

Our strategy

Accelerating our strategy

As the demand for ubiquitous data grows rapidly, we are transforming our business to become a leading unified communications company, and to strengthen further our network and service differentiation against our peers.

Our strategy is shaped by the following industry trends:

Growing importance of data and other new revenue areas

Increasing demand for unified communications for both enterprises and consumers

Strong demand from emerging markets

Increasing range of competitors

Improving economic environment in Europe

In light of these expected industry trends our strategic goals are focused on four key growth areas and targets:

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.

What we want to achieve for our customers:

Always best connected

- ▶ Best mobile voice and data (coverage and quality) – 4G/3G
- ▶ Competitive in fixed and best converged experience

Unmatched customer experience

- ▶ Number one in customer experience – in store, online, on the phone
- ▶ Consistent execution across markets

Integrated worry-free solutions

- ▶ Simplest connectivity and price plans
- ▶ Converged enterprise product suite
- ▶ Innovator in new services, such as mobile payments

Read more:

Consumer Europe

→ 22

Unified Communications

→ 24

Consumer Emerging Markets

→ 26

Enterprise

→ 28

Network

→ 30

Operations

→ 32

Our strategy (continued)

Consumer Europe

While voice and messaging remain important for European consumers, demand for data is rapidly accelerating. We are focused on providing the best data experience – both in mobile and fixed – matched by outstanding customer service combined with a range of worry-free price plans and additional services.

Context

- Nearly half our European customers now use a smartphone, with more and more also using tablets.
- The average data usage per customer is also increasing rapidly.
- Customers want simplicity and worry-free bills and they demand the best in customer service.
- The bundling of fixed and mobile products for residential customers is becoming increasingly common across Europe and we expect this trend to continue.
- Aggressive price competition continues in many of our markets.

Where we are going

- We are enabling worry-free usage through our Red and roaming plans.
- We are improving our customer experience across all contact points.
- We are pushing the adoption of smartphones and are encouraging our customers to use more and more data.
- We are becoming a leading unified communications provider across Europe.
- We are innovating in mobile payments.

Vodafone Red enabling worry-free usage

Vodafone Red offers unlimited calls and texts with generous data allowances – enabling our customers to use their smartphones worry-free. We already have 12 million users across 20 markets and 37% of new contract customers join on Red plans. Our research shows that Red customers are more likely to recommend us to their friends and family and we are seeing early signs that they are less likely to leave us for another operator. Red also helps us protect our revenue, with 58% of our European mobile service revenue now in-bundle compared to 51% a year ago, and it reduces the risk to our business from over-the-top services.

We have launched Red family plans, with 0.8 million customers, and have combined Red plans with fixed broadband in some markets.

Simple, worry-free roaming offer

As people travel they want to use their phones and “roam” abroad, therefore we developed an offer that lets customers use their home allowance for a small daily fee, removing any worries about their bills.

These plans are now available in 15 markets and 14 million customers have registered to use these services, accounting for 26% of consumer contract roamers. Customers on these offers use their phone more and generate higher roaming ARPUs than those on standard tariffs.

Delivering an unmatched customer experience

We are modernising around 8,000 of our stores to a new format that enables customers to interact with us in a more engaging way and these stores have been seen to increase transactions by more than 5%. We have already upgraded over 1,100 stores and Project Spring will accelerate our plans to modernise the remaining stores by March 2016.

We are also upgrading our customer service, with all of our call centres across Europe now offering “24/7” service and we have expanded our “self-care” solutions online and on mobile.

4G driving increased data usage and engagement

Although most of our customers are using 2G and 3G services, we are seeing increased demand for 4G services, with 4.7 million customers across 14 markets. 4G is attractive because it offers much faster speeds and a better user experience and as a result our 4G customers use on average twice as much data as our 3G users.

By adding attractive content such as music and sport packages with 4G plans we believe we can drive growth in both data usage and revenue. In the UK for example, 4G plans are generating 18% more ARPU versus comparable 3G plans and customers are using 2.3 times more data.

Mobile devices driving data adoption

The growing popularity of smartphones is supporting data adoption, accounting for 78% of the handsets we sold in Europe last year. This has helped European smartphone penetration grow to 45%.

