Confidence in the future

Vodafone Group Plc
Annual Report 2016

At Vodafone, we create connections. We're helping people confidently connect to their families, friends, customers and content through any service, anywhere, at any time. And with our focus on being a high-quality provider we're well-placed to continue this success.

Find out how we're...

Vodafone today

We confidently connect more and more people each year. Today we have 462 million mobile customers, 13 million fixed broadband customers and 9.5 million TV customers.

Why do they choose us? Because we are a leader in network quality, offer excellent customer experience and provide integrated, worry-free solutions.

www.vodafone.com

The production of this year's report reflects our "Fit for Growth" programme – our commitment to driving cost efficiencies through the business without compromising our ability to deliver excellence. Whilst remaining focused on publishing high-quality communications and disclosures in our reporting, we have minimised the production costs of this document.

More on **Cost efficiency and "Fit for Growth": Pages 14 and 15**

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.

Strategy

A summary of the changing landscape we operate in, and how that has shaped our strategy and financial position. Plus a review of performance against our goals and our approach to running a sustainable business.

Performance

Commentary on the Group's operating performance.

Governance

An explanation of how we are organised, what the Board has focused on and how it has performed, our diversity practices, how we communicate with our shareholders and how our Directors are rewarded.

Financials

The statutory financial statements of the Group and the Company and associated audit reports.

Additional Information

Find out about our shares, information on our history and development, regulatory matters impacting our business and other statutory financial information.

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

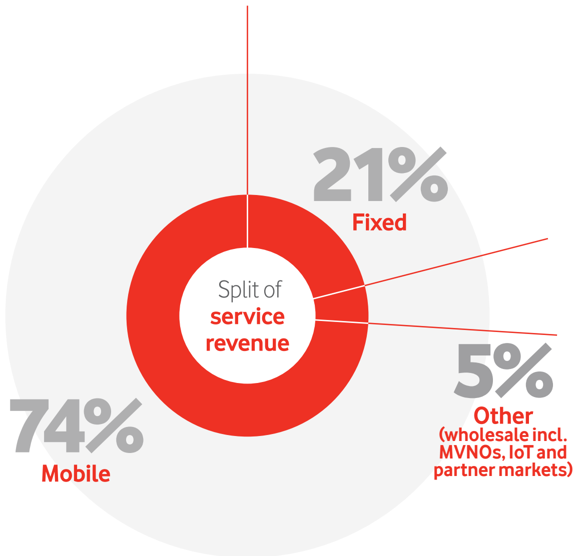
This year we are celebrating 25 years of the Vodafone Foundation, the Group platform for charitable giving. In reality it is not one single Foundation, but a unique network of 27 local foundations and social investment programmes in Vodafone markets. We have raised and invested over £560 million since 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

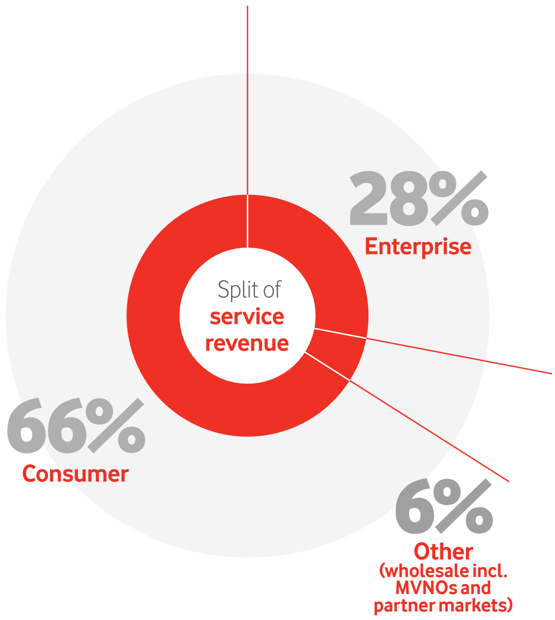
What we offer

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).

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**

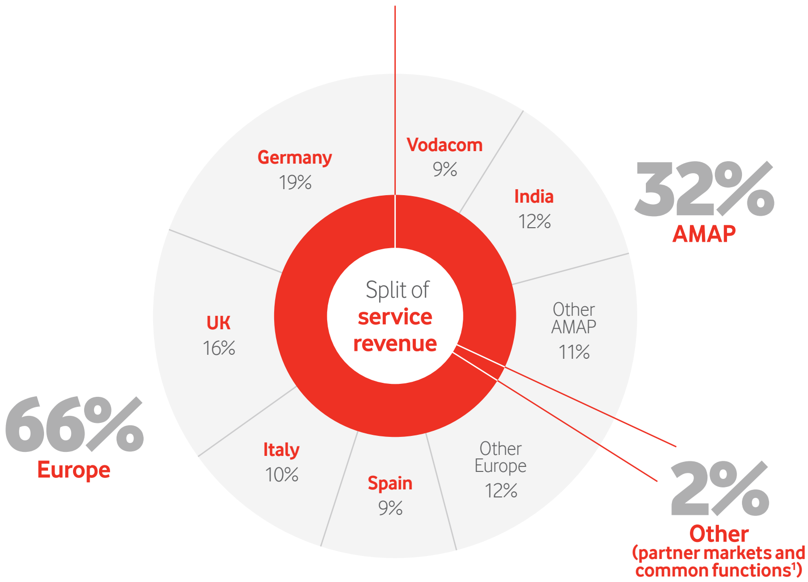
Other services

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.

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]
Germany[5]	30.3m	33%	20%
UK[5]	18.2m	24%	5%
Italy[5]	24.1m	32%	6%
Spain[5]	14.3m	28%	22%

Also operating in:

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

32% of our service revenue comes from AMAP

Core markets	Mobile customers	Mobile market share[2]
India[5]	198.0m	22%
Vodacom[3,5]	70.4m	50%[4]

Also operating in:

Australia (joint venture)
Egypt[5]
Ghana[5]
Kenya (associate)
New Zealand[5]
Qatar[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.

