A year of continued progress supported by increased investment

Financial highlights

This year saw strong growth in most of our emerging markets offset by a continued decline in Europe, though many European markets are showing signs of stabilisation. Our significant investment programme, Project Spring, has led to a sharp rise in our capital expenditure and we have increased our dividend per share.

Our results this year include a full year of Vodafone Italy (consolidated from February 2014), our acquisitions of Ono, Hellas Online and Cobra Automotive and a full year of Kabel Deutschland.

Organic movements in this report exclude the impact of recent acquisitions and disposals, movements in foreign exchange rates and certain other items. See page 212 for more information.

More on **financial performance:** **Page 38**

£42.2bn

Revenue

Revenue increased by 10.1% over the year, mostly due to the inclusion of Vodafone Italy for a full year and the acquisition of Ono. On an organic basis, revenue declined by 0.8%* as strong growth in our emerging markets was more than offset by a decline in Europe.

£11.9bn

EBITDA

EBITDA increased by £0.8 billion mainly through the inclusion of Vodafone Italy and the acquisition of Ono. On an organic basis EBITDA declined by 6.9%*, reflecting ongoing revenue declines in Europe and the growth in operating expenses as a result of Project Spring, partially offset by operating efficiencies.

£2.0bn

Operating profit

Our operating profit, which is our profit for the year before interest and tax, was £2.0 billion. This compares with an operating loss of £3.9 billion last year, which included an impairment loss of £6.6 billion.

£9.2bn

Capital expenditure

Capital expenditure increased significantly during the year as we progressed with our Project Spring investment programme and from the inclusion of Italy and Ono.

11.22p

Dividends per share

We have announced a final dividend per share of 7.62 pence, giving total dividends per share of 11.22 pence – a 2.0% increase year-on-year.

Strategic highlights

We have made significant progress this year, expanding our 4G coverage and customer base in Europe, increasing take-up of 3G in emerging markets and further developing our fixed business.

More on **our strategy:** **Page 14–27**

20m

4G customers

We now have over 20 million 4G customers across 18 markets, helping data traffic grow by 80% across the Group.

446m

Mobile customers

We have grown our mobile customer base by 15 million over the year, with significant growth in our emerging markets.

12m

Fixed broadband customers

We have grown our fixed broadband base by 2.8 million over the year, through organic growth and the acquisitions of Ono and Hellas Online.

19m

3G customers in India

We have grown our 3G customer base from 7 million to 19 million in India, supported by the expansion of our 3G coverage.

72%

European 4G population coverage

We now have 72% 4G coverage compared with 46% a year ago and will reach over 90% by next year.

A year of significant investment

We have achieved a lot in the last year. We have made strong progress on our strategy, while making a significant contribution to the economies in which we operate and providing substantial returns to our shareholders.

30 years of mobile, but the future is unified communications

This year we celebrated 30 years since the first mobile phone call was made in the UK. Today, Vodafone is an industry leader with 446 million customers, mobile operations in 26 countries and fixed broadband operations in 17 countries.

Vodafone is bringing the benefits of the mobile and digital revolution to consumers and businesses across the world, from offering 4G services in 18 countries to providing services such as machine-to-machine ('M2M') technology and M-Pesa, the mobile payment service that provides financial freedom to millions of people.

Today, I see two areas in which Vodafone can truly claim to be a leader: in our emerging markets operations, and in our services to the enterprise segment. In markets such as India and South Africa, and increasingly in Egypt and Turkey, we are building clear differentiation in network quality, the power of our brand, and the depth and breadth of our distribution. In enterprise, our international footprint and our investment in growth areas such as M2M and Cloud and Hosting services are making us a preferred partner to many major multinational businesses.

However, in our core European mobile business, we have been under pressure for several years. Competition, regulation and the macroeconomic environment have all played a part, but in addition we have lacked clear differentiation in mobile, while also losing ground in some markets with the rapid adoption of unified communications.

And this is where the future lies – in the provision of high quality voice, data, business and entertainment services across multiple technologies and screens, in the home, in the office and on the move.

Over the last two years, our move into unified communications has taken significant steps forward, both through acquisition and organic investment. 25% of European service revenue now comes from fixed line services, and we have 12 million fixed broadband customers across the Group.

On 4G we have more than doubled our footprint in Europe in the last 18 months, to 72% population coverage. In India, we now provide 3G services in over 90% of our target urban areas. Data traffic across the Group grew 80% during the year.

These investments benefit businesses as much as consumers. Building on the Cable & Wireless Worldwide acquisition, which brought us global fibre infrastructure and points of presence in 62 countries, we are taking new services into new geographical areas to deepen customer relationships and grow revenue.

Aligning management pay to value creation and customer perception

Our remuneration policies continue to focus on rewarding long term value creation. The annual bonus this year was slightly higher than last year, reflecting improved performance against targets; but the failure to meet the three year threshold on free cash flow resulted in a zero pay-out on the long-term incentive plan.

We have also made a number of changes to management incentives in recent years to limit total pay, such as the reduction of the maximum achievable pay-out on the long-term scheme and the payments made in lieu of pension contributions.

This year we have made a significant change to the criteria for the annual bonus ('GSTIP') scheme.

The substantial investments in networks need to be supported by a clear step up in the customer experience and satisfaction, and the Board wants this to be reflected in short term incentives. 40% of the total GSTIP assessment will now be based on Customer Appreciation measures.