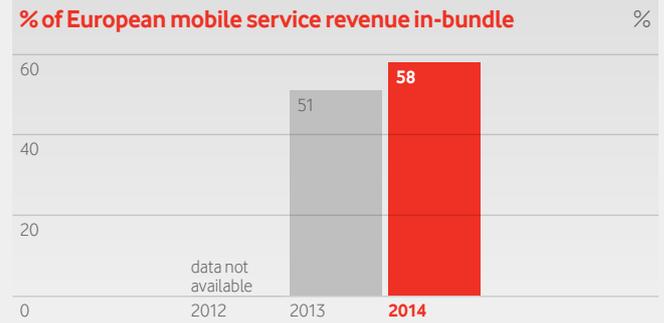
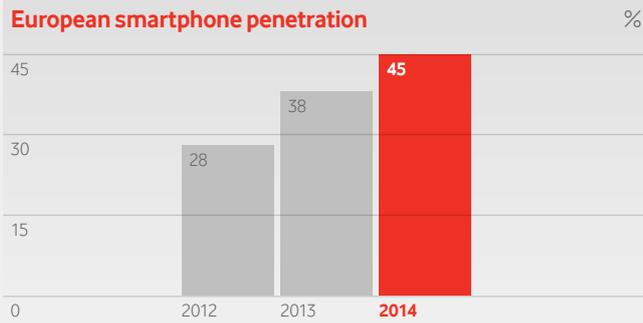
We sold 2.2 million Vodafone branded smartphones in Europe and beyond during the year, instrumental in stimulating data adoption in low-end contract and prepaid segments.

Fixed and unified communications

Consumers increasingly want unified communications as they benefit from one plan that includes their fixed and mobile connections and in some cases TV package as well. We already have over 8.5 million fixed broadband customers in Europe and we are increasingly offering mobile and fixed services together. We expect unified communications to become more and more important over time – see page 24 for details on our strategy.

Innovating in mobile payments

As part of our drive for innovation we are developing services which allow our customers to use their smartphones to pay for goods and services, using our secure network. During the year we launched Vodafone Wallet in Germany and Spain.



500MB

The average data usage on a smartphone is now around 500MB per month compared to around 350MB a year ago¹



Transforming the retail experience

We are updating our stores into a common and consistent store concept. Each of our transformed stores now have a simple design allowing each store to run different promotions and host a “top 10” table with live devices, on-site “Tech Expert” support who can transfer customers’ data from their old phones to their new ones. At the same time we are retraining our staff to better serve customers.



An easier way to pay

“Contactless” payments are becoming an increasingly popular way to pay for small value transactions. We have created the Vodafone Wallet to leverage this opportunity, which allows you to pay for anything with your phone. It digitises everything in your wallet: payment cards, loyalty cards, tickets or coupons. We launched the first commercial wallet in Spain, ahead of our competitors and built the first mobile wallet in Europe, based entirely on industry standards.

Extending our reach through partner markets

Through relationships with other mobile operators around the world we have extended our reach to a further 48 countries stretching from Chile to Russia, Iceland to Brazil. These markets extend our mobile reach beyond our own mobile operations and support the global access to our services which our customers have come to expect from us.



Note:
1 Android and iOS devices.

Our strategy (continued)

Unified Communications

Our roots are in mobile services, and these still represent the majority of our revenues. However, more and more businesses and individual consumers are seeking unified communications, or converged fixed and mobile services, and we are changing the shape of our Company to meet this demand.

What is unified communications?

As customer demand for ubiquitous data and content grows rapidly over the coming years, the most successful communications providers will be the ones who can provide seamless high speed connectivity at home, at work, at play and anywhere in between. This will require the integration of multiple technologies – 3G, 4G, WiFi, cable and fibre – into a single meshed network offering the best, uninterrupted experience – what we call “unified communications”.

Unified communications for enterprise

Combined fixed and mobile services have been a feature of the enterprise market, particularly for small- and medium-sized companies, for several years. We have been a market leader with products such as Vodafone One Net, which provides integrated fixed and mobile services which create significant business efficiencies for customers. This year we have evolved One Net as an application that can also serve the needs of larger national corporates as well.

With the acquisition of Cable & Wireless Worldwide in 2012, we have made a step change in our ability to offer unified communications services to customers in the UK and gained an extensive international footprint. After successfully integrating sales forces this year, we are now beginning to build a strong pipeline of new business.

Unified communications for consumers

Over the last few years, we have seen a significant move towards bundling of fixed and mobile products for residential customers, often including television in the package as well. Of our markets, Spain and Portugal are the most advanced in this regard, but we expect it to become prevalent in all our major European markets. This presents us with a clear opportunity, as our share of fixed services in our European markets is under 10%, whereas our share of the mobile market is well over 25%. In addition, mobile customer churn is typically three times higher than that of customers taking combined fixed and mobile services.