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

72m[1]
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)

12
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

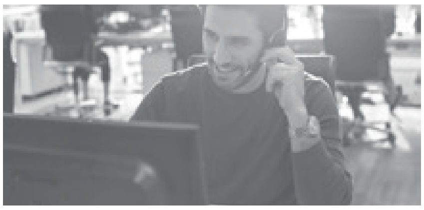
9.5m
TV customers

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

41,000[1]
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:

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

A
Always in control
"Control your costs with no surprises"

R
Rewarding loyalty
"Extra rewards and better service"

E
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?

How we are responding?

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.

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% CAGR[1]
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 markets[2]. 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**

Responding to a changing world

It has been a year of continued progress, with signs of recovery in Europe and continued growth in emerging markets. Our Project Spring investment programme is now complete.

Executing our strategy to capture growth opportunities

Review of the year

We have made good progress on a number of fronts in the last year. We have significantly expanded our mobile and fixed data network coverage and quality, leading to strong growth in data usage; we have maintained encouraging commercial momentum, with consistent customer growth; and we have returned to organic growth in both revenue and EBITDA, thanks in part to strong cost efficiency. In emerging markets, we are achieving sustained growth supported by the strength of our brand, our networks and our distribution. In Europe, the majority of our markets have returned to growth, reflecting a more stable regulatory and macroeconomic environment and better competitive performance than in recent years. Our key strategic drivers – data, convergence and enterprise – are at the heart of this continued improvement.

Project Spring, our two year £19 billion investment programme, which was designed to place Vodafone at the forefront of the growth in mobile data and the increasing trend towards the convergence of fixed and mobile services, came to its close in March 2016. Highlights include:

- 4G population coverage of 87% in our European markets, up from just 32% in September 2013
- Extensive modernisation and capacity improvements, with 93% of our European network now 'single RAN' and 90% with high capacity backhaul
- 3G population coverage of 95% in targeted urban areas in India, and 4G launched in the last few months
- 91% of all customer data sessions in Europe now at speeds of 3 Mbps or better – the rate needed for high definition video streaming
- Dropped call rates down by 40% since September 2013 – so customers on average now only lose one call in 217
- Fibre networks that provide high speed broadband to 72 million homes in Europe; including 30 million on our own infrastructure
- Further expansion in enterprise products and services, with IP-VPN extended to 70 countries, IoT connectivity platform to 30 countries and cloud & hosting to 12 countries

During the year we also significantly stepped up our focus on improving our customers' experience of our network and customer service, in order to bring to life the clear customer benefits of our investments. As measured by Net Promoter Score, we ended the year as the leader in 13 out of 21 markets and improved in 15 of these markets: good progress, but still much to do to build clear differentiation.

Vittorio Colao
Chief Executive

Our strategy

We aim to be a converged communications leader, investing to provide our customers with differentiated network access and excellent customer service. Together with capturing the scale and efficiency benefits of our global presence, we aim to generate attractive returns, enabling us to sustain our investment levels, further increase our network differentiation and meet our customers' high expectations.

Data
High speed, worry-free

Context

- As smartphone penetration increases, customers want faster and more reliable data services
- Customers have multiple mobile devices and want a single, worry free bill
- Customers who are on the move demand high-definition video capabilities and low latency speeds (fast reaction time) for a more enjoyable experience

What we're aiming for

- We're encouraging customers to use 4G to give them a better user experience. The number of 4G customers more than doubled to 47 million in the year
- We are driving data usage by bundling content with 4G. Data usage grew 71% in the year, and video usage accounts for around one-third of data traffic
- Increasing smartphone penetration also helps drive data usage. 58% of our customers have a smartphone in Europe, compared to 52% last year
- We want our customers to use our services wherever they are. Our 4G roaming network reaches 93 countries

Average smartphone usage in Europe
MB/month

2014	473
2015	755
2016	**1,120**

197m

of our customers use data, representing 43% of all customers, up from 40% last year

We are witnessing various drivers of data growth across our markets: the increasing penetration of smartphones, both in Europe and emerging markets; high speed 3G and 4G networks, delivering consistent high-definition video to customers on the move; bigger screen sizes for a richer experience; the proliferation of "over-the-top" video services; and the rapid migration of social media from the desktop to mobile. Customers increasingly expect high speed data coverage as much as they expect reliable voice services. Our data strategy is simple: to build high quality mobile data networks, to encourage worry-free usage at fair prices, and to offer products and services tailored to specific needs and accessible to a wide range of users.

Total data traffic across our network grew 71% in the year, mainly reflecting the increased take-up of 4G. Driven by Project Spring, we now offer 4G services in 21 of our markets, with India, Turkey and Albania added during the year. Our 4G customer base grew by 126% to 47 million, with average usage typically doubling when customers migrate from 3G to 4G. From a commercial perspective, we are focusing on offering customers worry-free data usage, with bigger data bundles and more inclusive roaming. We now have the most extensive 4G roaming network in the world, reaching over 90 countries. Despite this strong progress, only 27% of our European customers are using 4G, giving us significant opportunity for further growth.

Our network investments are yielding very positive results in our major markets, with a number of independent tests demonstrating improvements in data coverage and performance, and placing us very clearly in the top tier of network operators. We ranked best overall in Italy and Spain, best network in London, and a strong number two network overall in Germany.

In AMAP, progress has been equally strong. In South Africa, we have built 3G coverage to 99% and 4G coverage to 58% – significantly ahead of our competitors. We have developed pricing plans that make data affordable for customers across every demographic. This has been further boosted by the success of Vodafone-branded mobile phones and tablets. With these products, we are able to bring the same quality and functionality as well-known phone brands to the market at a much reduced price point, opening up mobile data services for low income customers for the first time.

In India, we have experienced strong growth in data over the last few years since the launch of 3G in 2011. Through Project Spring, we have extended our 3G network by 40,000 base station sites to 55,000 since September 2013. We now have 27 million 3G customers out of a total base of 198 million mobile users.