The Board continues to consider the ordinary dividend to be the core element of shareholder returns, and believes in a consistent dividend policy. This year we raised the dividend per share by 2.0%, and we intend to raise it annually hereafter.

A major economic contributor

We have always invested at a high level to ensure we are a leader in the quality of service we deliver to customers. With Project Spring we are reinforcing that position, not only in Europe but across many emerging markets too.

However, macroeconomic decline in Europe, combined with the consequences of past regulatory policies, has brought about a sharp reduction in return on capital over recent years. This has been exacerbated by market structures which remain fragmented both between and within member states.

This year, we published a report highlighting our overall economic impact across the 12 EU countries in which we operate. In 2013/14 Vodafone contributed €23.7 billion to the EU economy (measured in GVA or Gross Value Added). In addition, Vodafone:

- provided employment for 170,000 people across its direct workforce and European supplier base, as of 31 March 2014;
- paid €2.4 billion to EU governments in direct taxation, spectrum costs and other fees, and an additional €4.4 billion in indirect tax payments in 2013/14; and
- since 2000, has paid EU governments a total of €20.8 billion for access to spectrum to roll out 3G and 4G networks across Europe.

The new European Commission has identified as a priority the need to reboot Europe's digital strategy. We encourage the Commission to prioritise measures intended to ensure fair and sustainable competition based on a level playing field for all companies.

It will also be important for the Commission to pursue harmonisation of rules on spectrum, data protection, copyright and other areas, as well as to adopt a principles-based approach to the open internet to support future innovation and investment.

Our economic impact in emerging markets is no less strongly felt, yet there too we face continued pressures from regulatory and fiscal intervention. In South Africa, for example, the significant mobile termination rate ('MTR') cuts of the last year had a material financial impact on our business.

While India represents an excellent long term investment opportunity, the present regulatory challenges are hampering economic development. Spectrum auction structures combined with the piecemeal release of new spectrum, leaves less capital available for investment in bringing high quality services to more of the country, and this is exacerbated by other ongoing regulatory challenges.

Changes to the Board

In January, Stephen Pusey informed the Board of his intention to step down as Group CTO. His many achievements over eight years include the international expansion of Vodafone's 3G services, the launch of 4G in 18 countries and the development of global IT, procurement and cyber security functions. More recently, he has led the Project Spring investment programme, and has also played a leading role in developing the Group's convergence strategy. Stephen's successor, Johan Wibergh, was previously Executive Vice President and Head of the Networks segment at Ericsson.

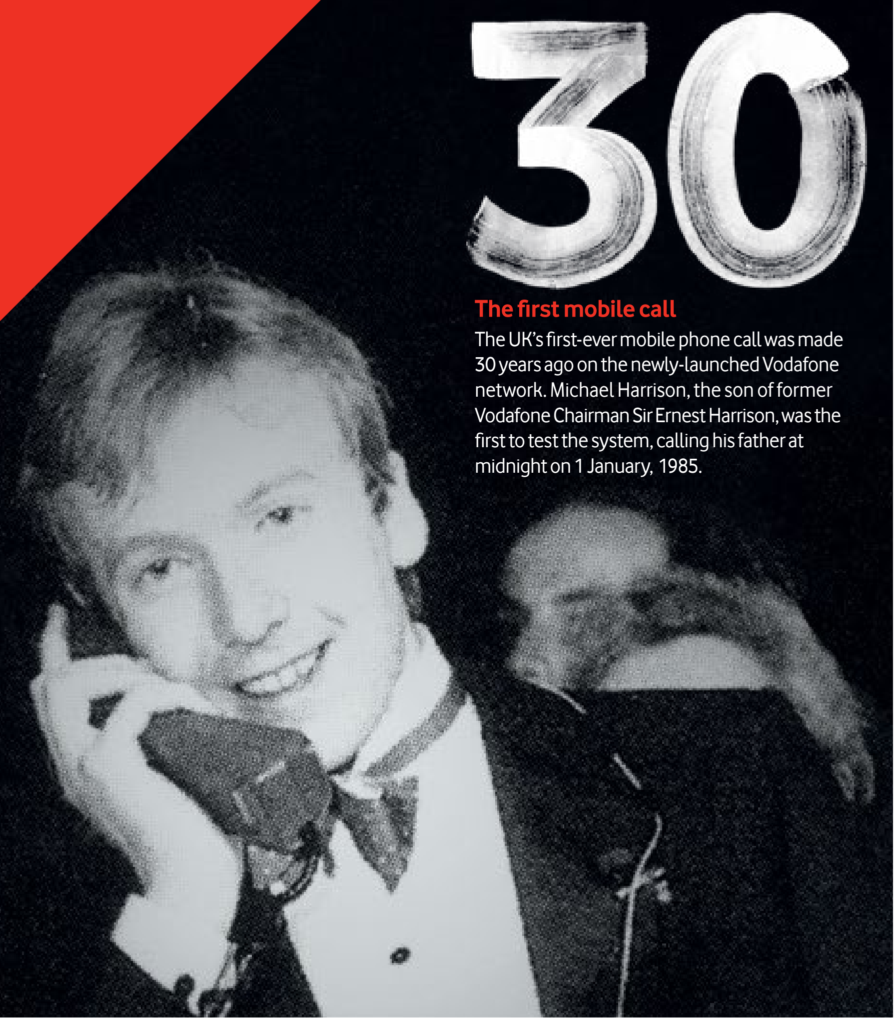
During the year there were a number of changes to the non-executive team and these are set out in my Governance statement on page 50.