However, unified communications is also a threat, particularly in the residential market, as historically we have not owned or had access to next-generation fixed line infrastructure such as fibre or cable. This could allow cable operators with MVNO platforms, or integrated fixed and mobile incumbents, to take share in the market with aggressively discounted offers.

Progressing our strategy

Our goal is to secure access to next-generation fixed line infrastructure in all our major European markets. Our approach is market-by-market, based on the cost of building our own fibre, the openness of the incumbent provider to reasonable wholesale terms, the speed of market development, and the availability of good quality businesses to acquire. The table below shows the progress we have made this year. We have made significant strides in most of our major markets, through three routes to market – wholesaling (or renting), our own fibre deployment, or acquisitions. In particular, the acquisition of Kabel Deutschland and the proposed purchase of Ono will significantly strengthen our position in Germany and Spain respectively. At the year end, we had nine million fixed broadband customers, and the proposed acquisition of Ono will increase this to 11 million.

Outside Europe, we acquired TelstraClear in New Zealand, the second largest fixed operator, in 2012 to strengthen our portfolio of fixed products and services and create a leading total communications company. We also intend to expand selectively high speed fibre services to urban areas in emerging markets to enable converged services in key business areas. And our subsidiary, Vodacom, proposes to acquire Neotel, the second largest provider of fixed telecommunications services in South Africa, for a total cash consideration of ZAR 7.0 billion (€0.4 billion) to accelerate its growth in unified communications products and services.

Making good progress on unified communications strategy

Our strategic approach to next-generation fixed access

Wholesale	Fibre deployment	Acquisitions
Italy (2013)	Italy (planned for 2014)	Spain Ono (proposed 2014)
Germany (2013)	Spain (2014)	Germany Kabel Deutschland (2013)
Netherlands (2013)	Portugal (2010)	UK Cable & Wireless Worldwide (2012)
		New Zealand TelstraClear (2012)

Our recent acquisitions

Data to March 2014	Kabel Deutschland	Ono (proposed)
Market position	Largest cable operator in Germany	Largest cable operator in Spain
Purchase price	€10.7bn	€7.2bn
Annual revenue	€1.9bn	€1.6bn
Homes passed	15.2m	7.2m
Total customers	8.3m	1.9m
Fixed broadband customers	2.3m	1.6m

Unified Communications

Our market-leading unified communications solution in Portugal

In Portugal we have developed a market-leading unified communications solution by combining our fibre-based fixed broadband, advanced internet TV (with full cloud catch-up TV and multi-screen option – tablet, PC, smartphone) and our mobile offers. As a result we are the operator with the highest mobile net promoter score.

As part of our Project Spring programme we are accelerating the deployment of high speed fibre, which offers up to 300Mbps, to reach 1.5 million homes by mid-2015.



Our strategy (continued)

Consumer Emerging Markets

It's easy to think of Vodafone as simply a European company, with its headquarters in the UK, but the reality is that one third of our revenue comes from countries outside Europe and most of this is in fast-growing emerging markets where data demand is taking off.

Context

- Our main emerging markets are India, South Africa, Turkey, Egypt, Ghana, Kenya, Qatar, Tanzania and several other southern African countries.
- They provide strong growth opportunities due to fast economic growth, young and rising populations, and low and increasing mobile penetration.
- The demand for mobile data in emerging markets is beginning to take off, in part due to the lack of alternative fixed broadband infrastructure.
- There is significant scope for newer revenue streams, such as mobile money transfer as many people in these markets have little or no access to banking services.

Where we are going

We are aiming to drive continued growth in emerging markets through a differentiation-based strategy of being the "best", by:

- increasing and enhancing our base stations sites to improve voice and data quality and coverage;
- extending fibre to enterprise customers to meet the expected demand for unified communications services;
- expanding the branded store footprint to enhance customer service; and
- expanding our leading money transfer service, M-Pesa. The goal is for it to deliver a growing proportion of our emerging market service revenue.

Driving the mobile penetration opportunity

The number of customers in our emerging markets has grown steadily and rapidly from 185 million, 57% of the Group total three years ago, to around 302 million, representing 70% of the total today. This has been driven by fast economic growth and rising populations. In our largest emerging market, India, the proportion of the 1.2 billion population with a mobile, commonly known as mobile penetration, is still only 78%, so we expect to see a lot more growth going forward.

We have invested significantly in our emerging markets to support and drive this growth opportunity. We have expanded network coverage by 8% to 161,500 base station sites, providing us with significant scale and broad coverage. We have increased the range of low cost Vodafone branded devices, enabling more people on low incomes to access mobile services. We have also lowered the cost of calls, with prices as low as one US cent per minute in India, which, along with greater network coverage, has helped drive growth in both the number users and mobile usage.