Enhancing customer services
M-Pesa, our money transfer service, now has more than 25 million active customers, an increase of 27% in the year, boosted by market launches in Albania and Ghana and supported by a network of more than 261,000 agents in 11 countries.

Convergence

Connectivity and content, wherever you are

Context

- Customers are increasingly converging or unifying communications by sharing content between their fixed and mobile devices – phone, tablet, laptop or TV
- Television and content, when bundled with broadband, are becoming increasingly important drivers of customer demand
- The growing demand for converged services drives data usage, which in turn requires the combination of mobile and fibre infrastructure

What we're aiming for

- We expect fixed revenue to continue to gain in importance to us, driven by convergence
- We are aiming to increase our market share in fixed from a low level today
- We seek to roll out more high-speed fibre or cable. We already reach 72 million households in Europe, up from 41 million last year
- We're aiming to expand our TV services, to support the take up of broadband. We already have TV services in seven markets

Fixed broadband customers

million

2014	9.2
2015	12.0
2016	**13.4**

21%

of our service revenue comes from fixed services

In many of our markets, there is a growing trend towards the convergence of fixed and mobile services (also known as unified communications). This trend provides many benefits to both customers and operators. For customers, there is the convenience of a single bill, the likelihood of lower overall prices compared to buying services individually, and the potential of enhancements to the service: using your TV subscription on multiple mobile devices as well as your big screen at home, for example.

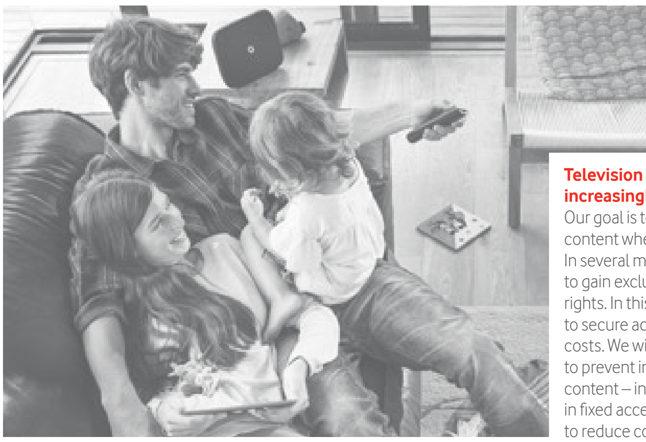
For the provider, there is an important network benefit from the combination of mobile and fibre infrastructure, which is increasingly necessary as the volume of data continues to grow strongly. The bundling of services also increases customer loyalty and provides opportunities to sell additional services or sign-up more members of a household.

We have transformed our presence in converged or unified communications in the last four years, particularly in Europe. With several significant acquisitions, capital investment in fibre networks and strong growth in customers, we are now a major player in high speed fixed broadband. With the ability to market fibre and cable broadband services to 72 million homes in Europe, 41% of these on our own next-generation networks, our reach is very broad.

We achieved organic service revenue growth of 3.5% in fixed line during the year, and 26% of all our European service revenue now comes from the provision of fixed line and TV. Our broadband customer base grew 11% year-on-year to 13 million – with 48% of these customers taking high speed services on fibre or cable. The launch of broadband in the UK during 2015 means we now provide fixed services in most of our European countries, as well as significant growth markets such as Turkey and Egypt.

In February 2016 we made another important strategic move with the announcement of our intention to form a 50:50 joint venture in the Netherlands, combining our strong mobile business with Ziggo, the cable operator owned by Liberty Global. This will create a business with 99% 4G coverage and over 90% cable footprint in one of our key European markets. This combination enables us to provide excellent converged services to customers, compete head-to-head with the incumbent operator, and realise synergies with a net present value of €3.5 billion.

Television and content are becoming increasingly important parts of our offering, with customers often looking to buy as part of a bundle with broadband. In the year we launched TV services in Ireland and now offer TV in seven markets. We have 9.5 million TV customers, with 0.4 million added this year.



Television and content are becoming increasingly important

Our goal is to ensure access to premium content where our customers value it. In several markets, incumbents have sought to gain exclusive access to key content rights. In this scenario we will compete to secure access, which may increase our costs. We will also encourage regulators to prevent incumbents from using content – in addition to their dominance in fixed access markets – as a lever to reduce competition.

Enterprise

Context

- Businesses are increasingly searching for one communications provider to supply both fixed and mobile to their workforce
- It is important for communication service providers to offer businesses reliable connectivity to employees, customers and suppliers

What we're aiming for

- We want to maintain our strong mobile market share in enterprise, which has been earned from our trusted brand, global footprint and service quality
- We aim to increase our market share in fixed enterprise services, by building on Project Spring investments
- We intend to continue to invest in the growth areas of converged communications, cloud & hosting services, and the Internet of Things

Enterprise communications is a substantial and growing market. In a digital world, it is vital for companies big and small to be always connected with each other, their customers and their suppliers. They want to do so in a seamless, cost-effective way, without managing multiple suppliers across many borders. They need to have a mobile and digital strategy: it is no longer simply about equipping a workforce with mobile phones. Our customers are assessing how new services such as the Internet of Things can enhance their customer proposition and simplify their businesses. Plain connectivity, whether mobile or fixed, is becoming more commoditised: enterprise communications providers increasingly need to be experts in a wider range of services to address these changing needs.

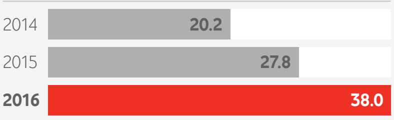
Vodafone has positioned itself well in this changing marketplace. Enterprise has always been at the centre of our strategy, and we continue to enjoy strong market share in mobile enterprise across all our major markets. Enterprise customers value our trusted brand, network quality and wide geographic reach, and this has been a strong foundation on which to build our expansion into fixed-line and value-added data and managed services. With an estimated Enterprise market share in Europe of 33% in mobile and only 6% in non-mobile, the long-term growth opportunity is significant.

