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	Unified Communications	Consumer Emerging Markets	Enterprise
A leading mobile data provider	Converged services in all key European markets	A strong leader and first choice for data	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
21

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.

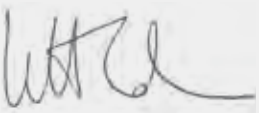
We expect total investments, including Project Spring, to be around £19 billion over the next two years. The main elements of our investment are:

- 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

Want to find out more?

Market overview, and where are we going?
18

Our strategy and positioning for the future
21

Our financial guidance
39

Crystallising value from Verizon Wireless

Opening the next chapter in the history of Vodafone

On 2 September 2013, we announced our agreement with Verizon to sell our US group, whose principal asset was its 45% interest in Verizon Wireless, for US$130 billion, mainly in cash and Verizon shares. We chose to return around 71% of the net proceeds to shareholders amounting to around US$85 billion. This is the largest ever single return to shareholders in history and rewards our shareholders for their long-term support of our US strategy. This also represents the opening of an important new chapter in our history by leaving us in a strong financial position and well positioned to execute our strategy.

A big deal!

This was the second biggest transaction ever and the return of US$85 billion (£51 billion) is the equivalent of around 90% of the total dividends paid by all the other FTSE 100 companies in the whole of 2013.

Vodafone Italy

As part of the transaction we also agreed to acquire Verizon's 23% stake in Vodafone Italy, in which we owned 77%, thereby securing full ownership.

Why sell our stake?

We have had a very successful 14 year investment in Verizon Wireless. During this time its service revenue has quadrupled to US$69 billion, its EBITDA has grown from US$6 billion in 2001 to US$34 billion in 2013, and we received nearly US$16 billion of income dividends. This investment has clearly created a great deal of value for Vodafone shareholders. The sale not only crystallised the value of this significant asset, it has also enabled us to realise that value at a very attractive price, representing around nine times Verizon Wireless EBITDA and 13 times operational cash flow.

What will the sale enable us to do?

We carefully considered how to make best use of the sale proceeds and we decided to retain a proportion of the cash received to allow us to invest in the business and to reduce net debt, and we returned US$85 billion to shareholders.

Project Spring, our new investment programme, will improve the quality of our networks, products and services in our major markets, relative to our competitors. Project Spring is in addition to our existing capital expenditure programme and will bring total investment over the next two years to around £19 billion.

This will amount to the largest and fastest period of investment in our history. We have used the retained proceeds to reduce our net debt significantly and as a result the Company is much more resilient going forwards.

What's the shareholder return?

We have a track record of making significant returns to shareholders – with almost £23 billion returned in the last three years alone in the form of dividends and share buybacks. Consistent with that track record, we also returned a large proportion of the net proceeds from the sale of our interest in Verizon Wireless – 71% or US$85 billion (£51 billion) comprising £37 billion worth of Verizon shares and £14 billion of cash, during the year. As part of the transaction, we also consolidated our shares – exchanging every eleven old Vodafone shares for six new Vodafone shares.

Overall, we believe we have struck the right balance between investing in the future of the Company and rewarding our shareholders for their long-term support of our US strategy. Following the sale we have reduced debt and established a bigger gap between our cash flow and ordinary dividends paid. As a result, and as a sign of confidence in the future, we intend to continue to grow the dividend per share annually going forward.

Key performance indicators

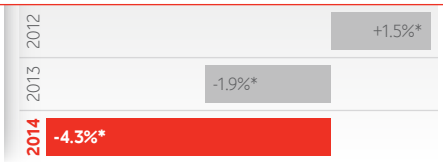
Monitoring our progress and performance

We track our performance against 12 key financial, operational and commercial metrics which we judge to be the best indicators of how we are doing. The pressures we have faced in Europe are reflected in the decline in service revenue and EBITDA margin and the loss of market position. Despite this we met our financial guidance and increased our dividend per share and we have made clear progress in our operational and commercial KPIs.

Organic service revenue growth

More work to do

Growth in the top line demonstrates our ability to grow our customer base and stabilise or increase ARPU. It also helps to maintain margins. We aim to return to service revenue growth.



We were unable to grow our service revenue this year, as the competitive, regulatory and macroeconomic pressures in Europe seen last year continued.

EBITDA margin[1]

More work to do

Growth in our EBITDA margin magnifies the impact of revenue growth on the profitability of our business. We expected this year's margin to be lower than last year's.

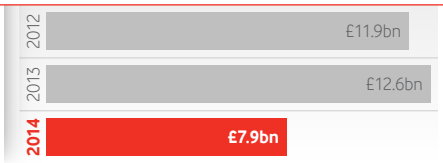
As expected, competitive, regulatory and macroeconomic pressures in Europe offset improvements in AMAP and our margin declined.

Adjusted operating profit ('AOP')[1]

Achieved

AOP includes the impact of depreciation and amortisation and includes the results of our non-controlling interests.

We gave guidance of around £5 billion for the year on a pro forma basis, see page 39.



The fall in AOP reflects the disposal of Verizon Wireless during the year, the decline in EBITDA and higher depreciation and amortisation.

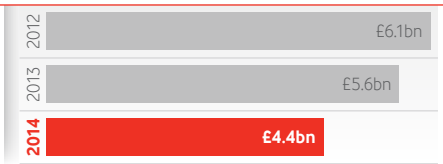
On a guidance basis, AOP was £4.9 billion (see page 39 for details).

Free cash flow

Achieved

Maintaining a high level of cash generation is key to delivering strong shareholder returns.

We gave guidance of £4.5–£5 billion for the year on a pro forma basis, see page 39.



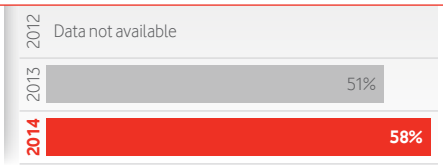
Free cash flow fell in the year as a result of exchange rate movements in some of our emerging markets and lower EBITDA.

On a guidance basis, free cash flow was £4.8 billion (see page 39 for details).