The data opportunity

While mobile data usage to browse the internet or watch videos is increasingly common in Europe, it is still at an early stage in emerging markets. However, it is expanding quickly due to the growth in customers and also the greater range and affordability of handsets. In India, for example, the number of data users increased by 13 million to 52 million over the course of last year. In Turkey, we now have 6.5 million smartphone users, up from 3.1 million only two years ago. Outside South Africa, in our smaller southern African markets of Tanzania, Lesotho, Mozambique and the DRC, the number of data customers increased 86% to 7.7 million taking the total active data customer base to 30% of total customers.

Enhancing distribution

Our distribution footprint in emerging markets consists of a range of branded stores, franchised shops and small independent retail recharging units. We have modernised over 250 stores in these markets and we are targeting to reach over 2,300 by 2016. Our branded stores are very attractive to customers wanting higher end smartphones or monthly contract plans. In Egypt 95% of new contract customers come to us through branded stores. In India we have the largest footprint of 1.7 million point of sale sites for top-ups, significantly more than our nearest competitor, and to cater for our female customers we are opening a number of new "Angel" stores, which are run and managed exclusively by women.

Increasing access to mobile financial services

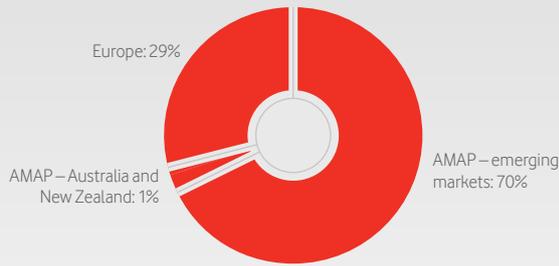
Our Vodafone money transfer service, or M-Pesa as it is more commonly known, enables people who have a standard mobile phone, but with limited or no access to a bank account, to send and receive money person to person, top-up airtime, make bill payments, and in conjunction with the Commercial Bank of Africa to save and also receive short-term loans.

We now have over 17 million active M-Pesa customers, an increase of 18% over last year. During the year we launched in several new emerging markets – India, Egypt, Lesotho and Mozambique. In India the service has now launched nationwide. Across the M-Pesa footprint, we have over 200,000 active agents and M-Pesa processed 2.8 billion transactions (up 27% year-on-year). The service is expected to deliver a growing proportion of our emerging market revenue over the next few years. Besides providing additional revenue streams, M-Pesa also keeps customers on our networks, which reduces the proportion of customers that leave, commonly known as churn.

We continue to innovate M-Pesa, with the introduction of services such as Lipa Na M-Pesa, a retail payment proposition for consumers, and the expansion of international money transfer propositions. In March 2014 we launched the service in our first European market, Romania.

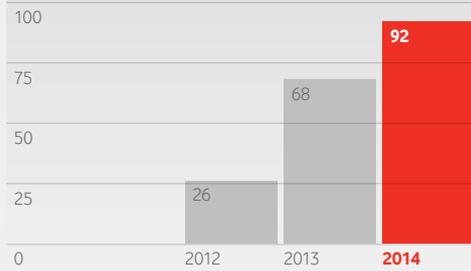
Mobile customers

%



Data users in emerging markets

million



17m

17 million M-Pesa active customers, up from 14 million in 2013

M-Pesa in Tanzania

The cost of travel prevents many people seeking the medical care they need. A local NGO, the Comprehensive Community Based Rehabilitation in Tanzania (CCBRT), is working with the Vodafone Foundation to address this by integrating M-Pesa into its referral process, to ensure patients suffering from obstetric fistula get to hospital.

In 2013, 70% of CCBRT's fistula patients came via the M-Pesa "Text to Treatment" initiative. This project is one of the world's largest fistula repair programmes.



Data usage in South Africa

In South Africa we're investing in newer revenue streams such as data by driving smartphone adoption and enhancing the network. During the year we supported a 24% increase in the number of active smartphones and tablets, taking the total to eight million devices. Average monthly smartphone usage increased 82% to 253MB per device and grew 25% to 743MB on tablets. We supported this growth by investing in our market-leading data network. 74% of our base stations are fitted with high capacity fibre transmission, and we can now provide 3G services to 92% of the population. We're also ready for the future, with 4G coverage of 20% of the population today.



