructure: laying fibre to more base stations and deep into residential areas across Europe and in selected emerging market urban areas;
- ▶ development of enterprise products and services: extending our M2M reach to 75 countries and rolling out hosting and IP-VPN services internationally; and
- ▶ investment in our retail estate: modernising 8,000 of our stores to improve the customer experience.

Outlook

In the short term, we continue to face competitive, macroeconomic and regulatory pressures, particularly in Europe, and still need to secure our recovery in some key markets. While we are therefore heavily focused on the successful execution of our significant capital investment programme, we are also absolutely committed to operational efficiency and standard operating models across all markets. We anticipate that our investments will begin to translate into clearly improved network performance and customer satisfaction in the coming year. In the medium term, this will become more evident in key operational metrics such as churn and average revenue per user (ARPU); and subsequently into revenue, profitability and cash flow.

I am confident about the future of the business given the growth prospects in data, emerging markets, enterprise and unified communications. We have commenced our Project Spring two-year investment programme which will accelerate our plans to establish stronger network and service differentiation for our customers. I expect the first signs of this to become evident later this year, with wider 4G coverage in Europe and 3G coverage in emerging markets, improved network performance and increased customer advocacy. While cash flow will be depressed during this investment phase, our intention to continue to grow dividends per share annually demonstrates our confidence in strong future cash flow generation.

Vittorio Colao
Chief Executive

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