Our Enterprise service revenue grew 2.1%* to reach £10 billion in the year, or 28% of total Group service revenue. All of our strategic growth areas performed well, supported by Project Spring investments. Enterprise fixed revenue grew 4.4%*, as customers increasingly look to procure fixed and mobile from a single provider. We have substantially expanded our international presence over the last two years: we now offer IP-VPN services (secure private data networks) in 70 countries, with 268 points of presence. In Cloud & Hosting, we now have capabilities in 12 countries. Both of these specialisms build on our acquisition of Cable & Wireless Worldwide in 2012.

Vodafone Global Enterprise ('VGE'), which serves our biggest multi-national customers, saw revenue growth of 5.9%* in the year driven by emerging markets. Our IoT unit achieved service revenue growth of 29%*, with a 37% rise in connections to 38 million. We are the acknowledged world leading mobile provider for IoT, in both scale and expertise, with a global SIM available in over 200 countries, and we are evolving our model from simple connectivity (for example, smart meters and vehicle tracking) to capture more of the value chain. The acquisition of Cobra in 2014, which now operates as Vodafone Automotive, has significantly extended the breadth and value of our services in the automotive sector, and we see similar opportunities in other industry sectors.

Internet of Things connections

million



2014	20.2
2015	27.8
2016	**38.0**

28%

of our service revenue is from enterprise customers

Project Spring has strengthened our Enterprise business

Project Spring has helped scale our converged communications offer One Net, which is now available in 30 countries. It has also enabled us to increase our points of presence by 57% to 268 and double our IP-VPN geographic coverage to 70 countries.

Meeting our objectives

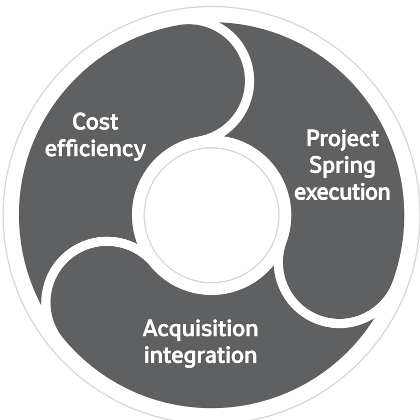
This has been a strong year of execution for the Group, meeting our strategic goals and delivering returns to shareholders.

My priorities

When I became CFO I highlighted three clear priorities which I believe will have a significant impact on our future financial performance: the execution of Project Spring according to the financial plan; the integration of acquisitions, most notably Kabel Deutschland ('KDG') and Ono; and a continued focus on cost efficiency. I believe that we have made good progress in all three areas and in the coming financial year it will be important to build on the improving execution seen during the 2016 financial year as we continue to monetise our Project Spring investments. Additionally, we intend to continue to pursue incremental operating efficiencies across all of our operating companies. During the year we initiated an ambitious cost efficiency project called "Fit for Growth" which we anticipate will deliver significant long-term benefits in terms of both cost savings and enhanced strategic flexibility. Executing these programmes with minimal disruption to customers is a priority.

Our results are reviewed in more detail later in this report, but overall I am satisfied that we have made important progress in improving the financial performance of the business.

More on our performance:
Pages 30 to 37



Project Spring execution

Our £19 billion, two-year programme of accelerated investment was designed to deliver tangible differences in the quality of our services compared to competitors. As Vittorio highlighted on page 10, the mobile build phase was completed and we now have a modernised network, delivering a much improved customer experience.

In terms of progress against our operational plan we are ahead overall, achieving 108% of the build targets. In our AMAP region we delivered our mobile build targets three months ahead of plan. In Europe we are slightly behind. In particular our 4G build was impacted by rollout delays in the UK and Germany.

I am pleased to say that all of our Project Spring customer experience targets have been met. In Europe, targets for both data sessions above three megabits per second (the threshold for high-definition quality video) and dropped call rates were achieved: above 90% and less than 0.5% respectively. In AMAP, our dropped call rate target has also been achieved at less than 0.9%.

On the financial front, capital investment was broadly, as planned, £19 billion taking into account foreign exchange movements and timing differences. Consequently this has, as expected, depressed our cash flows over the last two years. Looking forward, we continue to expect that the level of capital spending will return to a more normalised level of capital intensity and we will generate the expected £1 billion of incremental cash flow by the 2019 financial year.

KDG and Ono acquisition integration

€600m
Combined annual cost and capex synergies by 2018 (previously €540m)

€6.3bn
Net Present Value of synergies (was €5.0bn)

242,000
Vodafone DSL customers migrated

2.9m
converged services customers (mostly KDG and Ono)

A key strategic focus for the Group is to gain competitive fixed networks to meet the growing demand for converged services. Part of the execution of this strategy is to acquire companies where we can see a clear return on that investment. KDG and Ono, two leading cable companies, were acquired in 2013 and 2014 respectively. In total we expected to generate combined annual cost and capex acquisition synergies of approximately €540 million by the 2018 financial year, mainly from migrating fixed and mobile customers onto our own infrastructure and combining backhaul and core networks and rationalisation of back office functions and procurement. I am pleased to say that progress on integration has been better than expected and we now aim to deliver annual synergies totalling €600 million.

108%
of the mobile build target met

87%
Europe 4G coverage, slightly behind >90% target

£1bn
incremental cash flow from Spring by 2019

In Spain the integration of Ono has proceeded successfully. We have so far connected over 800 mobile base station sites to Ono's fibre to save on backhaul costs. In addition, the launch last May of Vodafone One, our fully converged cable, mobile and TV service, has attracted 1.5 million customers. Overall we have already secured 100% of the original €240 million of cost and capex synergies targeted. We now expect to deliver €300 million of annualised savings.