% of European mobile service revenue in-bundle[2]

Achieved

Our strategic push towards bundling voice, text and data allows us to defend our revenue base from substitution, and to monetise future data demand growth. We aim to increase this proportion each year.

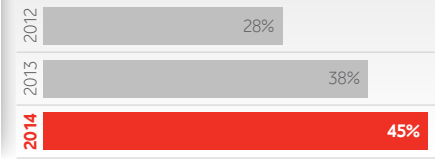


We continue to make great progress in this area, helped by the rapid adoption of our Vodafone Red plans (see page 22).

Smartphone penetration (March 2014, Europe[2])

Achieved

Smartphones are key to giving our customers access to data; the more our customers have them, the bigger our data opportunity becomes. We aim to increase penetration to over 50% by 2015.



Our customers increasingly want smartphones as data becomes more and more crucial to everyday life. We are on course to meet our target of half of our European customers using smartphones by next year. See pages 22 and 23 for more information.

KPIs achieved

Want to find out more?

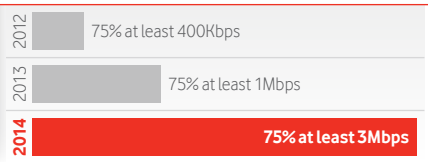
All KPIs are shown on a management basis → 03

See how these targets are used with the incentive plans for senior management → 69

Mobile network performance floor (Europe[2])

Achieved

We continuously improve the speed of our European network to create the best data experience for our customers and had a target of 75% of smartphone data sessions to be at least 3Mbps by 2015.

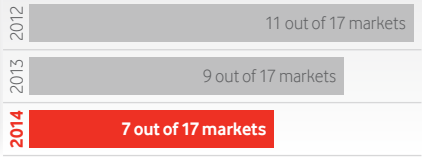


We achieved our 2015 target this year. Our new target is for 90% of data sessions in Europe to be at least 3Mbps by March 2016. See page 30 for more detail on our Network strategy.

Relative mobile market share performance

More work to do

We track our relative performance by measuring the change in our revenue market share against our key competitors. We aim to gain or hold revenue market share in most of our markets.



We lost share in the majority of our European markets over the year but gained share in some of our key emerging markets, including India, South Africa and Turkey.

Ordinary dividend per share

Achieved

The ordinary dividend remains the primary method of shareholder return and we have an outstanding record of growth here.

Our target was to maintain the dividend per share at its 2013 level.

The Verizon Wireless transaction enabled us to increase the dividend per share by 8% to 11.00 pence and we now expect to increase it annually.

Consumer net promoter score ('NPS')

Achieved

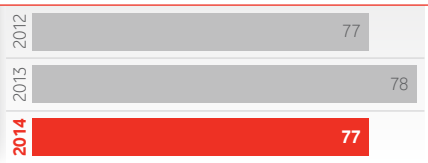
We use NPS to measure the extent to which our customers would recommend us to friends and family. We aim to increase or maintain the number of markets where we are ranked number one by NPS.

This year we increased the number of markets where we are ranked number one but the total of nine markets remains too low. We aim to improve our position over the coming year.

Employee engagement

Achieved

The employee engagement score measures employees' level of engagement – a combination of pride, loyalty and motivation. Our goal here is to retain our top quartile position.

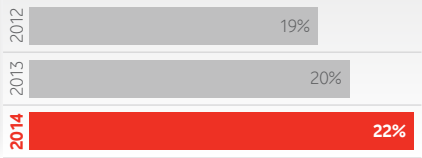


Our employee engagement score remains broadly stable and we retained a top quartile position. More information can be found on page 36.

% of women in the senior leadership team

Achieved

Diversity increases the range of skills and styles in our senior leadership team, our 223 most senior managers. Increased female representation is one measure of diversity. Our goal is simple, to increase the proportion each year.



Gender diversity is a key area of our global diversity strategy and we have continued to make progress in this area. We also increased the number of women on both the Executive Committee and the Board. See page 36 for more details.

Notes: 1 EBITDA and AOP have been redefined to exclude restructuring costs. AOP has also be redefined to exclude amortisation of customer bases and brand intangible assets. Comparatives have been restated.
2 Europe now excludes Turkey.

Market overview

The telecommunications industry today

The fixed and mobile telecommunications industry is a large and important sector, generating around US$1.5 trillion of revenue. Today there are seven billion mobile users and over 650 million fixed customers.

The global mobile market

Scale and structure

The mobile industry alone has seven billion users, generating over US$960 billion of annual service revenue every year. The majority of revenue comes from traditional calls and texts (for example, last year 7,800 billion texts were sent around the world last year). However, over the last few years the demand for data services, such as internet browsing on a smartphone, has accelerated, and today around 28% of mobile revenue is from data, up from 13% in 2009.

Around 74% of mobile users are in emerging markets, such as India and Africa, reflecting the typical combination of large populations and the lack of fixed line infrastructure. The remaining users are from wealthier mature markets, such as Europe. However, the proportion of the population with a phone – or mobile penetration – tends to be higher in mature markets (usually over 100%) and lower in emerging markets, particularly in rural areas, due mainly to lower incomes and less network coverage.

Growth

The demand for mobile services continues to grow strongly. In the last three years the number of users increased by an average of 9% each year. In 2009 global mobile penetration was only 69%, and by 2013 it had risen to 98%. Most of the increase in users has been from emerging markets due to favourable growth drivers – young and expanding populations, faster economic growth, low but rising mobile penetration, and less fixed line infrastructure. The other key area of growth is data, which is being driven by increasing smartphone and tablet penetration, better mobile networks, and an increased choice of internet content and applications ('apps').

Competition

The mobile industry is highly competitive, with many alternative providers, giving customers a wide choice of supplier. In each country there are typically at least three to four mobile network operators ('MNOs'), such as Vodafone. In addition, there can be numerous mobile virtual network operators ('MVNOs') – suppliers that rent capacity from mobile operators to sell on to their customers. There can also be competition from internet-based companies and software providers that offer alternative communication services such as voice over internet protocol ('VoIP') or instant messaging services.

