About us

We've come a long way since making the first ever mobile call in the UK on 1 January 1985. In 30 years, a small mobile operator in Newbury has grown into a global business and one of the most valuable telecoms brands in the world. We now have mobile operations in 27 countries and partner with mobile networks in 48 more. Today, we have 434 million mobile customers around the world. And because we now do more than just mobile, we're able to provide fixed broadband services in 17 markets, and 9 million customers use us for their fixed broadband needs.

Our core purpose is to empower our customers to be confidently connected – whether at home, during the daily commute, in the office, or abroad – wherever and however they choose. We want everyone to be confidently connected to their friends, families, and customers, and to always have access to the content and information they choose.

We're aiming to differentiate ourselves from our competitors, by having the best network, providing the best customer experience and having the best integrated worry-free solutions.

While we expect these actions to improve our business performance over time, we recognise that financial results alone are not enough. A commitment to improve our social impact and behave ethically and responsibly at all times is integral to ensuring the long-term sustainability of our businesses.

Our business is constantly evolving to adapt to changes in customer behaviour, technology, regulation and the competitive landscape. Our strategy is our response to these changes, while ensuring we operate in a responsible way.

As you'll see in this year's report, we are making great strides towards our strategic goals, as we begin to realise our vision of empowering everybody to be confidently connected...

This year's report contains a new strategic report on pages 1 to 47, which includes an analysis of our performance and position, a review of the business during the year, and outlines the principal risks and uncertainties we face. The strategic report was approved by the Board and signed on its behalf by the Chief Executive and Chief Financial Officer.

Vittorio Colao
Chief Executive

Nick Read
Chief Financial Officer

Chairman's statement

Reflections on the year

It has been a momentous year for Vodafone and our shareholders. We have completed the second biggest transaction in corporate history, with the sale of our interest in Verizon Wireless; progressed our unified communications strategy with the acquisition of leading cable companies; and delivered the biggest ever return to shareholders, of US$85 billion (£51 billion).

Three pillars of success

Three distinct elements sum up why Vodafone has had such a strong track record of shareholder value creation over recent years. First, in response to the increasing demand for data we have formulated a clear strategy of becoming a leading unified communications provider and to strengthen further our network and service differentiation, through investments in mobile and fixed capabilities. Second, we have made significant progress in executing our strategy. We have actively managed our portfolio, particularly disposing of our non-controlling interests, and used part of the proceeds to accelerate the roll-out of 3G and 4G mobile capability and the deployment of next-generation fixed line operations in a number of key markets. To accelerate our strategy further we acquired Kabel Deutschland in Germany and agreed the purchase of Ono in Spain – two leading cable companies in their respective markets. Finally, we have extended our very strong track record of balancing the long-term needs of the business with significant returns to shareholders. We ended the year in a strong financial position and with a clear strategy for long-term growth.

Our role in society and protection of customer data

Telecommunications technology has a significant positive impact on economic development and individual wellbeing. We remain committed to enhancing the positive social impact of mobile – our networks and services are used to address everything from illiteracy to supporting the local healthcare infrastructure and realising the potential of budding entrepreneurs.

Our technology helps people to connect and share information. In this context data protection is critical. However, this year there have been a number of troubling allegations about the activities of security agencies in accessing customer data. As a trusted communications service provider, we view our customers' privacy as absolutely key.

As a demonstration of our commitment to transparency in this regard, our latest sustainability report includes a section on law enforcement disclosure. This explains the nature and extent of government powers to order our assistance, together with information about agency and authority demands in countries where statistical data can lawfully be disclosed.

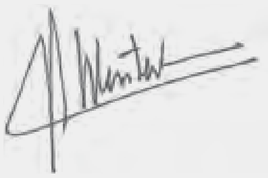
We are dependent on government policies and regulatory frameworks. While this applies to all our operations, it is critical for the development of a globally competitive and healthy telecom industry in Europe. Europe needs to find the right balance between protecting consumer interests and the consumer's long-term interest in investment in next-generation telecom infrastructure and innovation, that will enable future growth and prosperity for its citizens. So far that balance in our opinion has not been found in the proposals for reform of the digital single market currently under consideration in Brussels.