We have also made solid progress in Germany, and we have already managed to secure 80% of the original €300 million synergy target. We have migrated 242,000 customers off our DSL platform (on which we pay high monthly fees) onto KDG's cable infrastructure. In November, we launched Vodafone Red One, our converged offer, which now has 54,000 customers. Finally, we have identified further opportunities for savings in procurement and other efficiency measures and as a result we are now targeting synergies with a NPV of €3.5 billion, up from €3.0 billion previously.

Cost efficiency

We continued to make good progress on costs this year within the scope of our Fit for Growth programme. As a result we were able to reduce overall customer costs through commercial efficiencies and drive down the support cost base in Europe. This helped offset increased network costs driven by the Project Spring roll-out, and inflationary pressures in our high growth markets in AMAP. Our Group-wide initiatives are driving a meaningful improvement in our cost base. These include a focus on direct cost optimisation; commercial efficiencies; network & IT transformation opportunities; centralised procurement and shared services; zero-based budgeting; and cost & capex synergy savings at acquired companies, combined with comprehensive local market initiatives.

We introduced a zero-based budgeting methodology for the first time this year of which there were three key components. The first was an absolute cost reduction across Group functions, which was fully implemented in March 2016, delivering an annual net saving of £100m. Secondly, for Group operational units such as data centres and Shared Services we established productivity targets to drive efficiencies further across the organisation. And thirdly, we set multi-year targets for each of our local markets to drive margin expansion.

The revenue growth combined with our strict cost control and efficiency measures is enabling us to achieve greater operational leverage and begin to expand margins.

£100m
Fit for Growth net savings from zero based budgeting in Group functions

80%
Procurement spend centralised by 2019

Performance against 2016 financial year guidance

Based on guidance foreign exchange rates, EBITDA for the 2016 financial year was £11.9 billion, in line with the £11.5 billion to £12.0 billion range set in May 2015. On the same basis our free cash flow was £1.0 billion, consistent with our positive free cash flow guidance.

Looking ahead

The key goals for the year ahead are to build on the improving commercial execution evident last year, further enhance customer service, monetise the Project Spring investments, continue our focus on cost efficiency and grow the dividend to shareholders.

With effect from 1 April 2016, our presentation currency will change from sterling to the euro to better align with the geographic split of the Group's operations.

We expect EBITDA to grow organically by 3–6%; this implies a range of €15.7 billion to €16.2 billion at guidance exchange rates. We expect free cash flow of at least €4 billion[1]. Total capital expenditure is now targeted to be in the mid-teens as a percentage of annual revenue; this is higher than the 13%–14% range that we previously anticipated, as we believe that there are attractive investment opportunities available to further accelerate our growth and improve our long-term strategic positioning.

The Board intends to grow dividends per share annually. For the 2017 financial year and beyond, dividends will be declared in euros and paid in euros, pounds sterling and US dollars, aligning the Group's shareholder returns with the primary currency in which we generate free cash-flow.

Nick Read
Chief Financial Officer

Note:
1 Before the impact of M&A, spectrum purchases and restructuring costs.

Measuring our performance to keep us on track

We track our performance against strategic, financial and operational metrics which allows the business and key stakeholders to assess our short term performance and enables us to see where we can do better.

Changes to KPIs this year

We have updated our Key Performance Indicators ('KPI's) this year to align better to our strategy and areas of investment. Enterprise is an engine of growth for the Group and contributes 28% of the Group's revenues. We have included Enterprise in our KPIs as a reflection of its growing importance.

With 4G and fixed broadband becoming more important in our emerging markets, we have adopted a Group metric for 4G customers and fixed broadband customers.

Paying for performance

The incentive plans used to reward the performance of our Directors and our senior managers, with some local variances, include measures linked to our KPIs.

More on **rewards for performance in the Remuneration Report: Pages 57 to 73**

Strategic performance

Europe 4G coverage

Data

%

One of our main objectives of Project Spring was to roll out rapidly 4G across our European markets with a target to reach over 90% coverage by March 2016.

We have now reached 87% coverage across our European markets, slightly behind our target of over 90%, which we expect to reach shortly.

More work to do

2014	46
2015	72
2016	**87**

4G customers

Data

million

To ensure we get a return on our Project Spring 4G investment it is important that we migrate and attract new customers onto our 4G network.

We more than doubled the number of our 4G customers in the year to 47 million and we expect this to continue to grow significantly.

Achieved

2014	4.9
2015	20.7
2016	**46.8**

Europe average monthly smartphone data usage[1]

Data

MB

A key goal in Europe is to ensure customers are using more data which will support revenue growth in the years ahead.

Average smartphone usage has almost tripled over the last two years, helped by the uptake of 4G and content packages.

Achieved

2014	473
2015	755
2016	**1,120**

Europe NGN coverage (owned assets)[2]

Convergence

million homes passed

As customers move towards converged services we have been investing in either building fibre or acquiring cable networks so we can offer high-speed broadband to our consumer and enterprise customers.

We can now reach 30 million homes across Europe with high-speed broadband (72 million when including our wholesale access deals).

Achieved

2014	16
2015	26
2016	**30**

Fixed broadband customers

Convergence

million

As we expand our fixed broadband coverage we have successfully been able to increase our broadband base.

We have added 1 million broadband customers across Europe and 266,000 customers across AMAP during the year, and expect to continue to grow our base this year and beyond.

Achieved

2014	9.2
2015	12.0
2016	**13.4**

Fixed as a percentage of enterprise service revenue

Enterprise

%

Fixed services have become more important as businesses increasingly look to procure fixed and mobile from a single provider.

Enterprise fixed revenue grew 4.4% in the year and we expect that this will increase as we continue to invest in our global fixed line footprint.

Achieved

2014	23
2015	25
2016	**27**

Notes:
1 Based on Android and iPhone devices.
2 Next Generation Network providing high-speed broadband over 30 Mbps.
3 Before the impact of M&A, spectrum purchases and restructuring costs.