Regulation

The mobile industry is very heavily regulated by national and supranational authorities. Regulators continue to lower mobile termination rates ('MTRs') which are the fees mobile companies charge for calls received from other companies' networks, and to limit the amount that operators can charge for mobile roaming services. These two areas represent around 12% of service revenue for Vodafone.

Revenue trends

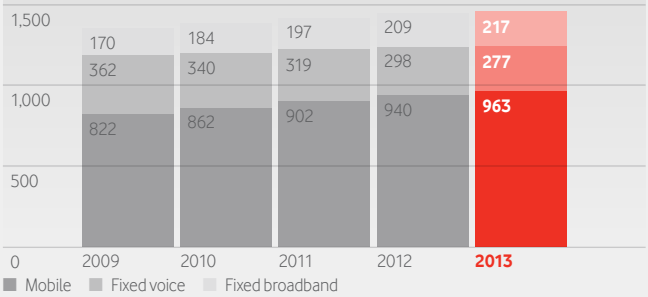
In an environment of intense competition and significant regulatory pressures, the price of mobile services has tended to reduce over time. However, with both more mobile phone users, mainly in emerging markets, and more data usage, global mobile revenue remains on a positive trend and expanded by 2% in 2013.

Note: The industry data on this page is sourced from Strategy Analytics, Analysys Mason and Ovum.

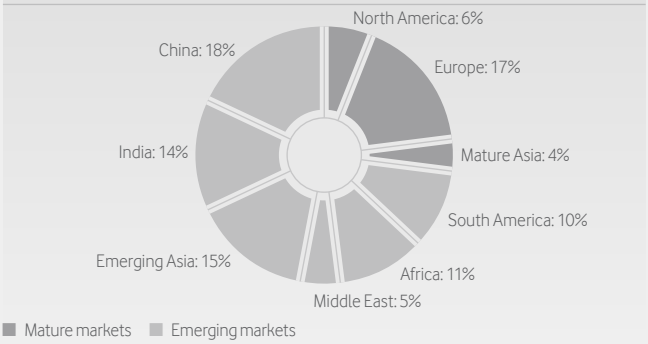
The global fixed market

The fixed communications market is valued at around US$500 billion. Over the last three years, revenue from voice services has declined as the demand for traditional fixed line calls has remained static at around one billion users. In contrast, revenue from fixed broadband or internet usage on the PC is growing with an estimated 650 million customers worldwide – an increase of nearly 30% over the last three years. This growth has been spread across all forms of broadband – DSL (copper), cable and fibre, and within this, there is a growing preference for the high speed capability provided by cable and fibre.

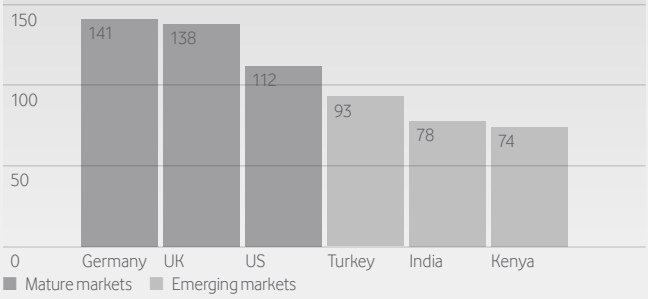
Telecommunications revenue US$ billion



Mobile users by market 2013: 7.0 billion (2012: 6.4 billion)



Mobile phone penetration by market %



Supporting access to mobile

Overcoming barriers to mobile ownership for women in emerging markets

Our Connected Women report looked at the gender gap in mobile phone ownership in emerging economies and the social and economic impact of extending women's access to mobile phones.

Vodafone Turkey launched the Vodafone Women First programme in 2013, which combines promotional offers with services that help women to increase their income, use mobile technology and acquire new skills. Launched in 2013, it attracted 75,000 women customers in its first nine months, of which 15% were new customers for Vodafone.

Want to find out more?

See sustainable business
→ 34

See the full Connected Women report
→ vodafone.com/connectedwomen

Market overview (continued)

Where the industry is heading

The pace of change in the industry over the last few years has been significant and is expected to continue – with new revenue streams, new users, new services, major improvements to networks, and the convergence of fixed and mobile services.

Growing importance of data and other new revenue areas

Mobile voice and texts, our traditional revenue sources, have reached maturity in a number of markets. To deliver future growth opportunities, we are investing in newer revenue areas such as data. It is estimated that between 2013 and 2017 data revenue for the telecommunications sector is set to grow by US$128 billion, compared to a US$38 billion decline in voice revenue over the same period. The demand for data will continue to be driven by rising smartphone and tablet penetration and usage, and improvements in mobile network capability. As the demand for data grows, mobile networks have to be reconfigured to data, while still meeting the need for traditional texts and calls. Already 91% of the world's total traffic on mobile networks is data. The data services most used are video streaming and internet browsing which require high speed networks. Therefore, we are investing in ultrafast 4G with average download speeds of over 75Mbps today, and the expectation of faster speeds, of up to 300Mbps, by the end of calendar 2014.

New applications for mobile services are being developed by the industry to extend the use of mobile beyond everyday communication and deliver new revenue streams, such as mobile payments via a handset or machine-to-machine services, including the location monitoring of vehicles, through a SIM card embedded in the vehicle.

Convergence of fixed and mobile into unified communications

We expect a continued trend towards unified communications such as bundled mobile, fixed and TV services. These provide a range of benefits for the user, including simplicity, flexibility and cost savings. The demand for these services is already established among enterprise customers and it is now becoming more visible in the consumer market, particularly in southern European markets, such as Spain. We believe that this demand, combined with technological advances delivering easier connection of multiple data devices, will support strong data growth in future, and that this will need to be managed by access to next-generation fixed networks, principally cable or fibre, to support increased speed and capacity demands.

Strong demand from emerging markets

Emerging markets have the most potential for future mobile customer and revenue growth driven by rising populations, strong economic growth, lower mobile penetration and a lack of alternative fixed line infrastructure. According to industry analysts, by 2017 there will be 1.7 billion new mobile users across the globe, and most will be from emerging markets. As a result by 2017, 77% of the world's mobile users will be from these markets.

