

## How we do business

# Consistent investment rewards our shareholders

Our business model is based on continued high levels of investment to build a superior telecommunications network and customer experience, and to sustain high levels of cash generation with which we can reward shareholders and reinvest in the business – hence creating a virtuous circle of investment, revenue, strong cash conversion and reinvestment.

We take a sustainable approach to the way we do business. The majority of our products and services offer social and economic benefits for our customers, whether through helping them to reduce their environmental footprint or enhancing access to financial services, healthcare and education, particularly in emerging markets.



## Assets

### Networks

We aim to have the best mobile network in each of our markets, combined with competitive fixed networks in our main markets. This means giving our customers far-reaching coverage, a very reliable connection, and increasing speeds and data capacity. We believe that over time, offering a superior network experience will enable us to secure a premium positioning in most of our markets. We combine our ongoing high level of network investment with a commitment to securing the best possible portfolio of spectrum. For more information on our network strategy see page 30.

### Distribution and customer service

We reach our customers through around 14,500 exclusive branded stores including franchises, a broad network of distribution partners and third party retailers. The Internet, whether accessed through a mobile device or PC, is becoming an increasingly important channel for both sales and after sales service. Our call centres are available 24 hours a day, seven days a week in all our European markets.

### Supplier relationships

In the last financial year we spent around £16 billion buying equipment, devices and services. Given our large scale and global reach, we tend to be a key strategic partner for many of our suppliers. We work closely with them to build robust networks, develop innovative services and offer the widest range of the latest devices.

### People

During the year we employed an average of nearly 93,000 people. We support, train and encourage our employees, ensuring they have the right capabilities, commitment and enthusiasm to achieve our targets and build on our success in delivering an outstanding experience to all our customers. We are working hard to build a more diverse workforce that is more representative of our customer base. For more information on our people see page 36.

### Brand

Today, Vodafone is the UK's most valuable brand with an attributed worth of US\$30 billion (Source: 2014 Brand Finance Global 500). The strength of our brand raises the profile of our distribution channels and is a major driver of purchasing decisions for consumers and enterprise customers alike.

## Customers

With 434 million customers globally, we are one of the biggest mobile operators in the world. Over 90% of our mobile customers are individuals and the rest are enterprise customers ranging from large multinationals, to small and medium sized businesses, down to the owner of the local corner shop. The majority and the growing share of our mobile customers are in emerging markets. We also have over nine million fixed broadband customers, and most of these are in Europe – in fact we are the fourth largest provider of fixed broadband services in Western Europe and will become the third following the pending acquisition of Ono in Spain.

## Revenue

Mobile consumers pay for our services either via contracts (typically up to two years in length) or through buying their airtime in advance (prepaid). Enterprise customers often have longer contracts. Fixed customers typically pay via one to two year contracts.

We have a diverse service revenue stream with 51% from mobile services in Europe, 30% from mobile operations in AMAP, 15% from fixed services and the remainder from other items such as MVNO agreements. Within our mobile business, 51% of annual service revenue arises from consumers' monthly price plans, which we call in-bundled revenue. In-bundled revenue is an increasing proportion of our business and is relatively stable compared to out-of-bundle revenue, which is much more vulnerable to competitive and economic pressure.

## Cash flow

Our track record of converting revenue into cash flow is strong – with some £16 billion generated over the last three years. We achieve this by operating efficient networks where we seek to minimise costs, thus supporting our gross margin. We also have strong market share positions – as we are typically the first or second largest mobile operator out of three or four in each market. This provides economies of scale and is a key driver of cost efficiencies and EBITDA margin, which in turn provides healthy cash flow. See page 32 for more details of our plans to improve our operating efficiency.

## Shareholder returns

The cash generated from operations allows us to sustain a generous shareholder returns programme while also investing in the future prosperity of the business – with almost £23 billion returned to shareholders over the last three years, excluding the Verizon Wireless return of value. With our strong financial foundation, and as a sign of our confidence in our future performance, we intend to grow the annual dividend per share each year going forward.

## Reinvestment

We have maintained a high and consistent level of capex in recent years, to support wider coverage, higher speeds and greater capacity in our networks. Through our IT investment we are enhancing our customer relationship capability and providing new customer billing services. In addition, we have continued to invest in our stores, our internet and social media presence and spectrum licences to support future services and growth.

To boost our investment even more we started Project Spring, our organic investment programme, which aims to accelerate and extend our current strategy, and thereby strengthen further our network and service differentiation. We expect total investments, including Project Spring, to be around £19 billion over the next two years. See page 13 for more details.

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