Financial performance

Financial indicators

This has been a strong year of execution for the Group, delivering a return to organic growth in both revenue and EBITDA for the first time since 2008. With the recovery of our European performance and the continued strong growth in AMAP, we met our financial guidance for both EBITDA and free cash flow and increased our dividend per share by 2.0% to 11.45 pence.

More on **Financial performance: Page 30**

Organic service revenue growth

%

Growth in revenue demonstrates our ability to increase our customer base and stabilise or raise ARPU. Our aim was to return to service revenue growth.

We returned to service revenue growth supported by our Project Spring investment programme and achieved stabilisation in our European businesses.

Achieved

2014	–2.6
2015	–1.6
2016	**+1.5**

EBITDA

£ billion

Growth in EBITDA supports our free cash flow which helps fund investment and shareholder returns. Our guidance was for EBITDA of £11.5 billion to £12 billion in the year.

EBITDA fell 2.5% to £11.6 billion (up 2.7% on an organic basis). On a guidance basis, EBITDA was £11.9 billion, in line with the guidance range.

Achieved

2014	11.1
2015	11.9
2016	**11.6**

Free cash flow[3]

£ billion

Cash generation is key to delivering strong shareholder returns. Our guidance was for positive free cash flow after all capital expenditure.

Free cash flow fell slightly during the year due to elevated capital expenditures for Project Spring. On a guidance basis, free cash flow was £1.0 billion, consistent with the guidance range.

Achieved

2014	4.4
2015	1.1
2016	**1.0**

Dividend per share

pence

The ordinary dividend remains the primary method of shareholder return. We intend to increase the dividend per share annually.

We increased our dividend per share to 11.45 pence in the year. Our intention remains to grow the dividend per share annually.

Achieved

2014	11.00
2015	11.22
2016	**11.45**

Operational performance

Consumer mobile net promoter score

out of 21 markets

We use Net Promoter Scores ('NPS') to measure the extent to which our customers would recommend us to friends and family.

This year we increased the number of markets where we are ranked number one, but have more work to do in the UK and Germany.

Achieved

2014	9
2015	11
2016	**13**

Employee engagement

index

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

We increased our employee engagement score by two points this year, and we retained a top quartile position.

Achieved

2014	77
2015	77
2016	**79**

Percentage of women in senior management

%

Diversity increases the range of skills and styles in our business, and increased female representation across our senior management (top c.1,500 managers) is one measure of diversity. Our goal is to increase the proportion each year.

We have made progress on this metric this year, with the proportion increasing slightly.

More work to do

2014	24
2015	23
2016	**24**

The people behind our business

Our people are behind every aspect of our strategy and execution, so it is important that we attract, develop and retain exceptional people who are empowered to use their best judgement in every situation.

Building a high-performing culture

This year we employed an average of 108,000 people from 138 countries as well as over 26,000 contractors. Our senior leadership team includes 21 nationalities, bringing together a diverse set of experiences and opinions to help us achieve our goals by better understanding the needs of our customers.

Focusing on our customers

Over the last year more than 14,000 retail store managers and sales advisers received training in the Vodafone Way of Retail programme. To date, more than 31,000 retail customer service employees and third-party staff have received training to enhance the services provided to our customers. We have standardised the recruitment process across all of our local markets to improve the quality of new recruits to our stores and have developed a new assessment approach for all customer facing employees.

Our Group and local market senior leadership teams took part in the Customer Experience Leadership programme – a two-day workshop focused on listening to customers, external best practices, driving simplicity, and action planning.

Increasing employee engagement

We engage our employees on issues related to our strategy, our people agenda, our products and services and changes happening in the Company in a variety of ways, including executive video updates, events and forums, our intranet, emails, texts, as well as through individual team leaders.

Every year all our employees are invited to participate in a global survey which allows us to measure engagement levels, identify ways to improve how we do things, and compare ourselves with 30 other large companies. This year our engagement index, which measures how committed our employees are, their desire to continue working for us and their willingness to recommend Vodafone as an employer, increased by two points to 79, which is three points higher than other comparable companies.

Our employee net promoter score, which indicates employees' commitment to promoting our products and services, rose eight points to 59 (17 points higher than other large companies). The increase showed the growing levels of employee confidence that Project Spring and our Customer eXperience eXcellence programme are delivering.

Training and developing future leaders

We empower our people to contribute to our business success by tailoring their training and development to their individual capabilities and ambitions. We provide a combination of formal training, on the job experiences, and regular feedback from managers.

This year we trained around 50,000 people through our global academies which enable our employees to develop world class capabilities within their core discipline and support their career development. These academies have won several industry awards for innovation and quality.

Our global employee survey showed that 80% of employees feel they can learn the skills and knowledge to do their jobs well.

We conduct regular talent reviews to identify high-potential future leaders. Each year we provide 60 of those with the opportunity for an accelerated development through our "Inspire" programme. The programme offers development and executive coaching and may include an assignment to another Vodafone market or function.

Making progress on Diversity and Inclusion

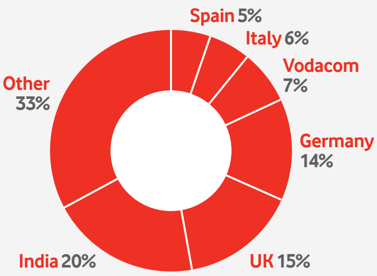
We are committed to treating all employees fairly and offering equal opportunities in all aspects of employment and advancement. This year's global employee survey showed that 89% of employees believe that Vodafone treats people fairly.

Last year we launched a new global maternity policy, providing mandatory minimum maternity benefits, including 16 weeks of full pay followed by full pay for a 30-hour week for the first six months after employees return to work.

This year, our CEO, Vittorio Colao, signed up to be a UN HeForShe Impact Champion, making significant commitments to gender equality for Vodafone. 37,000 colleagues, suppliers, and customers have already joined the campaign, which promotes gender equality – socially, economically and politically.

In 2015 we developed a new unconscious bias training for all leadership teams to highlight the key decisions and everyday situations that may be affected by bias. In addition, employee networks in the areas of Lesbian, Gay, Bisexual and Transgender ('LGBT'), disability and gender have expanded globally and these serve a critical purpose in supporting these communities.