Increasing range of competitors

The high level of competition among established MNOs is expected to continue. However, there is also a wider pool of new competitors. Alternative communication technologies, such as instant messaging services which use data, rather than traditional voice and text, are increasingly used by mobile consumers. In response, operators have begun to replace per unit charges for voice and text services with unlimited bundles, and combine this with a fixed fee for data usage. Meanwhile MVNOs which offer low prices, but have little capital invested, have in recent periods taken share from established capital intensive operators. However, the move to 4G and unified communications presents an opportunity for the major operators to differentiate the quality of their networks and services.

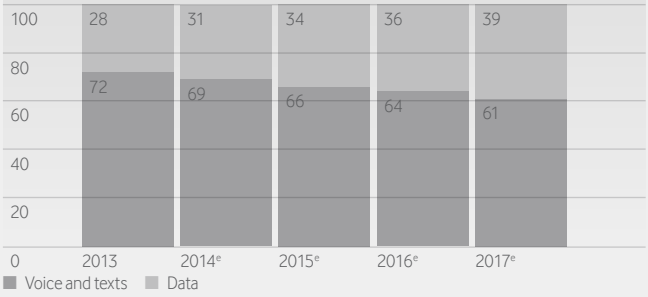
Regulation will continue to have a significant impact

The industry is expected to see continued downward revenue pressure from regulation. For example the Europe Commission is seeking the removal of all roaming surcharges after 2016 (for Vodafone roaming accounts for around 6% of European service revenue). In contrast, Commission proposals to harmonise the speed at which Member States roll out spectrum and the duration of contracts, should encourage investment. In our largest emerging market, India, the regulatory framework is becoming clearer.

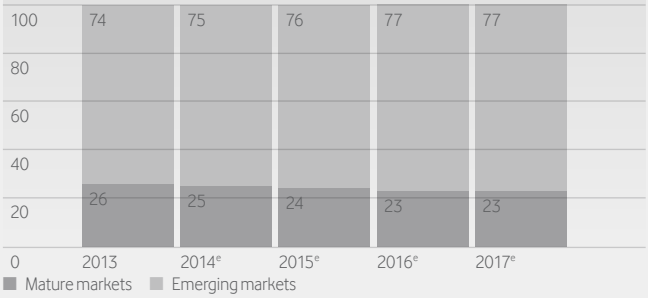
Improving economic environment in Europe

The economic recession in Europe over the last two years has been a key driver of the declining revenue trends in Europe for many operators. However, we have started to see early signs of economic recovery in Europe, with a return to GDP growth in 2013 in Northern Europe and an expected recovery in 2014 in Southern Europe.

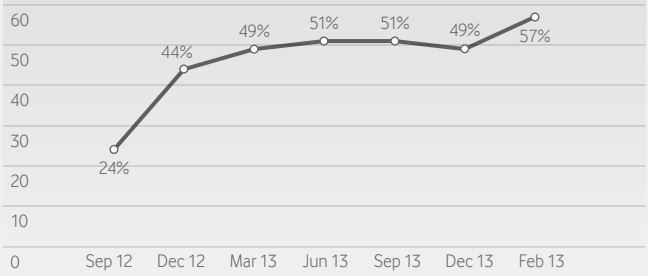
Industry mobile service revenue by type %



Industry mobile phone users by market %



% of new mobile customers taking converged services in Spain



Note: The industry data on this page is sourced from Strategy Analytics, Analysys Mason and Ovum.

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	Unified Communications	Consumer Emerging Markets	Enterprise
A leading mobile data provider	Converged services in all key European markets	A strong leader and first choice for data	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%.

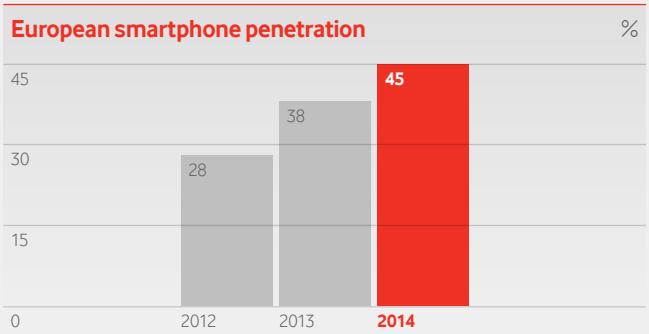
We sold 2.2 million Vodafone branded smartphones in Europe and beyond during the year, instrumental in stimulating data adoption in low-end contract and prepaid segments.

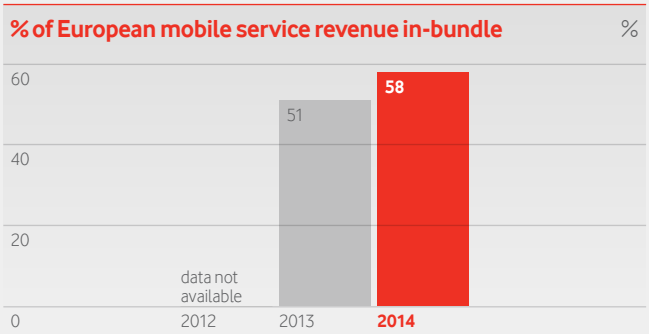
Fixed and unified communications

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 ago[1]

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

UnifiedCommunications

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.

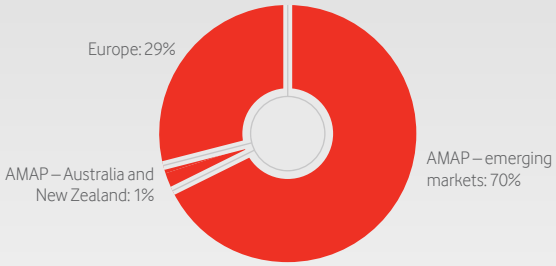
Increasing access to mobile financial services

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.

