

Welcome to our 2016 Annual Report

The Overview, Strategy Review and Performance sections constitute the Strategic Report. These are based on an assessment of our performance using the key strategic areas as set out on page 10.

Overview

An introduction to the report covering who we are, the Chairman's reflections on the year, notable events, and a snapshot of where and how we do business.

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Unless otherwise stated references to "year" or "2016" mean the financial year ended 31 March 2016, to "2015" or "previous year" mean the financial year ended 31 March 2015, and to the "fourth quarter" or "Q4" are to the quarter ended 31 March 2016. For other references please refer to page 35.

All amounts marked with an "*" represent "organic growth", which presents performance on a comparable basis, both in terms of merger and acquisition activity as well as in terms of movements in foreign exchange rates. See definition on page 191 for more information. Definitions of terms used throughout the report can be found on pages 200 and 201.

The terms "Vodafone", the "Group", "we", "our" and "us" refer to the Company and, as applicable, its subsidiaries and/or interests in joint ventures and associates.

Website references are for information only and do not constitute part of this Annual Report. This report is dated 17 May 2016.

Further improvement in our performance

We have returned to organic growth in both revenue and EBITDA

Revenue

Reported revenue decreased by 3.0% over the year. On an organic basis, which adjusts for certain items*, revenue grew by 2.3% reflecting underlying improvement.

£41.0bn

£11.6bn

EBITDA

on a reported basis fell by 2.5%. On an organic basis it grew 2.7%.

£1.4bn

Operating profit

declined due to reduction in EBITDA (2015: £2.0bn).

£8.6bn

Capital expenditure

remained high due to our Project Spring investment (2015: £9.2bn).

11.45p

Dividends per share

up 2.0% over last year (2015: 11.22p).

Our improved operational performance is encouraging steady customer growth

462m

Mobile customers

16 million customers joined our networks last year, mainly driven by growth in emerging markets.

47m

4G customers

26 million more customers used our superfast 4G during the year.

13.4m

Fixed broadband customers

rose by over one million, supported by the expansion of our broadband reach.

38m

Internet of Things connections

are up by 37% over the year, driven by our global scale and reach.

A year of solid progress

This has been a year of continued strategy implementation and improved operational execution, with a return to growth enabling consistent attractive returns to shareholders.



Our Project Spring investment programme is bearing fruit

Good progress. Financial improvement is following

The financial year 2016 has been a year of solid progress, both with respect to the further implementation of our strategy as well as regarding our focus on customer experience excellence and operational execution.

Vodafone has been undergoing a substantial transformation over the last five years. While historically we developed as a business that was almost exclusively focused on mobile voice and text services, we now cover most of our markets with advanced mobile data networks, we reach 72 million homes in Europe with Vodafone-branded high speed broadband services, of which 41% are on our own fibre or cable networks, and we offer a broad portfolio of market-leading, integrated fixed and mobile communications services across a footprint of 26 countries. Vittorio covers this progress in more detail in his review on pages 10 to 13.

Our progress has come about through significant organic investment and acquisitions. Our total spend in the last three years – across capital expenditure, spectrum licences and acquisitions – has exceeded £47 billion. We have funded this through the sale of valuable but non-controlled assets such as Verizon Wireless, while still maintaining a strong balance sheet and paying an attractive and growing dividend. This is one of the key roles of the Board: finding the right balance between long-term investment to secure the sustainability of the business; a strong credit position to weather uncertain economic times; and a regular and reliable return for shareholders.

The crucial next step for Vodafone is to translate these investments into improving financial performance, and I am extremely pleased to report that Vodafone returned to organic growth this year in both revenue and EBITDA, aided by our Project Spring investment programme which completed in March 2016.

Our performance will be further enhanced by our Customer eXperience eXcellence programme (CXX), which we launched last year and which, with Vittorio's personal leadership, will continue to have the highest attention from the Board. These improvements are necessary to maintain our strong financial framework and underpin our dividend policy. Nick sets out in more detail our plans for continued growth, supported by increasing efficiency, on pages 14 and 15.