Egypt's literacy programme

Vodafone Egypt Foundation launched an accredited mobile literacy app in 2013, which forms part of its Knowledge is Power initiative, supporting national efforts to tackle adult illiteracy. The app uses pictures and a talkback function to make learning easier and more flexible. The Knowledge is Power programme uses classroom and mobile learning to improve literacy skills – to date 187,000 people have enrolled.

Our strategy (continued)

Enterprise

We want to build on our core strength in mobile to become the leading communications provider for businesses across the world, whether large or small. We are focused on providing a range of mobile, fixed, hosting, cloud and other business services that are simple to use, worry-free and cost-effective.

Context

- Mobility increasingly sits at the heart of how organisations function, how they maximise their employee productivity and how they interact with their customers, suppliers and partners.
- Customers increasingly want more than just mobile solutions. Demand for unified communications and full service offerings, machine-to-machine and cloud and hosting is increasing, providing exciting new growth opportunities.

Where we are going

- We are building on our core strength in mobile and increasing capability in fixed to develop a portfolio of products and services, based on converged fixed and mobile solutions, to sell to businesses across the globe.
- Our strategy and investment is focused on: three high-growth product areas – unified communications, cloud and hosting and machine-to-machine; and three market segments – small- and medium-sized enterprises ('SMEs'), large and multinational corporates and carriers.

Mobile and unified communications

While the majority of our revenue still comes from mobile, we are increasingly providing unified communications services. The recent acquisitions of Cable & Wireless Worldwide ('CWW') and TelstraClear, combined with our existing fixed assets, enabled us to accelerate growth of our fixed and converged services, with 23% of our Enterprise revenue coming from fixed services, an increase of 12 percentage points over the year.

Vodafone One Net, our flagship converged offer which combines fixed and mobile services, is available to businesses of all sizes, from both small and medium up to global multinational companies and is live in ten markets.

Vodafone Global Enterprise ('VGE')

VGE delivers total communications services to some of the world's largest multinational companies. We currently serve around 1,700 companies and provide services in over 100 countries.

VGE simplifies operations for our customers by providing them with a single account and service team, a single multi-country contract, single pricing structures and a single portfolio of products and services. These are underpinned by our fully integrated fixed and mobile network, cloud-based hosting platforms, machine-to-machine capability and other business services.

Carrier Services

Our Carrier Services division manages the commercial relationships with other operators to support, in particular, international voice and data services. We are the second largest international voice carrier in the world, carrying 50 billion international voice minutes annually. We are one of the world's largest investors in submarine cables that reach more than 100 countries. We offer a broad portfolio of carrier voice and data products and work with over 1,000 communication service providers globally.

Machine-to-Machine ('M2M')

M2M technology connects "things" to the internet, transforming them into intelligent devices that exchange real time information – in effect enabling machines to talk.

Our M2M business serves customers across all market sectors, with specific focus on the key growth sectors of automotive, smart metering and consumer electronic products. M2M is growing rapidly and we have increased M2M connections from 12.0 million to 16.2 million in the year.

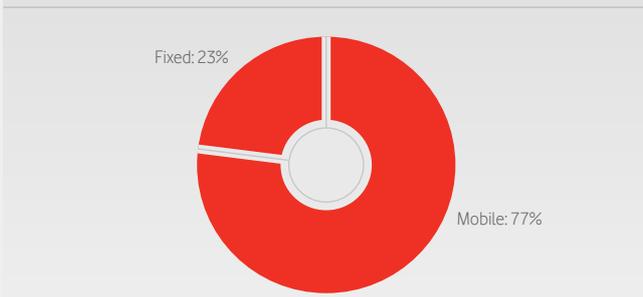
Connections in the global M2M market are expected to grow at an average of 24% per year between 2013 and 2018¹. We continue to be ranked as the market leader by a number of market analysts, including Analysys Mason and Machina Research.

Cloud and Hosting

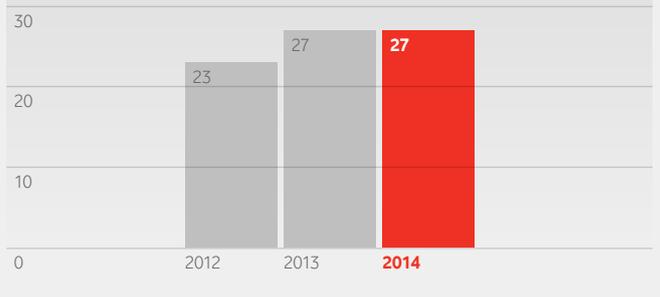
Bringing together mobile, fixed, cloud and hosting services, we help organisations move their data and applications to the cloud, transforming the way they do business. Our capabilities mean we are well placed to capitalise on the global growth of cloud computing and the increasing technology and procurement link between hosting, cloud and connectivity.