Gerard Kleisterlee
Chairman

We have come a long way

30 years ago, the first mobile phone call on our UK network was made. Since then we've grown from a UK mobile company to a multinational telecommunications leader.

How have we become one of the world's largest telecommunications companies, creating one of the world's most powerful brands in the process? By a relentless focus on providing high-quality services that allow our customers to get the most out of an increasingly connected world.



The first mobile call

The UK's first-ever mobile phone call was made 30 years ago on the newly-launched Vodafone network. Michael Harrison, the son of former Vodafone Chairman Sir Ernest Harrison, was the first to test the system, calling his father at midnight on 1 January, 1985.

How we are changing

In recent years we have successfully evolved our business to address new growth opportunities. We now do much more than mobile. We are unifying communications.

How we are changing

Over the last few years we have seen a rapid transition in the telecoms industry, towards new areas of growth – data, emerging markets, unified communications and total communications services for enterprise customers.

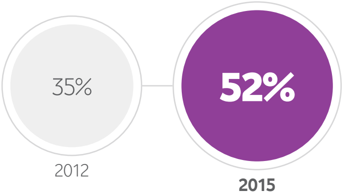
As a result we now do much more than provide mobile to 446 million customers. With 12 million fixed broadband users, 9 million TV customers, 22 million M2M connections, and 20 million M-Pesa mobile money users – we are unifying communications.

Consumer Europe

Drivers of change
- → Increasing smartphone penetration
- → High speed 3G and 4G technology

Actions
- → Vodafone Red plans with generous data allowances
- → Provide content
- → Invest in 4G networks

Impact: percentage of customers in Europe using mobile data

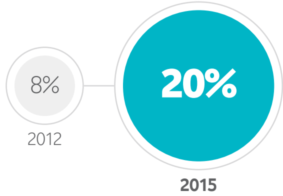


Unified Communications

Drivers of change
- → Competitors offering fixed and mobile bundles
- → Fixed and mobile technology convergence

Actions
- → Grow fixed access via acquisition, investment or wholesale arrangements
- → Launch bundles with fixed and mobile services

Impact: percentage of service revenue from fixed line

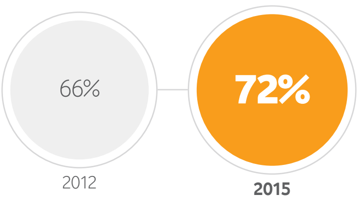


Consumer Emerging Markets

Drivers of change
- → Rapid population and economic growth
- → Growing demand for data and lack of fixed infrastructure
- → Higher demand for mobile money services

Actions
- → Increase 3G/4G network capability
- → Improve distribution
- → Expand M-Pesa

Impact: percentage of customers from emerging markets

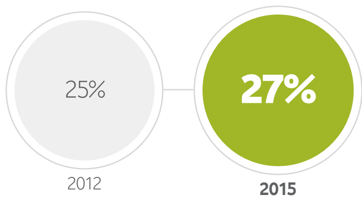


Enterprise

Drivers of change
- → Mobility becoming strategic
- → Companies wanting a single source for all communication services

Actions
- → Invest in total communications solutions including Vodafone One Net, Cloud and Hosting, and M2M

Impact: percentage of service revenue from enterprise



Driving network and service differentiation

Project Spring is our two-year, £19 billion investment programme designed to place Vodafone at the forefront of growth in mobile data and the increasing trend towards the convergence of fixed and mobile services. We are now just over one year through the programme and are making great progress.

Progress so far

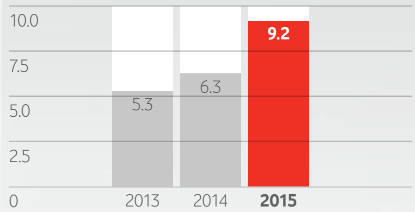
In Europe, we have increased 4G coverage to 72% and aim to get this to over 90% by next year. We have further modernised our network to improve voice and data quality, with 83% of our radio sites connected with high capacity backhaul and 81% with Single Radio Access Network ('RAN') technology. All this means a significantly improved experience for our customers, including more reliable connections, faster data speeds, greater coverage and fewer dropped calls.

We now reach 28 million homes with our owned cable and fibre infrastructure as a result of acquisitions and fibre builds in Italy, Spain and Portugal.

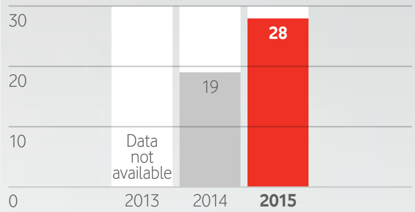
In our Africa, Middle East and Asia Pacific ('AMAP') region, we have increased 3G and 4G coverage (excluding India) to 82% and aim to grow this further next year. In India we now cover 90% of the population in targeted urban areas with 3G and aim to increase this to 95% by next year.