The Board continues to view the dividend as the key element of shareholder returns and consistent with this policy we have raised the dividend per share by 2% to 11.45 pence for the year. For the financial year ending 31 March 2017 and beyond, dividends will be declared in euros and paid in euros, pounds sterling and US dollars. This is consistent with the change in the Group's reporting currency to euros from pounds sterling.

The regulatory agenda is still unresolved in key areas

At Vodafone we are aiming for a regulatory environment that enables investment, innovation and returns for business, while always maintaining adequate levels of competition to provide customers choice and value for money. So far in several geographies we are still some way from such a position and this will remain a point of concern for the Board when making its investment decisions.

In Europe, inconsistent industry regulations and spectrum policies, exacerbated by overly fragmented market structures, have led to a steep deterioration in return on capital employed over recent years. With the advent of new technologies designed to squeeze higher broadband speeds from outdated copper infrastructures, the risk of "re-monopolisation" is rising, at the expense of investment in 21st century fibre networks. Additionally, a number of incumbents are trying to use exclusive content ownership as a further lever to limit competition.

Recent initiatives by the European Commission have started to address some of these issues, but we believe more needs to be done.

In emerging markets, the positive economic impacts of mobile communications are well documented, but there too we face continued pressures from regulatory and fiscal intervention. For example, 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, leave less capital available for investment in networks, and this is exacerbated by other ongoing regulatory and fiscal burdens.

Vodafone Foundation

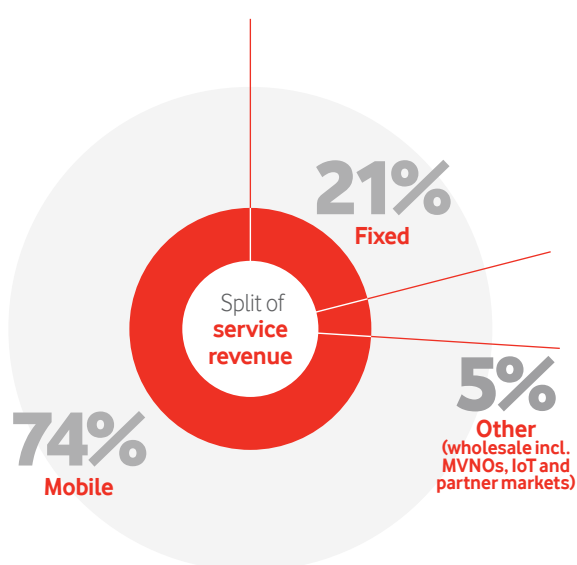
This year we are celebrating 25 years of the Vodafone Foundation, the Group platform for charitable giving. In reality it is not one single Foundation, but a unique network of 27 local foundations and social investment programmes in Vodafone markets. We have raised and invested over £560 million since its formation in helping charities and philanthropic organisations to achieve their goals, more recently providing connectivity in refugee camps, access to healthcare for women in Tanzania, and emergency support for victims of domestic violence, among many other causes. The Foundation remains committed to connecting communities around the world to save lives and improve the livelihood and education of children.

Gerard Kleisterlee
Chairman

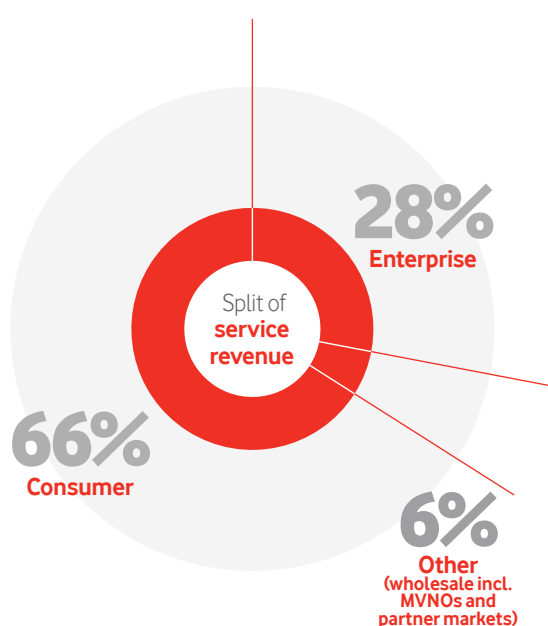
What we offer

In recent years we have taken advantage of growth opportunities to move from being a pure mobile operator to delivering a broad mix of communication services including mobile, fixed broadband, video content, cloud & hosting and Internet of Things offerings. We believe the future is in converging these services to be a unified communications provider and we are well positioned to deliver on this trend.