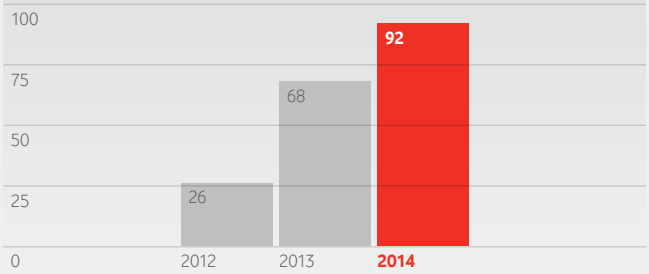
We now have over 17 million active M-Pesa customers, an increase of 18% over last year. During the year we launched in several new emerging markets – India, Egypt, Lesotho and Mozambique. In India the service has now launched nationwide. Across the M-Pesa footprint, we have over 200,000 active agents 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 2018[1]. We continue to be ranked as the market leader by a number of market analysts, including Analysys Mason and Machina Research.

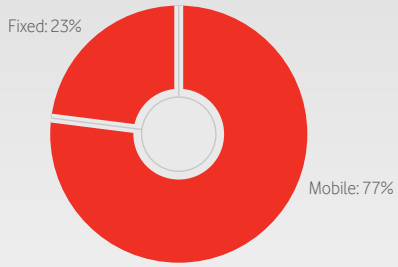
Cloud and Hosting

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.

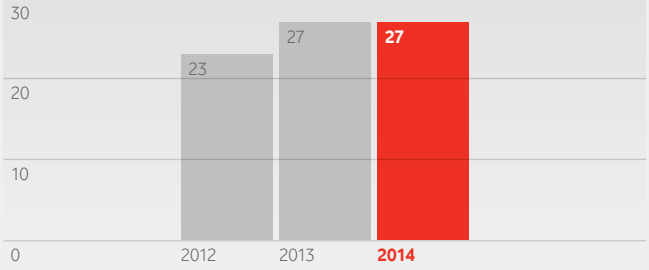
With the successful integration of our CWW operations, our Cloud and Hosting Services business now serves more than 1,200 public sector and enterprise customers in multiple regions. Our 14 data centres in the UK, Ireland and South Africa are complemented by a partner network of data centre facilities 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.

Note:
1 Source: Berg Insight, The Global Wireless M2M Market, October 2013.

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 CWW 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.

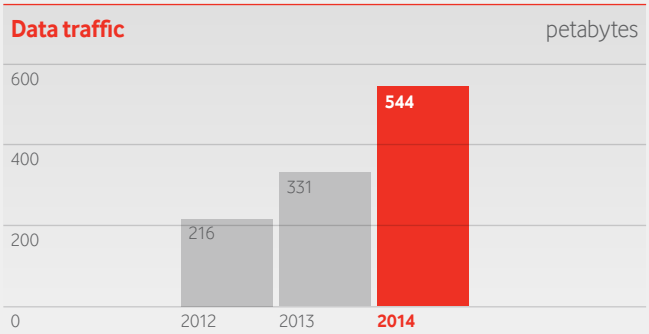
Spectrum

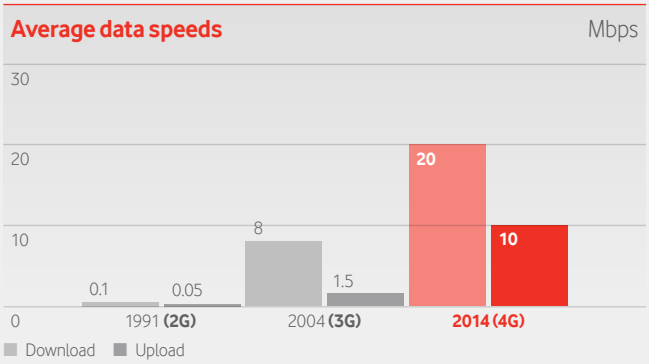
Radio spectrum is the key raw material for our mobile business. During the year we acquired and renewed spectrum for £2.2 billion in India, Romania, New Zealand and the Czech Republic, with a cash cost of £0.9 billion during the year. The purchases in India will enable the provision of enhanced voice 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.

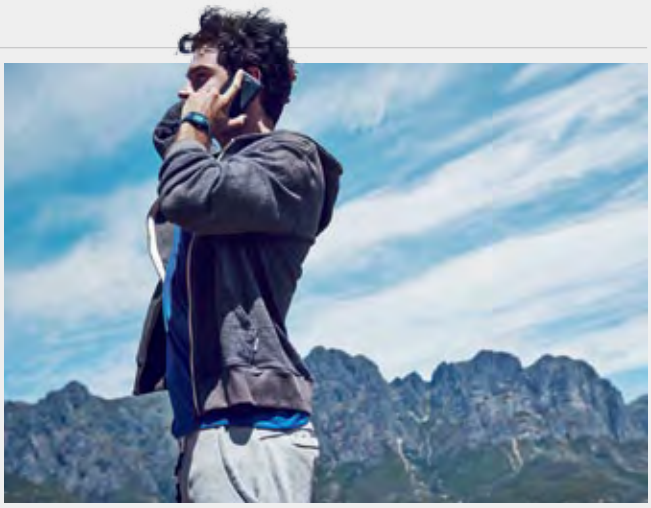
Portable network supports victims of typhoon

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 downloads 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 9,500[1] 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

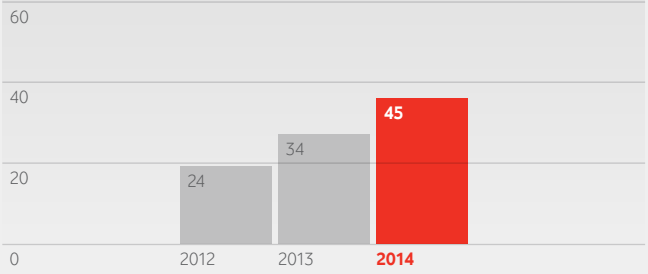
We have been at the forefront of Single RAN (Radio Access Network) technology that enables the combination of 2G, 3G and 4G technologies into the same radio equipment. This has a number of cost benefits including reduced floor space requirements on-site which reduces our site rentals, and efficient power 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