More on **Project Spring:** **Pages 22 to 27**

Total capital expenditure

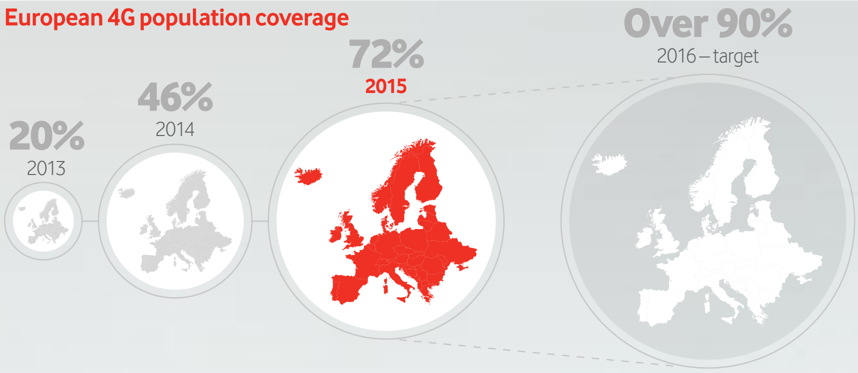


European households passed with owned cable/fibre[1]



Total build since September 2013[2]	March 2014	March 2015	March 2016 target
New 2G sites	7,000	**33,000**	47,000
New 3G sites	13,000	**42,000**	73,000
New 4G sites	7,000	**35,000**	77,000
New single RAN installations	20,000	**73,000**	106,000
New high capacity backhaul sites	17,000	**63,000**	87,000

European 4G population coverage



88%

88% of data sessions in Europe are now delivered at the speeds required to enjoy a high definition video experience

Note:
1 Next-generation network ('NGN') technology, which includes fibre-to-the-home, cable and very-high-bit-rate digital subscriber lines from the cabinet or central office.
2 Data shown to the nearest thousand.

Consumer Europe

72%

4G population coverage, increased from 32% in September 2013 and is expected to increase to over 90% by March 2016

0.6%

Dropped call rate, improved from 0.9% in September 2013

More on **Consumer Europe: Page 22**

Unified Communications

28m

Homes reached in Europe with high-speed internet from our owned infrastructure

5m

We have over five million **next-generation network ('NGN') broadband customers**

More on **Unified Communications: Page 24**

Consumer Emerging Markets

90%

3G coverage in India (targeted urban areas), expected to increase to 95% by March 2016

82%

3G/4G coverage across AMAP (excluding India), increasing to 84% by March 2016

More on **Consumer Emerging Markets: Page 22**

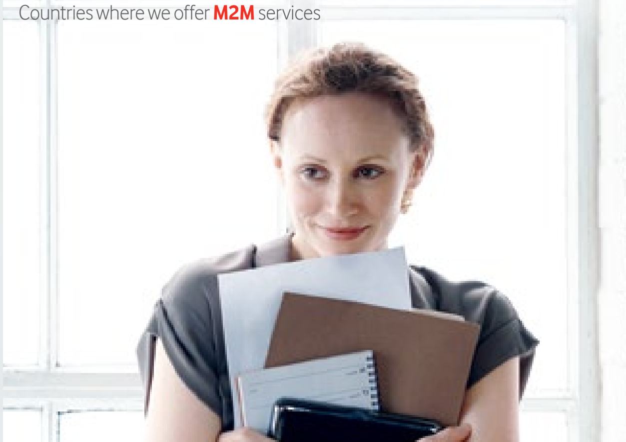
Enterprise

62

Countries where we offer **IP-VPN** services

27

Countries where we offer **M2M** services



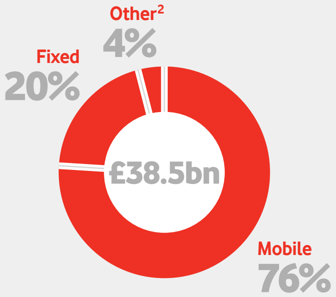
More on **Enterprise: Page 27**

What we offer

We provide a wide range of services including voice, messaging and data across mobile and fixed networks.

The services we provide

Group service revenue 2015[1]



Notes:
1 Excludes £3.7 billion of other revenue that mainly relates to the sale of equipment.
2 Other service revenue includes revenue from mobile virtual network operators ('MVNOs') and from our partner markets.

283,000

We have over 283,000 base station sites across our markets

1.2tn

Over 1.2 trillion minutes of voice calls carried over our network last year

290bn

Over 290 billion text messages sent and received by our network last year

982PB

982 petabytes of data were sent across our mobile network alone last year, nearly double the amount handled in the previous year

More on **Strategy: Page 14**

Mobile

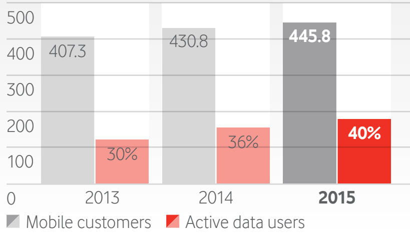
Mobile services

We provide a range of mobile services to our customers, enabling them to call, text, access the internet, stream music and watch videos wherever they are – at home, on the move or even abroad with our roaming services.

40%

40% of our customers now use mobile data

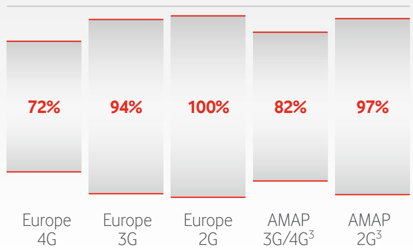
Mobile customers (million) and active data users (%)



Our mobile assets

We provide these services through our network of over 283,000 base station sites providing near nationwide voice coverage and extensive data coverage across Europe and extensive coverage across our AMAP region.