With the successful integration of our CWW operations, our Cloud and Hosting Services business now serves more than 1,200 public sector and enterprise customers in multiple regions. Our 14 data centres in the UK, Ireland and South Africa are complemented by a partner network of data centre facilities that allow us to serve multinational customers globally. Our services include co-location, managed hosting, private and public cloud services, messaging and software-as-a-service applications.

Vodafone enterprise service revenue 2014 %



Share of Group service revenue %



>40%

Over 40% of service revenue in the UK and New Zealand now from enterprise customers



M2M services for automotive customers

We will provide automotive connectivity in new Volkswagen and Audi vehicles in Europe from next year, using an embedded SIM to provide customers with high-speed internet access on the road. We worked closely with Volkswagen to design the activation and service processes to their specific requirements.



Vodafone One Net Business

Vodafone One Net Business has helped ICT Networks in the UK reduce costs and free up its technicians' time by providing a simple and reliable virtual desk phone via their mobile – allowing technicians who are travelling and working remotely to be more accessible and responsive to customers and colleagues.

Cloud and hosting

We will provide cloud and hosting services to global software provider Synchronoss across Europe, with the ability to expand into the Middle East and the Asia Pacific region. Our solution leverages assets and knowledge acquired from CWV to help them deploy secure applications on a global scale.



Our strategy (continued)

Network

We aim to have the best mobile network in all our markets, be competitive in fixed services and provide the best converged fixed and mobile services to support the growing demand for unified communications. We are aiming to provide our customers with a “perfect voice” call experience, and provide both high quality and broad data coverage.

Context

- The telecoms industry continues to experience a rapid increase in the demand for data services, such as video streaming and internet browsing on smartphones and tablets.
- Across the Group data traffic increased by 64% over the last year and data now accounts for 81% of our total traffic including voice.
- Mobile and fixed network technology is continuing to evolve providing faster data speeds and the capability to carry more data.
- Customers are also increasingly seeking fixed and mobile converged or unified communications propositions.

Where we are going

Our strategy is focused upon delivering a clearly differentiated, market-leading network position. We will do this through:

- the provision of the best mobile voice and data service, by the rapid and widespread deployment of 3G and 4G, and upgrades to network backhaul infrastructure; and
- being competitive in the fixed market and delivering leading unified communication solutions, by acquiring access to an effective mix of high speed next-generation fixed network cable and fibre infrastructure.

Mobile network Europe

Across Europe data has become an increasingly important driver of total traffic on our network. In the last year European data traffic increased by 44%, compared to 4% for voice. Video streaming and web browsing are the most popular data applications – accounting for nearly 75% of data usage. 3G accounts for most of our data traffic, so it's a key area for investment. This is why today around two thirds of our European 3G network can now deliver peak downlink speeds of 43.2Mbps and the latest smartphone drive trials showed that we had the best or co-best 3G data network in 15 out of 20 markets. The faster speeds offered by 4G make this increasingly attractive to our customers, shown by a significant rise in the number of users last year to 4.7 million. The increasing take-up of 4G means that this now represents 18% of total European data traffic.

Mobile network emerging markets

Nearly 40% of Group mobile data is now carried across our AMAP network, which includes our emerging markets, and by the end of the year India became the greatest data user by volume of any country within Vodafone. The scope for further data growth remains significant with only 52 million of our 167 million customers in India having access to data, of which only seven million are 3G users. 3G usage is already averaging in excess of nearly 750MB per month – compared to around 500MB in Europe. To meet this rapid growth in data traffic, we have rolled out more than 10,500 3G and over 9,700 2G sites in India supported by more than 13,000 kilometres of fibre in the last two years.

Investing in fixed networks for unified communications

As demand for unified communications and data grows we are increasing our access to next-generation fixed line infrastructure to support this. Through a combination of wholesale agreements, self-build programmes and targeted acquisitions we now have access to fixed line infrastructure in 17 markets (with data speeds of up to 300Mbps in some) and we offer combined fixed and mobile propositions in 12 countries.

During the year we acquired Kabel Deutschland in Germany and announced the acquisition of Ono in Spain, both of which provide us with high quality cable network infrastructure. The integration of Cable & Wireless Worldwide in the UK and TelstraClear in New Zealand remains on track and we have made good progress on our fibre build programmes in Spain and Portugal with a target to reach three million and 1.5 million homes passed respectively by 2015.