Employees by location %



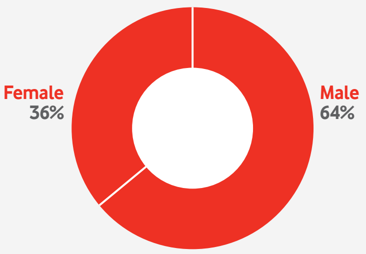
Monthly average employees[1] number

Employee engagement index

Employee turnover rate %

Nationalities in top senior leadership roles

Gender of employees %



Our "Discover" programme for graduates accelerates the careers of high performing graduates, with over 700 people recruited onto this programme during the year. After the programme, a number of "Discovers" join an international programme, "Columbus" with the purpose of building leadership skills through a challenging two-year assignment outside of their home market.

Recognising performance

We reward people based on their performance, potential and contribution to our success. This year, we simplified the process by directly empowering our line managers to make performance decisions without a higher level approval.

We continue to 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. Our incentive arrangements are subject to company performance measures, comprising both financial and strategic metrics, and individual performance measures.

During the year we introduced a Customer Appreciation metric into our Global short-term incentive plan. See page 57 for more on remuneration.

Doing what's right

We recognise that ethical conduct is just as important as high performance, and failure to operate ethically will impact our business success. Our "Code of Conduct" 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.

This year we launched a mobile app and website so employees can access topics such as anti-bribery, conflict of interest, speak up, privacy, security and competition law via their phone when they are out of the office.

Creating a safe place to work

We want everyone working with Vodafone – employees and contractors – to return home safely every day. We start with the wellbeing of our employees: we launched our third annual Global Wellbeing Challenge on World Heart Day in October 2015. Around 5,000 employees took part in a wide range of exercise activities including cycling, dancing, running, swimming, and Zumba. Together, they covered a total of over 245,507 miles – equivalent to going around the world 10 times.

For our safety campaign we focus on our top five risks: occupational road risk, working with electricity, working at height, control of contractors, and laying cables in the ground. Our efforts start at the top and our senior executives are personally involved, we train our people and suppliers, and we participate in best practice sharing with industry partners.

Despite all our efforts, we deeply regret that 12 people[2] lost their lives during the year. Traffic accidents involving contractors in India and Africa continue to be our main area of exposure. We have robust policies and processes to manage risks, and if incidents occur we work hard to identify and address the root causes. For more on Health & Safety read our sustainability report at www.vodafone.com/sustainability

1,700

women went on maternity leave this year and were eligible for our new global maternity policy

Notes:
1 Employee numbers are shown on a full time employee basis. A statutory view is provided on page 140.
2 There were 12 fatalities, one was an employee, three were members of the public and eight were contractors.

Sustainable business

Mobile and digital technologies are a powerful social good, enhancing citizens' understanding of, and ability to participate in, the world around them, and transforming the workplace, boosting productivity for businesses of all sizes in every industry.

A new strategic approach

Our businesses play an integral role in the daily lives of our more than 462 million mobile customers and are a vital part of the national infrastructure upon which the economies of our countries of operation depend.

During 2016, we developed a new sustainable business strategy to ensure an even closer alignment between our core commercial goals and the maximum possible social and economic benefits achievable at scale as a consequence of those goals.

Under that strategy, we have identified three areas where we believe our business activities can have the greatest positive societal impact:

- **Women's empowerment**, extending the benefits of mobile to more women in emerging markets while striving to become the world's best employer for women by 2025
- **Energy innovation**, optimising energy efficiency in, and reducing greenhouse gas emissions from, our activities while helping our customers reduce their own emissions
- **Youth skills and jobs**, using our technologies and expertise to help young adults enhance their skills and secure job opportunities in countries with high levels of youth unemployment

In parallel, we will focus our ongoing corporate transparency programme on those aspects of our business that are the source of greatest public debate and concern, specifically:

- **Taxation and total economic contribution**, building on our existing commitment to transparency in corporate taxation including country-by-country reporting
- **Supply chain integrity and safety**, providing insights into our efforts to ensure responsible and ethical behaviour among our suppliers and sub-suppliers and to ensure safety in our operations
- **Mobile, masts and health**, addressing public concern regarding electromagnetic frequency ('EMF') emissions from mobile phones and base stations
- **Digital rights and freedoms**, building on our commitment to transparency in law enforcement assistance, censorship, privacy and data protection matters

We are also committed to explaining how we put our principles into practice to ensure that our businesses operate responsibly. Further details of our approach are set out in the Group's annual Sustainable Business Report, published on the same day as this Report.

Connecting women to healthcare
In 2016, 164,000 women subscribed to Vodafone Turkey's health and wellbeing SMS service which sends twice-weekly texts offering information and advice about prenatal, antenatal and infant care and women's health. An interactive app with information about child development has also been downloaded 160,000 times.

Energy innovation and greenhouse gas emissions

There is clear evidence that global temperatures are rising quickly and a very strong consensus among scientists and policymakers that carbon dioxide emissions from hydrocarbon fuels such as coal, oil and gas – together with other greenhouse gases – are having a direct impact on the climate.

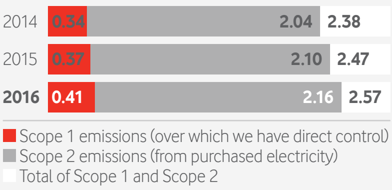
The information, communications and technology ('ICT') industry requires significant amounts of electricity to connect billions of people, devices and machines and transmit vast amounts of data every second. Most power is supplied "on-grid" by national power generation companies whose predominant energy source is hydrocarbons, especially coal. Telecommunications operators also rely on hydrocarbons – in the form of diesel used in on-site generators – to power infrastructure "off-grid" in remote locations or areas of unreliable on-grid power.