Mobile network population coverage



Note:
3 Excludes India.

Fixed

Fixed services

We provide a range of fixed services in most of our major markets including voice, broadband and TV services to consumers and a wider range of services to our enterprise customers, including Cloud and Hosting and IP-VPN.

We are also one of the world's largest carrier services business, providing voice and data services to other operators using our network of cable and fibre assets across the world.

Our fixed line assets

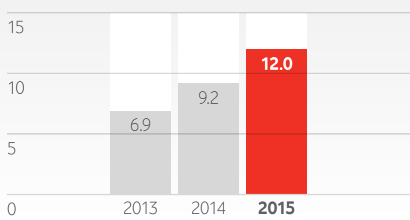
We provide these services through a combination of owned and leased copper, cable and fibre assets. Our focus is on next-generation networks (fibre or cable) and we cover 28 million homes with our own infrastructure and 50 million homes including wholesale arrangements.

9m

We have over nine million TV customers across six markets

Fixed broadband customers

million



High-speed broadband coverage

50m

50 million households passed with cable or fibre across Europe (owned or leased)

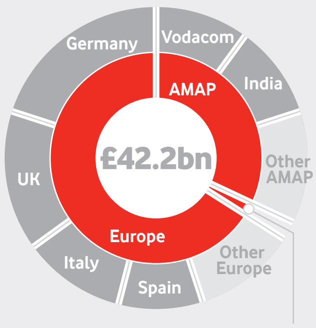
Where we operate

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

Our reach and scale

Group revenue 2015

Europe 66% AMAP 32%



Other (includes partner markets and common functions)[1]
2%

Note:
1 Common functions includes revenue from services provided centrally or offered outside our operating company footprint, including some markets where we have a licensed network operation, for example offering IP-VPN services in Singapore.

Europe

We are the number one or two mobile operator in most of our countries with market shares ranging from around 20% to over 40%. We are typically smaller in fixed line, with market shares ranging from low single-digit up to 20%.

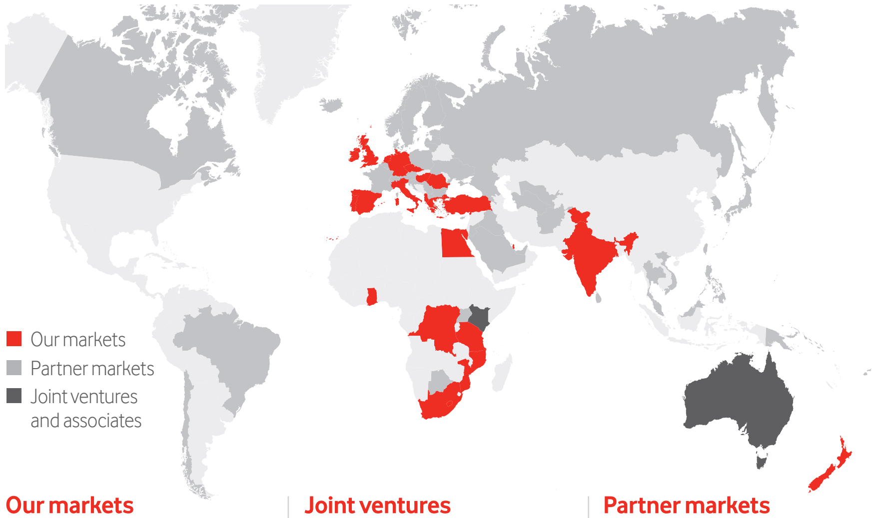
Albania	Malta#
Czech Republic#	Netherlands#
Germany#	Portugal#
Greece#	Romania#
Hungary	Spain#
Ireland#	UK#
Italy#	

AMAP

We are the number one or two mobile operator in most of our countries with market shares ranging from around 20% to over 50%. We have a small but growing share in fixed line.

Australia (joint venture)	New Zealand#
Egypt#	Qatar#
Ghana#	Turkey#
India	Vodacom Group#2
Kenya (associate)	

Notes:
Fixed broadband markets.
2 Democratic Republic of Congo ('DRC'), Lesotho, Mozambique, South Africa and Tanzania.



Our markets

We provide mobile services in these 24 countries and fixed services in 17 of these. Together they account for 98% of our revenue.

Joint ventures and associates

We also provide mobile services in Australia and Kenya, taking our total markets to 26. We also part-own the tower company Indus Towers in India.

Partner markets

These are the 55 markets where we hold no equity interest but have partnership agreements with local mobile operators for them to use our products and services and in some cases our brand.

Our main markets

Germany

£8.5bn revenue	33% mobile market share[3]
30.9m mobile customers	20% fixed market share[3]

UK

£6.4bn revenue	24% mobile market share[3]
18.4m mobile customers	4% fixed market share[3]

Italy

£4.6bn revenue	32% mobile market share[3]
25.2m mobile customers	6% fixed market share[3]

Spain

£3.7bn revenue	30% mobile market share[3]
14.2m mobile customers	11% fixed market share[3]

Vodacom Group

£4.3bn revenue	53% mobile market share[3] (South Africa)
68.5m mobile customers	

India

£4.3bn revenue	23% mobile market share[4]
183.8m mobile customers	

Notes:
3 Vodafone estimates for the quarter ended 31 March 2015.
4 Source: Telecom Regulatory Authority of India, December 2014.