Fixed services increasingly important in line with trend to convergence...



Enterprise continues to be a key growth driver of our business...



Our services

Mobile

462 million

customers of which 43% are active data users.

We provide a range of mobile services, enabling customers to call, text and access the internet, stream music and watch videos whether at home or travelling abroad.

Fixed

13 million

fixed broadband customers and 9.5 million are TV customers.

We provide a range of services including voice, broadband and TV services to consumers and a wider range of services to our enterprise customers, including cloud & hosting and IP-VPN (Virtual Private Networks).

Other services

Includes Partner Markets and Common Functions (see page 5); Mobile Virtual Network Operators ('MVNOs') who are mobile providers that rent capacity from mobile operators to sell onto their customers; Internet of Things ('IoT') which is communication between devices via mobile technologies; international voice transit and roaming.

Converged services

In many of our markets, there is a growing trend towards the convergence of fixed and mobile services (also known as unified communications). For customers and operators this provides many benefits including lower bills for users and higher customer loyalty towards operators.

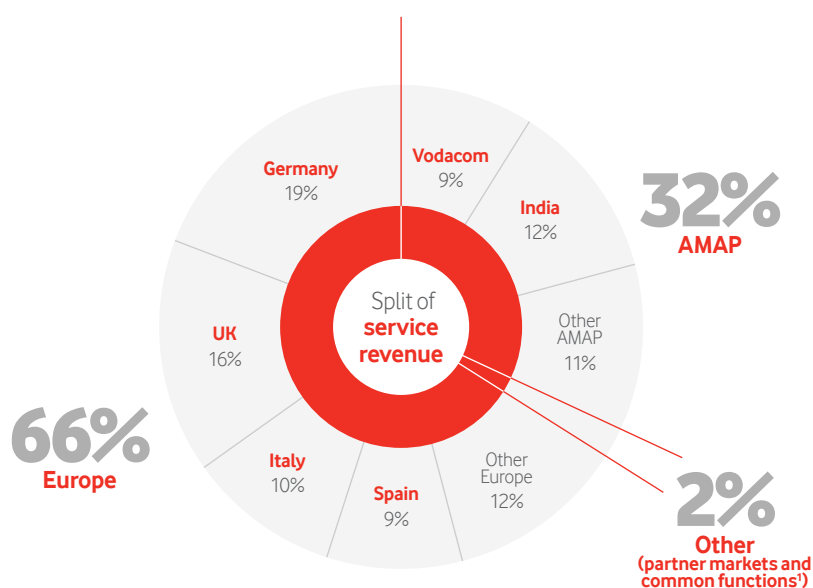
We believe this trend will continue to advance in Europe and start gaining traction in our AMAP region and that we are well positioned to take advantage and win market share. Today, we have nearly three million converged customers taking combined fixed and mobile services.

[More on our strategy:](#)
Pages 10 to 13

Where we operate

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

Our reach and scale



We provide mobile networks in 26 countries (including joint ventures and associates) and fixed services in 17 of these. There are 57 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.