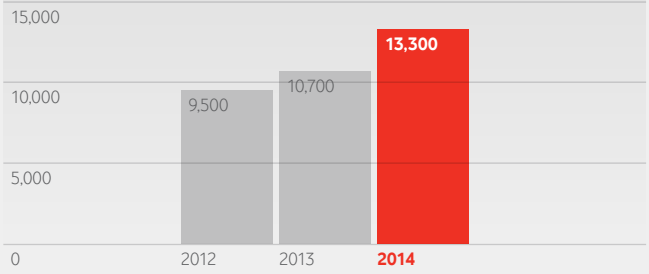
While we continue to expand our employee base in customer facing positions, we have been able to make savings across administrative support positions in Europe. On balance this has led to a decrease in the number of employees in Europe (excluding our acquisitions of Kabel Deutschland and the minority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



Moving employees to shared services to reduce costs

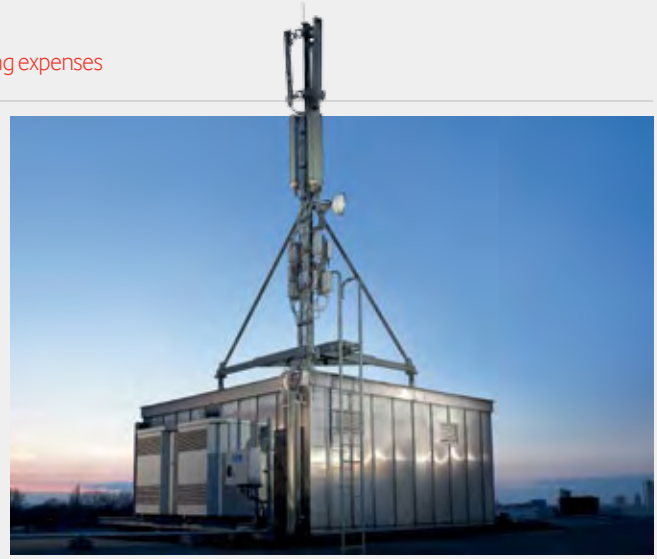


£0.3bn

£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 ('CO_2e') – almost equal to our total emissions last year.

Sustainable business

Contributing to social and economic improvement

Telecommunications technology has the power to transform people's lives. Ensuring that we continue to connect more people to essential services, while expanding the reach of our network, is the best way we can support that improvement.

Telecommunications technology can be used to tackle some of the most pressing challenges faced by society today. Our products and services provide access to a range of solutions to these challenges in areas including financial services, healthcare and education. We remain determined to continue to contribute to the social and economic development of all our customers and particularly our 302 million customers who live in emerging markets, while ensuring we continue to fulfil our strategic business goals.

How we achieve our goals is integral to the long-term success of the business. We remain fully committed to operating ethically and responsibly in everything we do. This includes ensuring we respect our customers' human rights, improving ethical and environmental standards in our supply chain and managing our energy use, while remaining proactive in our response to emerging sustainability risks.

This report highlights our progress in four critical areas.

Connecting people to vital services

Mobile money continues to be a driver of financial inclusion, offering people access to payments and financial services beyond the reach of traditional institutions. Our platform, M-Pesa, expanded its geographical reach in 2014, launching recently in Mozambique, Lesotho, Egypt, Romania and India.

M-Pesa now has 17 million active users who can access a wide range of services that enhance their ability to improve their livelihoods, including the ability to pay bills and even be paid their salary via M-Pesa. A new savings and loan product, launched in conjunction with the Commercial Bank of Africa, enables M-Pesa users to save and access loans, often for the very first time.

The M-Pesa platform supports our efforts in many other areas, including our aim to increase productivity and improve the lives of 500,000 smallholder farmers in Africa, through the Connected Farmer Alliance initiative. Our first formal partnership with Kilombero Plantations Limited, in Tanzania, tested how mobile technology could support the Company's engagement with smallholder rice farmers. We are also piloting our solution with a dairy cooperative in Kenya, to help them run more efficiently, increasing productivity and incomes for the members who supply the cooperative with milk.

Protecting our customers' information and respecting their privacy

The amount of data and personal information transmitted over our networks is increasing, as our customers use their mobile and other connected devices more and more. Our commitment to protect that information and respect their right to privacy and freedom of expression remains critical in retaining their trust.

We can only ensure our customers' privacy if we first ensure the security of their information and communications. Cyber security threats continue to proliferate, so Vodafone's Global Security Operations Centre monitors our IT systems 24 hours a day, seven days a week, to anticipate or detect attacks and minimise their impact.

The issue of government surveillance has come under increased scrutiny. For the first time we have published a Law Enforcement Disclosure report, which sets out our approach to responding to law enforcement demands for access to customer information, together with information about intelligence agency and authority demands on a country-by-country basis, where statistical data can lawfully be disclosed.

Vodafone is a member of the Telecommunications Industry Dialogue on Freedom and Privacy of Expression, which in March 2013 launched a two-year collaboration with the Global Network Initiative ('GNI') and a set of Guiding Principles, which address the issues of privacy and freedom of expression as they relate to the telecommunications sector.

Supporting ethical practices in the supply chain

We continue to work with our suppliers and others in our industry to raise ethical, labour and environmental standards in our supply chain, through an enhanced code of ethical purchasing. In 2014, we conducted 30 rigorous audits of both new and existing suppliers and 38 through the Joint Audit Co-operation ('JAC'), in collaboration with nine other telecommunications operators.

This year, we published our first Conflict Minerals report in response to US Securities and Exchange Commission requirements. Our policy requires our suppliers to take steps to ensure that minerals used to finance conflict in the Democratic Republic of Congo ('DRC') or neighbouring countries do not end up in our products and we are working through industry initiatives to continue to tackle this issue.

Saving energy and cutting carbon

We are a top-rated global communications service provider for the machine-to-machine ('M2M') industry. Using our M2M solutions helps our enterprise customers to cut carbon emissions and generate cost savings. We estimated the carbon savings we deliver for customers from our M2M products and services, call conferencing and cloud and hosting, to be a total of 2.29 million tonnes of carbon dioxide equivalent ('CO_2e') in 2013 – almost equal to our total emissions. By March 2014, we had contracts to provide nearly 14 million M2M connections with carbon-reducing potential in smart metering, fleet management and logistics.