How we make money

We invest in superior telecommunications networks so that we can sustain high levels of cash generation, reward shareholders and reinvest in the business – thus creating a virtuous circle of investment, revenue, strong cash conversion and reinvestment.

Spectrum, network and IT infrastructure

We use our spectrum licences to provide the radio frequencies needed to deliver communications services. We combine our base station sites and our expertise in network management to transmit signals for mobile services. Through our fixed broadband assets (cable, fibre and copper) and wholesale agreements with other operators, we provide broadband, voice and TV services. Our IT estate provides our data centres, customer relationship capability, customer billing services and online resources.

Revenue

The majority of our revenue comes from selling mobile voice, text and data. Mobile users pay either monthly via fixed term contracts (typically up to two years in length) or prepay by topping up their airtime in advance of usage. Enterprise customers are typically on contracts that last between two to three years. Over 90% of our mobile customers are individual consumers and the rest are enterprise customers. A growing share of mobile revenue arises from monthly fees rather than metered access, which is much more vulnerable to competitive and economic pressures.

Fixed customers typically pay via one to two year contracts, and as a result fixed revenue streams are more stable than mobile.

Cash flow

Our track record of converting revenue into cash flow is strong – with some £11.2 billion generated over the last three years. We achieve this by operating efficient networks where we seek to minimise costs, thus supporting our gross margin.

We also have strong local market share positions – as we are typically the first or second largest mobile operator in each of our markets with a share of more than 20%. This provides in-market scale efficiencies to support our EBITDA margin, which in turn provides healthy cash flow.

Reinvestment

Our cash flow helps us to maintain a high level of investment to give our customers a superior network experience, which over time should enable us to secure a premium positioning in most of our markets. We also continue to participate in spectrum auctions to secure a strong portfolio of spectrum.

Over the last three years we have committed £21 billion in capital investment in networks, IT and distribution, a further £4 billion on the renewal and acquisition of spectrum and £13 billion on acquiring new fixed line businesses.

Shareholder returns

The cash generated from operations allows us to sustain generous shareholder returns while also investing in the future prosperity of the business.

In the 2014 calendar year we were the fifth largest dividend payer in the FTSE 100. Over the last three years we have returned almost £13 billion to shareholders, in the form of ordinary dividends, excluding share buy backs and the Verizon Wireless Return of Value. In addition we have increased the dividend per share every year for more than 15 years.

Beyond financial value – towards a sustainable business

Our core business is founded on a powerful social good: we help millions of customers communicate, share, create, learn and grow, and the rapid expansion of our networks is having a profound impact on the way people manage their daily lives.

Everyone we deal with, from our customers, shareholders, partners and suppliers, to our employees, regulators and NGOs, rightly expect everyone at Vodafone to act responsibly and with integrity at all times. The beliefs, aspirations and concerns of this diverse range of stakeholders consequently shape our performance and success, influencing the way we make decisions.

We know that financial results alone are not enough: the societies and communities within which we operate want companies to focus on enhancing lives and livelihoods and overlooking that expectation would risk undermining our prospects for long-term value creation.

More on **Sustainable business: Page 30**

How we set ourselves apart

We aim to differentiate ourselves from our competitors by offering a leading network, leveraging the benefits of our large scale, global reach and international brand; by our leading position in enterprise; and by training and developing the best people.

Network quality

We aim to have the best mobile network in each of our markets, combined with competitive fixed networks in our main markets. This means giving our customers broad coverage, a reliable connection, and increasing speeds and data capacity.

Key differentiators:

- We are one of the world's largest mobile operators with 283,000 base station sites
- We have the best or co-best mobile data networks in 16 out of 20 markets[1]
- We have a leading holding of spectrum in most of our key markets
- We own the largest cable companies in Germany and Spain
- Project Spring, our £19 billion investment programme, aims to strengthen further our network and service differentiation

Service design

The mobile services we provide are carefully designed to meet the needs of targeted customer segments. For example, SIM-only plans which do not include a handset for customers focused on value, shared data plans for families, and bundles including generous data allowances, content, roaming, cloud storage and internet security for those wanting worry-free solutions. We can also design bespoke solutions to meet the needs of our business customers, whatever their size.

The majority of our fixed revenue is from home and office broadband solutions, including TV and calls over a landline. The remainder arises from carrying other operators' international traffic across sub-sea cable systems.

Key differentiators:

- We are typically either number one or number two in mobile enterprise in most of our markets
- We have a comprehensive portfolio of total communication services including mobile, fixed, Cloud and Hosting, and M2M business solutions

Branding and marketing

We communicate our services to customers through clear and effective branding and marketing. The strength of our brand is a major driver of purchasing decisions for consumers and enterprise customers alike. For example, in only 30 months, Vodafone Red, our globally branded pricing plan (providing bundles of unlimited voice, text and generous data allowances) has over 20 million customers.

Key differentiators:

- Vodafone is the UK's most valuable brand with an attributed worth of US$27 billion[2]

Sales

We sell our mobile services through a variety of distribution channels. Our shops comprise exclusive branded stores, distribution partners and third party retailers. Our branded stores enable customers to test our products and services before they buy, obtain advice from sales advisors, and top-up their price plans. Online channels, whether accessed through a mobile device or PC, are becoming much more important and we are upgrading our IT estate to meet this growing demand. Branded channels (including online and telesales) account for around 60% of new consumer contract customers and around 90% of contract renewals in Europe. Third party channels account for around 40% of acquisitions.