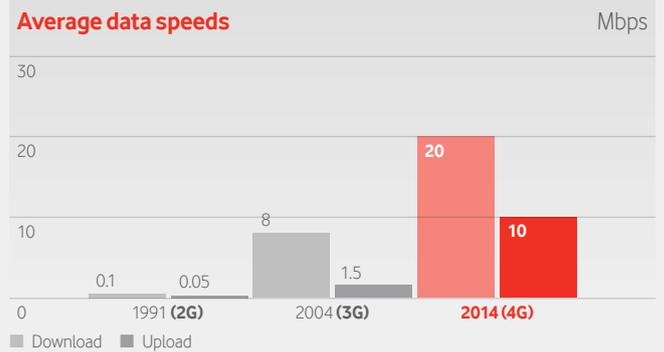
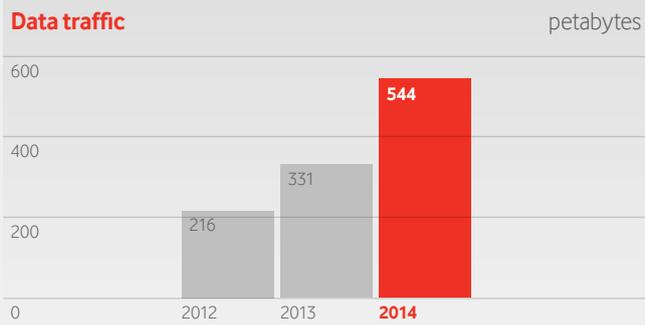
Spectrum

Radio spectrum is the key raw material for our mobile business. During the year we acquired and renewed spectrum for £2.2 billion in India, Romania, New Zealand and the Czech Republic, with a cash cost of £0.9 billion during the year. The purchases in India will enable the provision of enhanced voice and data services including 2G, 3G and 4G across the country. We have a strong portfolio of spectrum assets to support the rapid deployment of 4G, with 800/900MHz frequency spectrum for deep indoor coverage and 1800/2600MHz for capacity and performance. See page 194 for more details.

Project Spring

The largest part of Project Spring will be significant additional investment in our mobile and fixed networks over the next two years to both accelerate and clearly differentiate our network position in all of our markets. This is the largest network investment programme in our history.

In our European mobile networks, this will enable us to deliver “perfect voice” which means a call success rate of over 99%. We will also deliver the best 4G data experience with over 90% outdoor population coverage and 90% of customer data sessions on high speed smartphones will be above 3Mbps. This will be supported by a future proofed network with over 98% of sites covered with high capacity backhaul. In emerging markets, we will also deliver “perfect voice” and will grow our 3G coverage to 95% in targeted urban areas in India. For our fixed customers, we will deploy fibre in Italy passing 6.4 million households, extend our fibre roll-out in Portugal to more households and build fibre coverage to support 15,000 enterprises in South Africa.



>263,400

Over 263,400 mobile base stations, making us one of the largest mobile operators in the world



Expanding our 4G network

Our 4G journey continues to go from strength to strength. In the last year, we launched 4G services in a further seven markets, including the UK, bringing the total to 14. 17% of the smartphones on our European network are 4G capable, and our 4G network enables customers to upload and download content two to three times faster than over 3G. This allows users to stream video content and browse the internet with less delay. By 2016 we expect to expand our 4G network to cover over 90% of the European population.



Portable network supports victims of typhoon

In November 2013, the Vodafone Foundation deployed two Instant Network to support relief efforts following Typhoon Haiyan, in the Philippines. These portable networks pack into four cases, each weighing less than 100kg. Over 29 days the networks enabled 1.4 million SMS and 443,200 calls to be made.

In February 2014, the Vodafone Foundation launched the Instant Network Mini—a “network in a backpack” weighing just 11kg, which can be deployed in ten minutes.

Network innovation

We work very closely with our network suppliers to continually develop innovative new solutions to help improve our customers’ network experience, deliver efficiencies and enable us to differentiate. During this year, we began testing and deploying several solutions, which will be available in the near future. For example, “4G carrier aggregation”, bonds together multiple spectrum blocks to increase peak data download speeds up to 300Mbps; and “4G Broadcast” enables an unlimited number of smartphone users, with compatible devices, to watch TV channels without putting additional load on the 4G network. We were the first operator to trial this service in Europe in February 2014.



Our strategy (continued)

Operations

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.

Context

- The challenging economic, regulatory and competitive environment we face in Europe has led to declining revenues in our European businesses.
- Inflationary pressure in emerging markets is putting upward pressure on our cost base.
- The trend towards greater data usage significantly increases the traffic on our network.
- Against this background, to protect our level of profitability, we must continue to find ways to improve operating efficiency and simplify and standardise processes for customers.