Though we continue to extend the reach of our network to more customers, who are using increasing amounts of data, our own carbon footprint has remained almost stable and we remain committed to reduce it as far as possible through energy efficiency measures. The efficiency of our operations has greatly improved with emissions per base station now at ten tonnes CO_2e, almost 40% lower than in 2007. Our total carbon emissions in 2014 were 2.55 million tonnes of CO_2e, a slight increase on 2013 due to newly acquired operations.

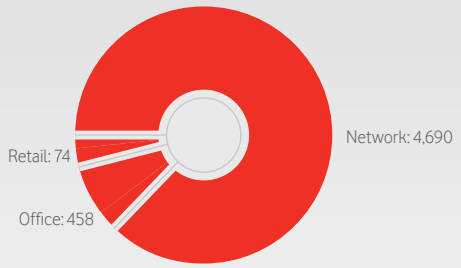
Want to find out more?

Read our sustainability report 2013–14, for more information on Vodafone's contribution to social and economic development.

vodafone.com/sustainability/report2014

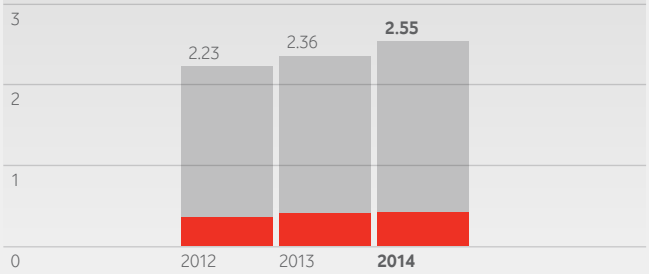
Energy use 2014[1,2]

GWh



Carbon emissions[2]

Millions of tonnes CO_2e



Scope 1 (direct greenhouse gas ('GHG') emissions) Scope 2 (indirect GHG emissions)

Notes:
1 Energy use does not include fuel use for transport.
2 Calculated using local market actual or estimated data sourced from invoices, purchasing requisitions, direct data measurement and estimations. Carbon emissions calculated in line with DEFRA guidance and Greenhouse Gas Protocol. For full methodology see our sustainability report 2014. CWW and TelstraClear data included for 2014 only and data for 2014 acquisitions excluded.

£50.9m

The total amount of donations made to the Vodafone Foundations in 2013 – including £5.9 million towards its operating costs. Since its inception, Vodafone has donated over **£475 million** to the charitable programmes led by our Foundations.

Connected Women

Vodafone's Connected Women Summit focused on the impact of mobile technology on the lives of women around the world. New research, commissioned by the Vodafone Foundation, looked at the social and economic impact of extending women's access to mobile phones. The Connected Women report found that stabilising the gender gap in our markets could have an economic benefit for women and society of more than US$22.3 billion annually from 2020.

Supporting victims of domestic violence

TecSOS, from the Vodafone Foundation, rapidly connects victims of domestic violence to emergency services. Now available in six European markets, it has helped more than 31,900 victims. In the UK, TecSOS is used by over 50% of police forces – it won the Metropolitan Police Commissioner's Award for Best Use of Technology and was granted a "Secured by Design" licence, which recognises TecSOS as a high quality service to be used by the police.

Instant Education

The Vodafone Foundation opened the first "Instant Network School" in the DRC in 2013, in partnership with Italian NGO, Don Bosco. The Vodafone Foundation's Instant Network Schools programme is supported by the Qatar Foundation's "Educate a Child" initiative. The school, in Goma, is enabling 400–500 children aged 7–17 to access online educational content via tablets provided through the Instant Network mobile education programme.

Our people

One company, local roots

We believe our people are fundamental to our success – that's why we want to attract and retain exceptional employees. We're committed to providing an inclusive workplace where we offer great opportunities for our people to build their skills and careers.

We continue to develop our people to ensure that they have the right skills and experience to deliver an outstanding experience to our customers.

During the year we employed an average of 92,812 people and had 97,721 employees as of March 2014. The number of our people increased during the year following our acquisition of Kabel Deutschland in Germany and the move to full ownership of Vodafone Italy.

The following sections highlight our progress in the key areas behind our people strategy.

Increasing employee engagement

Every year all our employees participate in our global People Survey which allows us to measure engagement levels, compare ourselves to other large companies and helps us identify ways to improve how we do things.

Our employee engagement index measures how committed our employees are, their desire to continue working for us and their willingness to recommend Vodafone as an employer. The index remained broadly stable at 77 points this year compared to 78 last year. Crucially we retained our top quartile position. Our employee turnover rate also remained broadly stable at 15%.

Embedding The Vodafone Way

The Vodafone Way is about ensuring our employees work with speed, simplicity and trust so that we can be customer-obsessed, ambitious and competitive, innovation-hungry and work as one company with local roots.

For the third consecutive year we have run development workshops for all senior employees with a particular focus on ensuring we provide a superior experience to all our customers.

Building a diverse and inclusive culture

We believe that a diverse team is crucial to our success, helping us better understand and meet the needs of our customers. Our Group-wide diversity and inclusion strategy aims to create a working environment which values, celebrates and makes the most of individual differences.

We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement regardless of race, nationality, gender, age, marital status, sexual orientation, disability, and religious or political beliefs. This also applies to agency workers, the self-employed and contract workers who work for us. We promote an open culture that encourages people to raise issues to ensure that any behaviour which excludes or discriminates against individuals does not go unchallenged. This year's People Survey showed that 89% of employees believe that Vodafone treats people fairly, regardless of their gender, background, age or beliefs.

Creating a lean and effective organisation

We continue to make our business more efficient, simplifying processes across our markets and sharing best practice. We continue to move transactional and back office activities to our shared service centres in Egypt, India and Europe. In the last year we undertook an exercise to reduce our non-customer facing support functions, as discussed on page 32.

We aim to treat all employees fairly, consulting with those affected by change and clearly communicating developments. We support employees through organisational changes, finding people new jobs in the company or arranging for them to work for a partner company where possible. We also help those whose roles are made redundant search for new jobs, offering them training on job applications and interview skills, and advice on how to start their own business.