66% of our service revenue comes from Europe

Core markets	Mobile customers	Mobile market share ²	Fixed market share ²
Germany⁵	30.3m	33%	20%
UK⁵	18.2m	24%	5%
Italy⁵	24.1m	32%	6%
Spain⁵	14.3m	28%	22%

Also operating in:

Albania	Hungary	Netherlands ⁵
Czech Republic ⁵	Ireland ⁵	Portugal ⁵
Greece ⁵	Malta ⁵	Romania ⁵

32% of our service revenue comes from AMAP

Core markets	Mobile customers	Mobile market share ²
India⁵	198.0m	22%
Vodacom^{3,5}	70.4m	50% ⁴

Also operating in:

Australia (joint venture)	Egypt ⁵	Kenya (associate)	Qatar ⁵
	Ghana ⁵	New Zealand ⁵	Turkey ⁵

Notes:

1 Common functions include 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.

2 Vodafone revenue share estimates at end December 2015. Customer share for Spain.

3 Democratic Republic of Congo ('DRC'), Lesotho, Mozambique, South Africa and Tanzania.

4 South Africa.

5 Fixed broadband markets.

Our business model

Investing in a great platform for the future

Our global scale and reach, leading network quality, and the breadth of services we offer helps differentiate us from our peers. Our business model is simple – maintain a virtuous circle of high investment, to maintain a superior network and customer experience, leading to strong cash generation so that we can reinvest and reward our shareholders.

Superior network infrastructure

Spectrum and Mobile Network


£7.7bn

spent on spectrum in the last 3 years

300,000

base station sites

We acquire spectrum and licences to use radio frequencies that deliver mobile services. We have steadily increased our spectrum holdings to boost network quality and our capacity to carry more data. We also have one of the world's largest footprints of mobile base station sites, across 26 countries.

 More on spectrum holdings: Pages 187

which means...

we can provide customers with wide coverage, both indoors and outdoors, a reliable connection, high-speed data transmission, and ample data capacity.



Fixed network

72m¹

homes reached with high speed broadband

£15bn

spent acquiring fixed businesses in recent years

Our fixed capabilities comprise cable, fibre and copper networks to enable TV, broadband and voice services. These depend on either building our own fixed line infrastructure, renting from incumbent operators or acquiring cable companies.

which means...

we can already reach around half of European households with high speed broadband over 30 Mbps.



Information Technology ('IT')

25m

My Vodafone app users (account self-service)

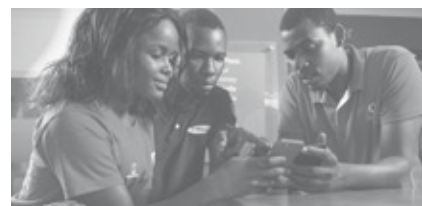
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countries have cloud & hosting capability

Our IT estate provides our data centres, customer relationship capability, customer billing services and online resources. Over the last three years we have invested £4.2 billion to upgrade our IT systems and to standardise and simplify our processes. This has enhanced customer services at all touchpoints – in-store, on the phone and online – and expanded the range of services we provide.

which means...

we can provide new offerings, such as single bills for converged fixed and mobile price plans, and cloud & hosting for business users for more flexible working.



Note: 1 Europe.

Investment and returns to shareholders

£47bn

re-investing in our business

We've invested £47 billion in capital expenditure, new acquisitions and spectrum and licences in the last three years. This has enhanced our networks, and competitive position and enabled us to generate substantial returns for shareholders.

£19bn

Project Spring

Project Spring was our two year £19 billion programme of accelerated investment in mobile and fixed networks, IT systems, products and services, and our retail platform. It aims to secure a premium position in most of our markets, and sustain strong cash flows and growing shareholder returns.

£11bn

returned to shareholders in the last 3 years

We recognise that our shareholders regard the dividend as an important form of return on their investment. That is why we have consistently increased the dividend per share every year for the last 16 years and returned over £11 billion in normal cash dividends in the last three years.

Breadth of services

A wide range of services to meet customers' needs

25m

mobile money users

9.5m

TV customers

38m

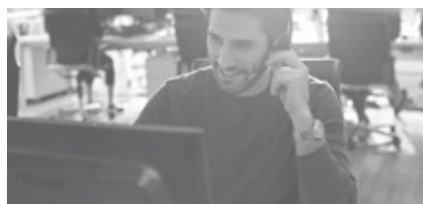
Internet of Things connections

Although our roots are in mobile we now enable a much wider range of communication including TV, fixed broadband and landline calls. But we haven't stopped there. We also provide enhanced services such as mobile money services, cloud & hosting and connected machines via our IoT services.