Alignment with shareholders

Our remuneration policies continue to ensure that management is strongly aligned with shareholders, with a focus on rewarding long-term value creation. After the return of value arising from the sale of our Verizon Wireless stake, Vittorio, and other members of the Executive Committee reinvested a significant proportion of their net proceeds back into Vodafone shares to demonstrate their commitment to the business and the strength of that alignment. The Board continues to consider the ordinary dividend to be the core element of shareholder returns, and believes in a consistent dividend policy. This year we raised the dividend per share by 8%, and as a reflection of our confidence in our future performance, we intend to raise it annually hereafter.

Changes to the Board

During the year, Andy Halford informed the Board of his intention to step down as Group CFO. I would like to thank him for his outstanding contribution to Vodafone during his eight year tenure as CFO and in his previous roles. He has brought an invaluable rigour and clarity to our financial reporting and investor communication, while consistently driving significant improvements to our organisational efficiency. I am confident that Nick Read, who joined the Board as CFO on 1 April 2014, will be a worthy successor. During the year there were a number of changes to the non-executive team and these are set out in my Governance statement on page 49. My medium-term ambitions for the composition of the Board are to bring in further marketing expertise, and achieve a greater gender balance. By September we will have three female directors and we will be well on our way to our goal of 25% of Board members being women by 2015.



Gerard Kleisterlee
Chairman

Financial highlights

Mixed financial performance

Our financial performance this year reflects the combination of good performance in emerging markets and challenging conditions in Europe.

Due to changes in our business and accounting standards this year's report shows two views of our performance – management (how we run our business) and statutory (how we are required to report).

This annual report contains financial information on both a statutory basis, which under IFRS accounting principles include the financial results of our joint ventures (Vodafone Italy[1], Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers) as one line item in the income statement and in a limited number of lines in the statement of cash flows, as well as on a management basis which includes our share of these joint ventures in both these statements on a line-by-line basis.

The discussion of our revenues, EBITDA, adjusted operating profit, free cash flow and capital expenditure below is performed under the management basis, as this is assessed as being the most insightful presentation and is how the Group's operating performance is reviewed internally by management. The discussion of items of profit and losses under adjusted operating profit is performed on a statutory basis.

See "Non-GAAP information" on page 201 for further information and reconciliations between the management and statutory basis.

Management basis

Read more → 38

£43.6bn -1.9%

Revenue

Revenue decreased by 1.9% and fell by 3.5%* on an organic basis as strong growth in emerging markets was offset by competitive and regulatory pressures and continued macroeconomic weakness in Europe.

29.4% -1.1pp

EBITDA margin

EBITDA margin fell by 1.1 percentage points. On an organic basis, margin was down 1.3* percentage points as the impact of steep revenue declines in Europe offset improving margins in our AMAP region, most notably in India and Australia.

£7.9bn -37.4%

Adjusted operating profit ('AOP')

The reported fall relates mainly to the sale of our interest in Verizon Wireless during the year. On an organic basis, AOP declined by 9.4%*, reflecting the decline in EBITDA and higher depreciation and amortisation.

17.54p -12.8%

Adjusted earnings per share

Adjusted earnings per share was down 12.8% mainly reflecting both lower EBITDA and higher depreciation and amortisation.

£7.1bn +13.3%

Capital expenditure

Cash capital expenditure increased by £0.8 billion driven by the acquisition of Kabel Deutschland, the fibre roll-out in Spain, and initial Project Spring investment in India and Germany.

£4.4bn -21.5%

Free cash flow

Free cash flow declined by 21.5%, reflecting the fall in EBITDA, increased capital expenditure and the impact of weaker exchange rates in our emerging markets.

Statutory basis

Read more → 97, 103

£38.3bn +0.8%

Revenue

Revenues increased by 0.8% as growth in our AMAP region and from business acquisitions offset revenue declines in Europe.