Our large corporate customers are served by a direct sales team; small and medium-sized companies are managed through a network of around 2,000 indirect partners, and sole traders are serviced via our retail stores and telesales capabilities.

The transition towards unified communications is changing how we reach customers and our fixed line businesses use door-to-door selling and more telesales than our other services.

Our mobile money service M-Pesa, enables users to top up their airtime as well as providing access to financial services. Read more about M-Pesa on pages 26 and 30.

Key differentiators:

- We have over 16,000 exclusive branded shops across the globe
- In India, we supplement our branded stores with 1.8 million small-scale outlets for top-ups, significantly more than our nearest competitor
- In our established M-Pesa markets of Kenya and Tanzania we are the market leaders for mobile money services

Customer service

We have over 17,000 employees dedicated to providing customer service, supported by contractors and third parties. All call centres are available 24 hours a day, seven days a week in all our European markets, and this is now being rolled out across our remaining markets outside Europe. In an increasingly digital age we also offer live webchat capability, and self-care, either via a handset, tablet or laptop, to enable customers to self-diagnose and resolve their own queries.

Key differentiators:

- We are both a multinational and a multicultural company, and our diverse workforce helps us better understand and meet the needs of our customers
- We employ people from over 130 countries, with 24 nationalities among our Senior Leadership Team. For more information on our people see page 28

Notes:
1 P3 communications.
2 2015 Brand Finance Global 500.

The telecommunications industry today

The telecommunications industry is a large one, generating around US$1.5 trillion of revenue annually, from seven billion mobile phone customers and one billion fixed line customers.

The global mobile market

Scale and structure

The mobile industry has 7.2 billion users, generating around one trillion US dollars of annual service revenue every year. Around 60% of revenue comes from traditional calls. However, over the last few years the demand for mobile data services, such as watching videos and internet browsing on a smartphone, has accelerated, and today around 40% of revenue is from data, up from around 30% in 2011.

The majority of mobile users, around 76%, are in emerging markets, such as India and Africa. This reflects the typical combination of large populations and the lack of fixed line infrastructure, which means that the mobile internet is often the only connection to the internet for people in these regions. It is estimated that in 2014 over half of the world's mobile internet users came from emerging markets[1]. In contrast, the reported proportion of the population with a phone – or mobile penetration – tends to be high in mature markets (usually over 100%) – as some people have more than one device. Mobile penetration is usually 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 20%. In 2011 global mobile penetration was only 87%, and by 2014 it had risen to 101%.

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. In each country there are typically at least three to four mobile network operators ('MNOs') such as Vodafone. Across Europe there are more than 100 MNOs. 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 is also competition from other communication providers using internet-based rather than cellular services such as WiFi calling or instant messaging.

Regulation

The mobile industry is heavily regulated by national and regional 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 11% of service revenue for Vodafone. See page 195 for more on regulation.

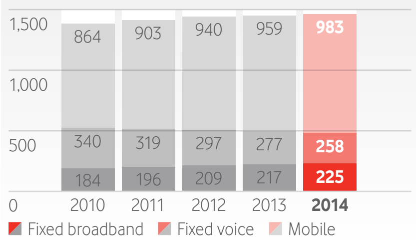
Revenue trends

In an environment of intense competition and significant regulatory pressures, the average global price per minute of a mobile call has fallen by over a third in the last three years to five US cents[2]. However, with both more mobile phone users, and more usage of mobile services, global mobile revenue remains on a positive trend and expanded by 9% over the same period.

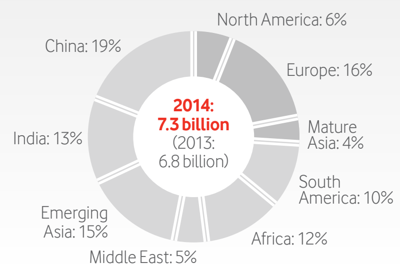
The global fixed market

The fixed communications market generates around US$500 billion of revenue annually. 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 is growing with an estimated 690 million customers worldwide – an increase of 21% over the last three years. This growth has been spread across all forms of broadband – copper, cable and fibre – and within this, there is a growing preference for the high speed capability provided by cable and fibre.

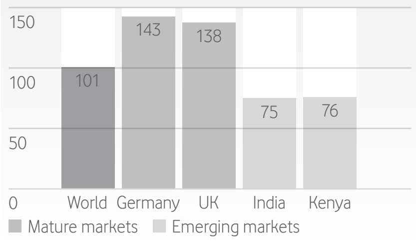
Telecommunications revenue[3] US$bn



Mobile customers by market[3]



Mobile phone penetration by market[3] %



Where the industry is heading

The pace of change in the industry is expected to remain significant – the demand for data is accelerating, there is an ongoing shift towards fixed and mobile bundles, networks are improving, and the market environment is becoming more positive.