More on our **mobile money service, M-Pesa:**
Page 11

which means...

we unify communications, bringing together fixed and mobile services.



Convenient sales channels

16,000

exclusive branded shops globally

4,900

stores upgraded to new format in last 3 years

92% of our customers are individuals or families. We reach them through a variety of channels including branded stores, distribution partners, third-party retailers, and increasingly, online services. 8% of our customers are enterprises – from small shop owners to multinationals. We reach these customers via our direct sales teams, indirect partners, and telesales channels.

which means...

it is easy for our customers to get in touch wherever and however is convenient for them.



Simple customer service

24/7

call centres in all European markets

41,000¹

retail customer service staff

We have a broad customer base comprising individuals, domestic businesses of all sizes, multinationals and public sector departments, with a wide range of communications needs. Our highly-trained and diverse workforce of employees from over 130 countries help provide these different services.

More on **People and Diversity:**
Page 18

which means...

our customer satisfaction ranking, which we measure through our Net Promoter Score, makes us the leader in 13 out of 21 markets.



Note: 1 Includes employees, contractors and third parties.

Customer eXperience eXcellence

We want to show customers we CARE

We're continually trying to improve our customer service, and we are pleased to be the leader or co-leader in mobile network quality tests and Net Promoter Scores in the majority of our markets.

More on **focusing on our customers:**
Page 10

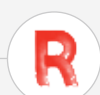
While Project Spring has built better networks, we know that our customers also want great customer service, so we have launched a customer service excellence programme. The goal is simple: to substantially enhance the quality of service we provide and to be the Net Promoter Score leader in every single market in which we operate. Our programme has four simple pillars:



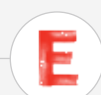
Connectivity – that is reliable and secure
"Network satisfaction guaranteed"



Always in control
"Control your costs with no surprises"



Rewarding loyalty
"Extra rewards and better service"



Easy access
"Always available, ask only once"

Understanding our marketplace

Our customers are demanding higher network speeds, reliable and secure data connections, and a better customer experience. Against this background, we can see great opportunities to create value, while managing risks.

A fast-moving industry generating many new opportunities

Global market potential

8.5bn

mobile users expected by 2020

US\$1.1tn

predicted mobile market in 2020

Growth in mobile data usage

petabytes (calendar year)

2015	Actual	36,000
2016	Estimate	52,000
2017	Estimate	72,000

2.2bn

fixed connections by 2020

US\$690bn

fixed service revenue by 2020

Growth in pay TV customers

million (calendar year)

2015	Actual	875
2016	Estimate	910
2017	Estimate	939

What's the scale and structure of our market?

The communications market is growing as more communities around the globe gain access to new technology. The growth in the number of mobile users continues its momentum, now at 7.6 billion, up half a billion since last year, generating US\$1 trillion in annual service revenue. Much of the momentum is coming from growth in emerging markets such as Africa and Asia due to the combination of large and relatively young populations, fast GDP growth, increased data usage and limited fixed line infrastructure.

Global fixed market

The global fixed market has two billion connections, generating US\$678 billion in 2015, up 0.4% from 2014. This year revenue from fixed voice continued its decline as users switched to using fixed broadband and mobile. We are also seeing an increased take-up of pay TV, aligned to fixed broadband growth. These trends provide opportunities for differentiation, as not all operators are well-positioned to sustain the levels of investment needed for higher-speed networks, providing higher quality services for customers.

Competition

The industry is highly competitive with a large number of providers in both fixed line and mobile segments. There are 12 major telecom providers that are able to gain advantages by leveraging size and scale. In addition to competition between networks, over-the-top applications have enabled companies to offer data services via apps, increasing the number of competitors further. In this environment, Vodafone has differentiated its service through high-quality network performance, and also through converged offerings (mobile, fixed line, broadband, TV), allowing us to compete more effectively.