£59.4bn N/A

Profit for the financial year

Profit for the financial year increased by £58.8 billion primarily due to a pre-tax gain on disposal of our interest in Verizon Wireless of £45.0 billion and recognition of deferred tax assets of £19.3 billion.

£12.1bn +5.7%

Cash generated by operations

Cash generated by operations increased by 5.7%, primarily as a result of higher working capital related cash flows.

11.00p

Ordinary dividend per share

We have announced a final dividend per share of 7.47 pence, giving total dividends per share for the year of 11.00 pence – an 8% increase year-on-year.

Note:
1 Vodafone Italy became a 100% owned subsidiary on 21 February 2014.

Our year

A year bursting with activity

▲April

Expanding Vodafone Red

We expanded Vodafone Red – our customer proposition offering unlimited calls and texts with generous data allowances – to 14 markets.

By March 2014 we reached 20 markets.

▼April

M-Pesa in India

We launched M-Pesa, our money-transfer service in India. The initial launch included over 8,000 agents in the eastern areas of India, covering around 220 million people, and we have expanded the service nationwide throughout the year.

▲June

Kabel Deutschland

We announced plans to acquire Kabel Deutschland, Germany's largest cable operator, for €10.7 billion (£9.1 billion). This helps us create a leading unified communications operator in Germany offering combined fixed and mobile services.

The transaction closed in October 2013.

▼August

4G

We launched 4G in two more markets – the UK and the Netherlands. In the UK the service includes Sky Sports or Spotify.

We also launched 4G in Australia, the Czech Republic, Ireland, Malta and Spain during the year.

▲September

Sale of our interest in Verizon Wireless

We announced an agreement to sell our 45% interest in Verizon Wireless to Verizon for US$130 billion (£79 billion). This was the second largest corporate deal in history when it completed on 21 February 2014.

As part of this transaction we increased our ownership of Vodafone Italy from 77% to 100%. See page 14 for more information.

▼November

Project Spring

We announced details of our Project Spring strategy to increase our organic investment over two years to deliver network and service differentiation compared to our competitors.

See page 13 for more information on Project Spring.

Our year (continued)

▲November

Vodafone Foundation Instant Network

Two Instant Networks, which each pack into four cases, were deployed 24 hours after Typhoon Haiyan, to establish a temporary replacement mobile network where permanent infrastructure was destroyed. In just 29 days, it enabled people to send over 1.4 million texts and make over 443,200 calls.

▼December

M-Pesa "Text to Treatment" programme

The Vodafone Foundation announced a partnership with Kick4Life in Lesotho, a country where almost 1 in 4 live with HIV/AIDS, to accelerate the number of children being tested and treated for the virus. The initiative aims to get a generation of young people on antiretrovirals via our M-Pesa "Text to Treatment" programme.

▲January

New brand strategy – Vodafone Firsts

We launched our Firsts programme, inspiring people to do something remarkable for the first time using mobile technology. This new global brand engagement strategy will be launching across all our markets in 2014.

▼February

New spectrum in India

We acquired and renewed spectrum in auctions held in India for £1.9 billion to provide customers with enhanced mobile voice and data services.