Where we are going

We aim to improve operational efficiency, and to speed up and co-ordinate our time to market for new propositions and services, by:

- using our centralised functions more;
- driving standardisation and simplification of our business to maximise the benefits of our scale;
- offshoring more business functions to shared service centres;
- applying new technology to improve efficiency; and
- reducing non-customer facing cost.

Using our centralised functions more

The Vodafone Procurement Company ('VPC') in Luxembourg centrally manages the strategic procurement of the majority of our overall spend. This allows us to leverage scale and achieve better prices and terms and conditions. During the year the spend managed through the VPC increased to €10.2 billion which represents around 50% of our spend, up from €6.9 billion in the prior year.

By utilising the VPC we also learn how to apply best practice across different spend categories. For example, by applying techniques from how we manage the software licences for our data centres under a single contract to how we buy software for our network operations, we have achieved a 30% reduction in prices compared to what our markets were achieving in isolation.

Standardisation and simplification

In the UK, we completed the first phase of a programme to simplify our organisation and improve all of our IT systems for billing, customer relationship management, and online and retail services. All prepaid customers services have migrated from legacy IT systems to one new integrated platform. This has resulted in simplification of our tariffs and improved end-to-end order processing times. We have also upgraded all our retail points of sale to make the sales and logistics processes simpler for our staff. All of this means a better experience for customers. We have reduced the number of ways of returning a handset to eight, and through our rationalisation programme we are reducing our consumer price plans from nearly 5,000 to under 500.

Offshoring functions to shared service centres of expertise

Our business depends on having simple and effective operations that leverage the benefits of shared service centres to support our operations across the globe.

Over the past three years we have expanded the scope of shared service centres in Egypt, India and Europe to provide financial, administrative, IT, customer operations and human resource services for all of our markets. In 2012, we had just 9,500¹ shared centre employees and this has now risen to over 13,300, and has expanded to cover commercial activities for our Enterprise business and customers. Our shared services are delivering cash cost savings at an annualised run-rate of about £180 million. We expect to have around 16,000 employees in shared services by 2016.

Applying new technology to improve efficiency

We have been at the forefront of Single RAN (Radio Access Network) technology that enables the combination of 2G, 3G and 4G technologies into the same radio equipment. This has a number of cost benefits including reduced floor space requirements on-site which reduces our site rentals, and efficient power technology provides savings our energy bill. Single RAN units are now present in 45% of our sites and we plan to expand this to 69% by 2016.

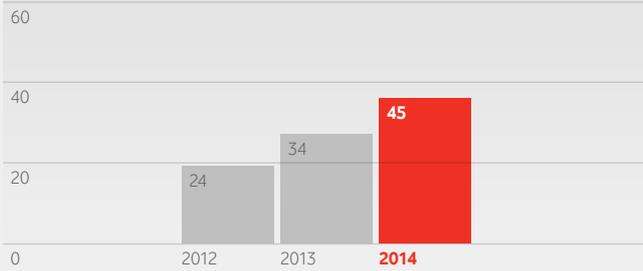
Reducing non-customer facing costs

While we continue to expand our employee base in customer facing positions, we have been able to make savings across administrative support positions in Europe. On balance this has led to a decrease in the number of employees in Europe (excluding our acquisitions of Kabel Deutschland and the minority stake in Vodafone Italy) and an increase in the number of employees in AMAP.

Note:

¹ Restated from 6,000, as stated in last year's report, to include shared services employees supporting India customer operations.

Deploying Single Radio Access Network sites helps reduce costs % of total



Moving employees to shared services to reduce costs



£0.3bn

£0.3 billion reduction in organic European and common functions operating expenses

Sharing network sites to reduce costs

Nearly three quarters 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 by about 20% compared to non-shared units. During the year we entered into new sharing arrangements in three markets – Greece, Romania and Italy.



Virtualising our network

We are increasingly looking at ways to virtualise our network through cloud computing. This requires us to move our existing network capabilities from dedicated hardware onto virtualised applications running over the cloud. As a result we are able to simplify our network architecture and reduce costs. Virtualised networks are more scalable and resilient, and enable the faster deployment of new services. With this capability, we have started rolling out new features such as a messaging platform for our M2M products, and many more are planned.



Helping our customers cut costs

We estimated that our products and services in smart metering and logistics, fleet management, call conferencing, and cloud and hosting services, could save our customers 2.29 million tonnes of carbon dioxide equivalent (CO₂e) – almost equal to our total emissions last year.