Innovation

As more communities connect there has been more investment in innovations such as mobile money transfer, video and entertainment, and the Internet of Things (formerly M2M).

Operators are upgrading their mobile networks, providing 4G speeds of up to 450 Mbps. This is allowing customers to do more – moving from simply mobile-working with smartphones and tablets to now increasingly connecting cars, homes, and cities. We anticipate 5G will become commercially available around 2020, with speeds of up to 1 Gbps. This will reduce latency and allow faster connections and response times.

As we look to the future the number of devices connected to the Internet of Things (via mobile and other technologies) is expected to grow significantly, which will massively expand the demand for data and allow customers to use these new services to increase their productivity.

In the fixed broadband sector, operators are investing in more high-speed fibre broadband, which provides data speeds typically up to 1 Gbps, compared with up to 24 Mbps on copper-based ADSL broadband.

Regulation

Regulators and policy makers continue to have a significant impact on the structure and performance of the industry. Regulators continue to lower mobile termination rate ('MTR') fees, 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 10% of Vodafone's service revenue, down 11% from last year.

[More on Regulation:](#)
Page 183

Notes:

- 1 Compound annual growth rate.
- 2 Vodafone's benchmark tests.
- 3 Vodafone, "The Connected Future for SMEs".

The industry data on these pages, unless stated, is from the following sources: GSMA, Analysys Mason, Ampere Analysis, Ovum and Strategy Analytics.

Adapting and evolving our response

We live in a fast-paced world where our customers' needs are constantly evolving. In order to compete we are responding to key market trends, and building a stronger product offering for our customers.

 More on our strategy to respond to these trends:
Pages 10 to 13

Focusing on services that will make a difference to our customers

What's the trend?

Demand for continued network innovation

450 Mbps

today's peak performance for downloads, up from less than 1 Mbps in 2004

Network innovation continues to evolve rapidly as demand for data increases, offering significant improvements in performance, efficiency and customer experience. As we move towards a "gigabit society", innovation will continue around mobile and fixed access solutions that enable even faster, more flexible and highly secure exchanges of data.

How we are responding?

Network

With the completion of Project Spring we are ready to take on the significant data growth demanded by customers. We now have 73 million 3G customers in emerging markets and 47 million 4G customers in total using speeds of up to 450 Mbps. Our high-speed fibre broadband has speeds up to 1 Gbps. We are working with industry and universities on the next set of 5G standards, so we can continue to improve speed and user experience.

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

40% CAGR¹

mobile data usage growth by 2021

Demand for data is being driven by faster fixed and mobile networks with greater geographic reach and capacity, more advanced handsets with faster processing power and larger screens, increased use of applications such as social media, messaging, video streaming and general browsing.

Data

50%

of our European mobile data traffic is carried on 4G networks

Vodafone was rated best or co-best for data services in 15 of 20 markets². Our AMAP region now accounts for almost half of all data traffic carried in the 2016 financial year, compared to 30% three years ago.

Growth in demand for converged services

56%

of households in Spain use converged services

Customers are increasingly choosing simplicity – either adding mobile to their fixed line services, or adding fixed line to their mobile service. They want one provider, with one customer service, and one simple interaction.

Convergence

We're evolving to meet customer needs across all converged services, first adding fixed-line and then television service offerings for homes and businesses. Customers can access Vodafone services and content across multiple platforms, at their convenience. With the rapid growth of the Internet of Things (IoT), we expect to see more demand for converged services across wearable devices, and in the transport, retail and healthcare sectors, amongst others.

Improving business environment

80%³

of Europe's SMEs say communication technologies are fundamental to how they operate today.

Market competition remains intense for basic mobile and fixed communications. Regardless of size, enterprise customers are progressively adopting digital ways of working to improve their competitiveness and provide flexibility for their workforce.

Enterprise

Customers are increasingly looking for pre-integrated fixed, mobile and cloud services with simple, predictable and transparent pricing. We have invested in building these service offerings at scale helping us achieve a commercial advantage across our footprint.

 More on Enterprise:
Page 13