▲March

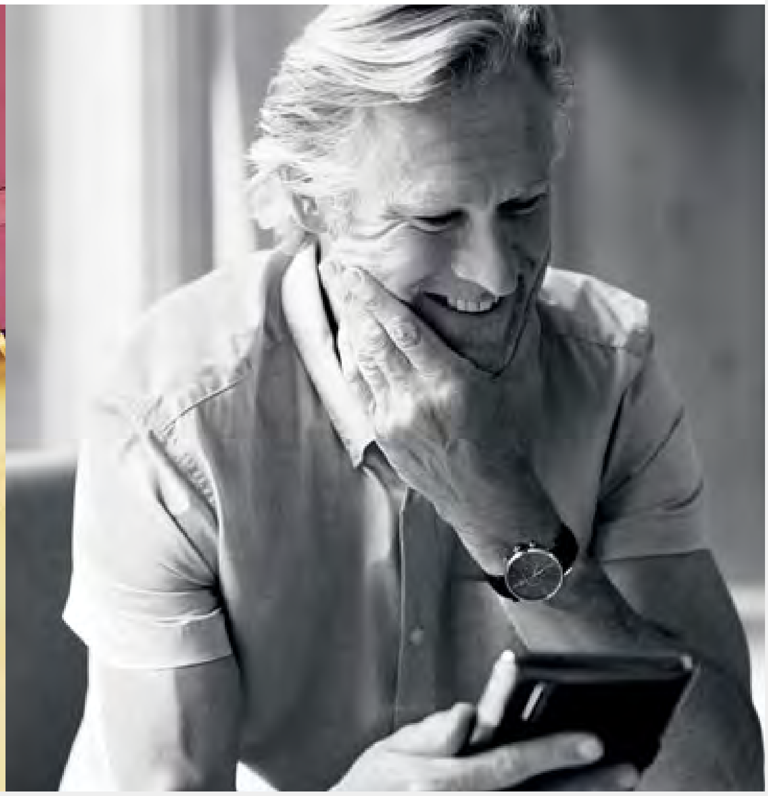
The single largest return of value to shareholders

Following the sale of our interest in Verizon Wireless, we completed the return of US$85 billion (£51 billion) to shareholders – the single largest in history.

▼March

Ono

We announced plans to acquire Ono, Spain's largest cable operator, for €7.2 billion (£6.0 billion). This, combined with our fibre deployment, will create a leading unified communications provider in Spain.



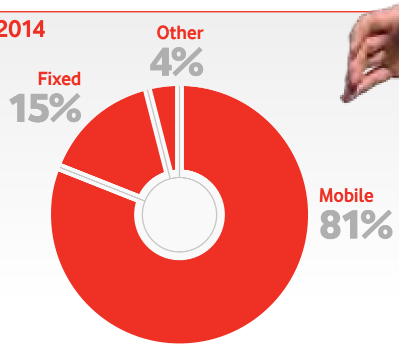
Breadth of services, scale and global reach

We are one of the world's largest telecommunications companies providing a wide range of services including voice, messaging, data and fixed broadband. We have 434 million mobile customers and 9 million fixed broadband customers across the globe.

Our business is split across two geographic regions – Europe, and Africa, Middle East and Asia Pacific ('AMAP'), which includes our emerging markets.

The services we provide

Group service revenue 2014



Over 1 trillion

Voice
We carried 1.2 trillion minutes of calls over our network last year – that's the equivalent of everyone around the world talking for two and a half hours.

544 petabytes

Data
Over 544 petabytes of data were sent across our network last year – that's enough data for over 100 billion one minute video clips.

337 billion

Messaging
Our network carried 337 billion text, picture, music and video messages last year.

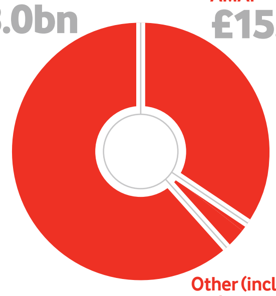
9.3 million

Fixed broadband
We have 9.3 million fixed broadband customers, mainly in Germany, Spain and Italy.

Other services
Includes revenue from mobile virtual network operators ('MVNOs') using our network in our markets and from operators outside our footprint using our products and services as part of our partner market network that spans 48 countries.

Our international reach

Group revenue 2014



Europe

We are the number one or two mobile operator in most of our European markets with market shares ranging from around 25% to over 40%. We have a small but growing share in fixed line across Europe, with the acquisition of Kabel Deutschland and proposed acquisition of Ono boosting our positions in Germany and Spain.

Countries

Albania
Czech Republic#
Germany#
Greece#
Hungary
Ireland#
Italy#
Malta#
Netherlands#
Portugal#
Romania#
Spain#
UK#

Markets where we have fixed broadband operations.

AMAP

We are the number one or two mobile operator in most of our AMAP region. Our mobile market shares vary by market from around 20% to over 50%.