During the year we completed the integration of employees from Cable & Wireless Worldwide and we established single product management teams for consumer and enterprise.

Strengthening capabilities

We want people to grow their careers at Vodafone and develop the skills and talent needed to grow our business. We do this through formal training, on the job experience and regular coaching from managers.

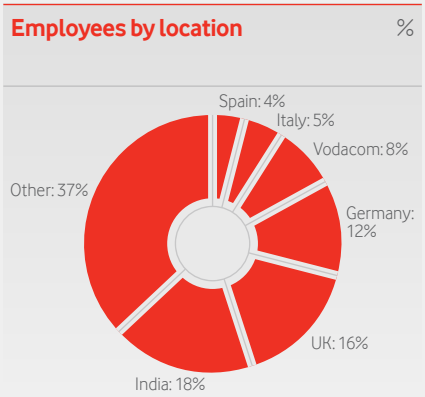
We conduct an annual analysis of learning needs to identify priorities and ensure that learning plans support our business strategy. Every employee also has a formal review once a year with their manager to review their performance and set clear goals and development plans for the year ahead.

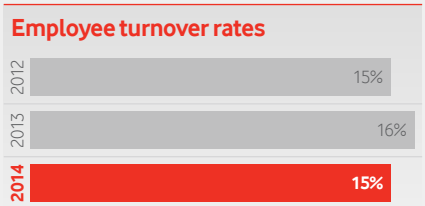
Our global learning academies in marketing, technology, sales, retail, finance and supply chain enable people to develop the critical skills they need to excel in their functions. We work with leading business schools and accredited external providers to develop and deliver the training. Last year, around 180,000 online courses were completed and we trained around 18,000 people in our Technology Academy and over 10,000 people in our Retail and Sales academies.

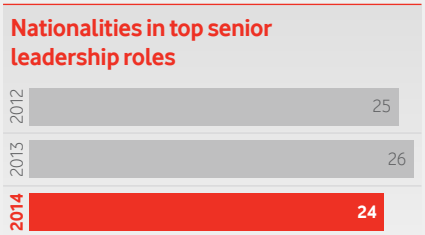
We conduct regular talent reviews to identify high-potential future leaders and accelerate the progress of high-potential managers through our "Inspire" programme, which offers development and executive coaching over an 18 month period and may include an assignment to another Vodafone market or function.

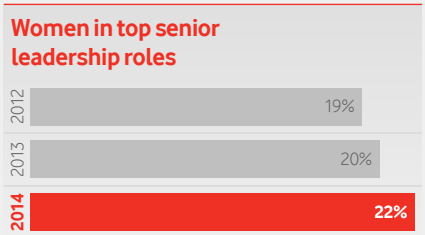
Our "Discover" programme for graduates accelerates the careers of high performing graduates and we recruited 596 people from 20 countries onto this programme during the year. We also have an international assignment programme, "Columbus", with 35 graduates from 16 different markets taking part this year.

Note:
Employee numbers are shown on a management view and on a full time employee basis. A statutory view is provided on page 152.



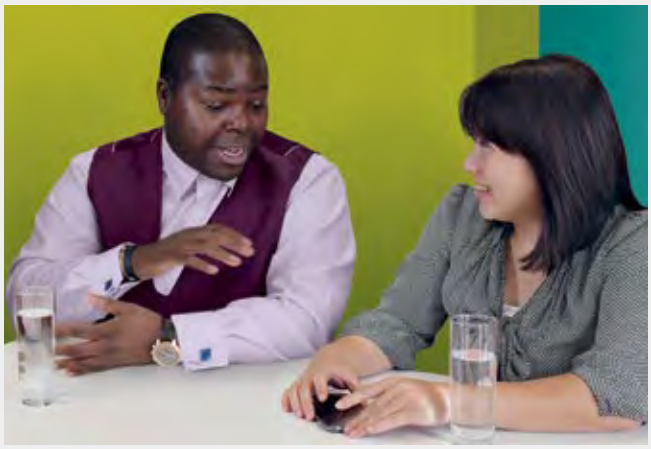






Valuing diversity

At the end of the year we had 61,848 (63%) male and 35,873 (37%) female employees and we have increased female representation at all levels of the business, particularly within more senior roles. Women now make up 22% of our senior leadership team (our 223 most senior managers) – an improvement on last year but we still have work to do. We also increased the number of women on our Executive Committee to two.



Recognising performance

We maintained our approach of rewarding people based on their performance, potential and contribution to our success. We benchmark roles regularly to ensure competitive, fair remuneration in every country in which we operate. We also offer competitive retirement and other benefit provisions which vary depending on conditions and practices in local markets.

Global short-term incentive plans are offered to a large percentage of employees and global long-term incentive plans are offered to our senior managers. Individual and company performance measures are attached to these plans which give employees the opportunity to be rewarded for exceptional performance as well as ensuring that we do not reward poor performance.

Doing what's right

We have a "Code of Conduct" that sets out our business principles and what we expect from employees to ensure they protect themselves as well as the Company's reputation and assets. We actively promoted our Code of Conduct throughout the year via our global "Doing What's Right" campaign. The aim was to improve understanding of and engagement with key topics including health and safety, anti-bribery, privacy, security and competition law to ensure that people know what's expected of them and managers know what is expected of their teams.

Creating a safe place to work

Driving a culture where safety is an integral part of every business decision is critical to our vision of preventing any incidents that could affect the health and safety of our people. We continue to work hard to ensure employees and contractors know how to identify and manage risks and take personal responsibility for their own safety and the safety of those around them.

We have a wide range of programmes and systems to tackle our key risks, often tailored to the particular needs of each market. Despite this, we greatly regret to report that 12 people died while undertaking work on behalf of Vodafone last year. Strengthening programmes to target occupational road risk – one of our biggest risks and the main cause of these fatalities – remains a major focus for all local markets.

Through increased awareness and a strong focus on managing our top five safety risks, our injury rates have continued to decline in 2014. The safety culture in Vodafone continues to mature – our latest People Survey showed that 89% of employees believe that our "Absolute Rules", which help employees follow best practice for safety, are taken seriously.