Growing importance of data, emerging markets and other new revenue areas

Traditional revenue sources – mobile voice and texts – have reached maturity in a number of markets. Therefore, to deliver future growth opportunities, we are investing in newer revenue areas such as data. It is estimated that between 2014 and 2018 mobile data revenue will grow by 18%, compared to a 7% 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. Already 95% 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, operators are investing more in 4G in European markets and a combination of 4G and 3G in emerging markets to provide much faster data speeds.

Emerging markets have significant potential for customer and revenue growth driven by rising populations, strong economic growth, lower mobile penetration and a lack of alternative fixed line infrastructure. By 2018 it is expected that there will be 1.5 billion new mobile users in emerging markets, taking their share of global users to 79%.

Other new revenue streams are being pursued which extend the use of mobile beyond everyday communication. These include money transfers and payments using a handset, and M2M services such as smart metering and 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 or bundled mobile, fixed and TV services so that customers can use data services wherever they are and on whatever device they want.

The demand for bundled services has been a feature of the enterprise market for several years and is becoming more visible in the consumer market. We believe that this demand, combined with technological advances delivering easier connection of multiple data devices, will support strong data growth in the future. Therefore this will need to be managed by access to next-generation fixed networks, principally cable or fibre, to support increased speed and meet capacity requirements.

Continued network innovation

The pace of innovation and development in the networks is increasing. For example, 4G, which we only launched in 2010 already accounts for 30% of data traffic on Vodafone's European networks. Standard 4G provides speeds of up to 150 Mbps, which is more than three times the highest 3G speeds. The next stage of 4G development is 4G+, which bonds together multiple spectrum blocks to provide typical peak speeds of up to 450 Mbps. High-Definition voice is another new mobile technology which provides customers with crystal clear call quality. In the fixed broadband sector operators are investing more in fibre which provides data speeds typically up to 300 Mbps to 1 Gbps, compared with up to 24 Mbps on copper broadband.

Continued high level of competition

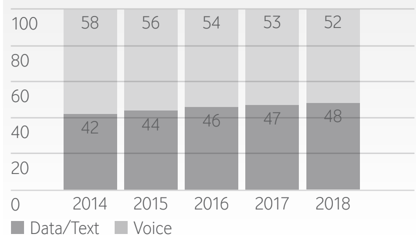
The high level of competitive intensity in the communications industry is expected to continue between established MNOs, MVNOs, fixed operators and internet- based services providers. MVNOs and smaller mobile operators are often attractive to value seekers. However, the high level of investment in 4G and unified communications by larger MNOs, such as Vodafone, enables differentiation through higher network and service quality. Fixed operators often bundle their services with mobile, leading Vodafone to acquire fixed capability to bundle with mobile, through investment in fibre networks, acquisitions and wholesale agreements.

Internet-based providers often offer "free calls and texts" services, so mobile operators increasingly sell unlimited voice and text bundles, and combine this with a fixed fee for data usage. While we expect the level of competition to remain robust, we have seen some encouraging signs of consolidation among European telecoms operators which is supportive of further investment.

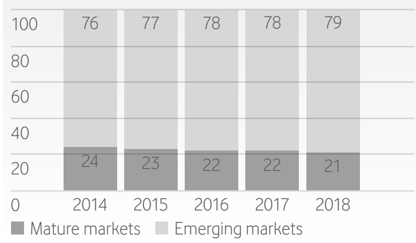
Improving business environment in Europe

As Europe represents the majority of our revenue, the environment is important to us. The economic recession in Europe over the last few years has been a key driver of the declining revenue trends in the region for many operators. However, the return to GDP growth in 2014 bodes well for the future. The regulatory environment in Europe remains challenging, as a result of ongoing cuts to regulated revenues such as roaming and MTRs. The European Commission has recently announced a new Digital Single Market package of legislative measures. While this emphasises the need to improve the investment climate, it still needs to translate into specific legislative measures which – if rapidly adopted – would have a positive impact.

Share of industry mobile service revenue[3] %



Share of industry mobile users[3] %



Notes:
1 ITU Telecommunication Development Bureau.
2 Merrill Lynch.
3 Strategy analytics.

Making substantial strategic progress

It has been a year of continued progress, with increasing signs of stabilisation in a number of European markets and continued good growth in emerging markets. Our strategic investment in Project Spring and unified communications is delivering a clear improvement in our commercial performance.

We expect these trends to shape our industry...

- Growing importance of data and other new revenue areas
- Increasing demand for unified communications
- Strong demand from emerging markets
- High level of competition
- Improving business environment in Europe

More on **Where the industry is heading:** **Page 13**

As a result our strategy will focus on...

1

Consumer Europe

Demand for data is rapidly accelerating. We are focused on providing the best fixed and mobile data experience, outstanding customer service and a range of worry-free price plans and additional services.

2

Unified Communications

More and more businesses and consumers are seeking unified communications – converged fixed and mobile services – and we are adapting to meet these demands.

3

Consumer Emerging Markets

It's easy to conceive of Vodafone as a Europe-centric company, but an increasing amount of our revenue now comes from countries outside Europe, and most of this in fast-growing emerging markets where demand for data is taking off.

4

Enterprise

We want to become the leading communications provider for businesses across the world, large or small. We provide a range of services including mobile, fixed, Cloud and Hosting and M2M that are easy to use, worry-free and cost-effective.

Supported by...

- An excellent network experience
- Customer-focused and cost-efficient business model and operations

Each of which is accelerated by...

Project Spring

Investing £19 billion in mobile and fixed networks, products, services and our retail platform