Countries

Australia
Egypt#
Fiji
Ghana#
India
Kenya (Safaricom)
New Zealand#
Qatar#
Turkey#
Vodacom Group (Democratic Republic of Congo ('DRC'), Lesotho, Mozambique, South Africa#, and Tanzania)

Our main markets

Spain

£3.5bn
revenue
13.5m
mobile customers (30% prepaid)
28%
mobile market share[1]
10%
Fixed % of service revenue

UK

£6.4bn
revenue
19.5m
mobile customers (40% prepaid)
25%
mobile market share[1]
26%
Fixed % of service revenue

Germany

£8.3bn
revenue
32.3m
mobile customers (52% prepaid)
34%
mobile market share[1]
30%
Fixed % of service revenue

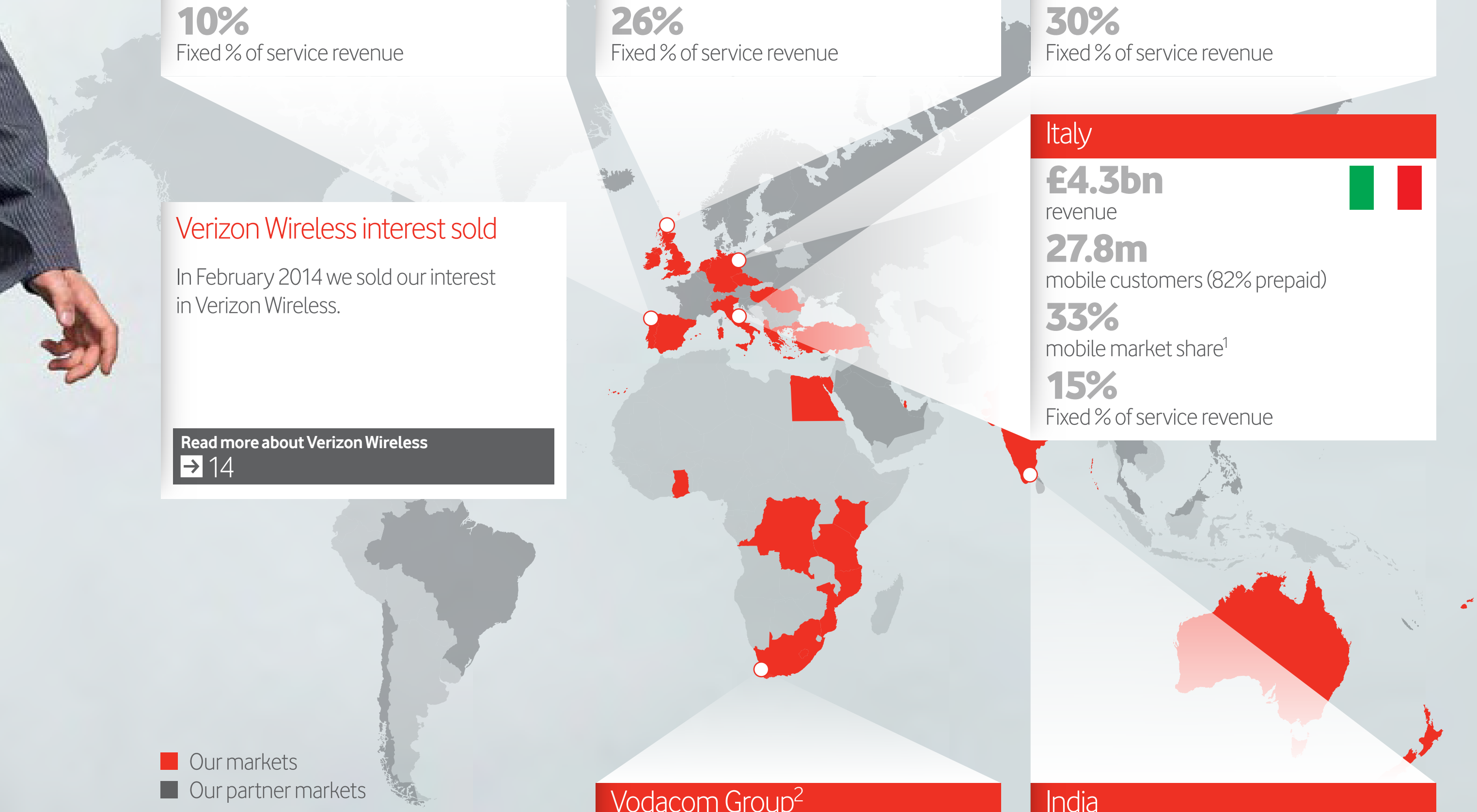
Italy

£4.3bn
revenue
27.8m
mobile customers (82% prepaid)
33%
mobile market share[1]
15%
Fixed % of service revenue

Verizon Wireless interest sold

In February 2014 we sold our interest in Verizon Wireless.

Read more about Verizon Wireless
→ 14



Vodacom Group[2]

£4.7bn
revenue
65.4m
mobile customers (92% prepaid)
52%
mobile market share (South Africa)[1]

India

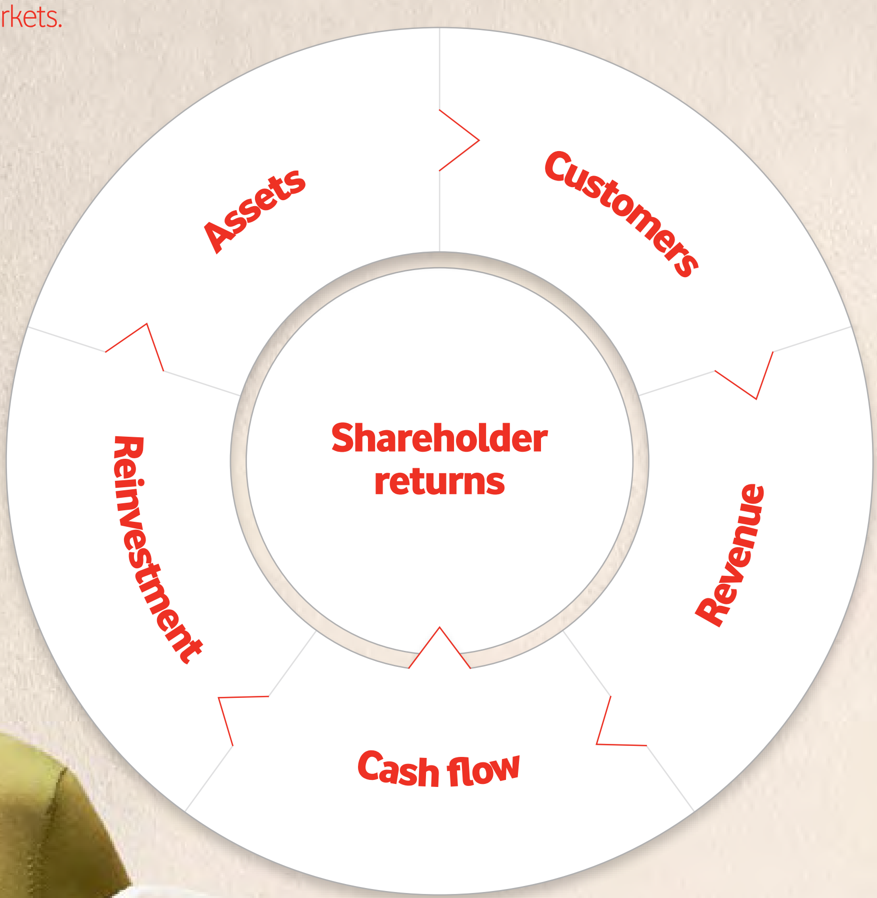
£4.4bn
revenue
166.6m
mobile customers (94% prepaid)
22%
mobile market share[3]

Notes:
1 Vodafone estimates for the quarter ended 31 March 2014, based on mobile or total service revenues.
2 Fixed service revenue represents less than 1% of service revenue.
3 Source: Telecom Regulatory Authority of India, December 2013.

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.

Want to find out more?

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Financial review, including revenue, cash flow and shareholder returns → 38

Risk management and mitigation → 46