Vodafone is a signatory to the Paris Pledge for Action which recognises that climate change threatens future generations and calls for strong action to reduce emissions and achieve a safe and stable climate in which temperature rises are limited to well below 2°C. Our networks account for most of the energy consumption in our businesses and are therefore the main source of our greenhouse gas emissions. As customer demand for data increases every year, our power requirements also grow; energy efficiency programmes (and, consequently, emissions reduction) are therefore an important priority.

We collaborate closely with our major equipment suppliers to ensure that energy efficiency is integral to the design specification for new infrastructure. We have deployed highly efficient Single Radio Access Network ('SRAN') technologies (which allow 2G, 3G and 4G services to be run from a single piece of equipment) at more than 211,800 sites. We are also exploring a number of on-grid and off-grid renewable energy options.

Greenhouse gas ('GHG') emissions

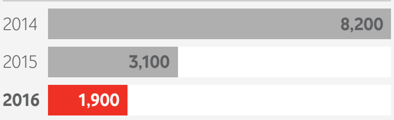
million tonnes of CO_2e



Note:
Calculated using local market actual or estimated data sourced from invoices, purchasing requisitions, direct data measurement and estimations. Carbon emissions calculated in line with GHG Protocol standards. The 2014 and 2015 values have been re-based in accordance with revised Scope 2 guidance. Scope 2 emissions are reported using the market-based methodology. For full methodology see our Sustainable Business Report 2016.

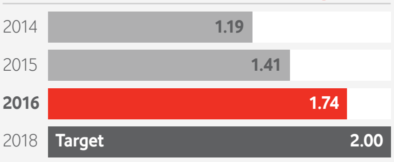
Greenhouse gas emissions per petabyte of data carried by our mobile networks

tonnes of CO_2e



Note:
Figures include all data carried by our mobile networks with an adjustment to include only part of the data carried in India, where only base stations under Vodafone's operational control are included in our greenhouse gas emissions totals.

Ratio of GHG emission savings for customers to our own GHG footprint



Note:
2014 figures have been extrapolated from actuals for 2013 and 2015. Emissions savings for customers have been calculated based on GeSI's ICT Enablement Methodology.

Our Sustainable Business Report 2016:
www.vodafone.com/sustainability/report2016

Our total greenhouse gas emissions in 2016 were 4% higher than in 2015 at 2.57 million tonnes of CO_2e (carbon dioxide equivalent), as a consequence of a 71% increase in the volume of data carried across our mobile networks. However, our measure of greenhouse gas efficiency improved greatly: annual greenhouse gas emissions per petabyte of data carried by our mobile networks were 40% lower than in 2015, dropping to an average of 1,900 tonnes CO_2e/petabyte.

Our technologies and services also provide our customers with the means to make a meaningful reduction in their own emissions, most notably through the deployment of Internet of Things ('IoT') applications – a field in which we are the world's leading mobile provider. Using network intelligence to optimise energy use in a wide variety of machines, devices and processes could account for a 20% reduction in projected global CO_2e emissions by 2030 – enabling emissions to remain at 2015 levels[1].

In 2015, we announced a new goal under which we would seek to help our customers reduce their CO_2e emissions by two tonnes for every one tonne of emissions from our own operations. We aim to achieve that goal by the end of March 2018. As of the end of March 2016, we were well on track to do so, helping our customers to save 1.74 tonnes of CO_2e for every tonne of CO_2e generated through our activities.

We estimate that more than 30% of the 38 million IoT connections operated by Vodafone directly enable our customers to reduce their emissions. The total emissions avoided as a consequence of our IoT technologies and services in 2016 increased by 29%, over the same period in 2015, to reach 4.5 million tonnes CO_2e.

We provide further details of our approach to energy innovation in our annual Sustainable Business Report.

Human Rights

Communications technologies play an important role in underpinning human rights, enabling citizens to share information and exercise freedom of expression. However, many governments are concerned that these technologies are also empowering people intent on harm, such as criminals and terrorists; conversely, civil society groups are concerned that state actions to address the malign use of communications technologies have the effect of eroding the individual's right to privacy.

Human rights that extend in to the digital realm are important priorities for Vodafone – as can be seen in our Law Enforcement Disclosure Report. However, we are also fully mindful of other human rights risks in our operations – as our Code of Conduct makes clear – which are the focus of senior management scrutiny across all of our businesses. These include labour rights (particularly with regard to our supply chain) and economic, social and cultural rights.

Details of our principles, rules and compliance programmes in response to those risks are set out in our annual Sustainable Business Report including a statement – as stipulated under the UK Modern Slavery Act (2015) – summarising our actions to address the risk of modern slavery within our own operations and those of our suppliers and sub-suppliers. The Report also provides details of our ongoing work with our suppliers and other industry stakeholders to improve ethical, labour and environmental standards across our supply chain.

Note:
1 Smarter Report 2030, Global e-Sustainability Initiative (GeSI) June 2015.

Identifying and managing our risks

We have a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environments in which we operate.

Our risk management framework

Vodafone needs to take risks and assume exposures to achieve its strategy. Risk, within agreed and defined parameters, is essential to the success of Vodafone. Equally, failure to suitably manage risk may have an adverse impact upon Vodafone's strategic goals and objectives.

Vodafone has recently introduced an enhanced global framework designed to identify risks; set risk appetite: put in place appropriate measures to ensure risks are properly managed and monitored; and facilitate informed decision making. The framework, as set out in the diagram, ensures we have one, company-wide approach to risk management, with local oversight and approvals.

Identify

- Risks identified in each Vodafone local market and entity
- Strategic risk reviews with Senior Leadership
- Group principal risks reviewed and agreed with the Board

Measure

- Risk appetites set by the Board for all principal risks and cascaded down
- Standardised scoring and categorisation allows consolidation and escalation across Group

Manage

- Controls and mitigating actions identified and measured
- Risk action plans created to control risks outside of appetite

Monitor

- Integrated assurance mapping identifies all levels of control and oversight in place
- Effectiveness of control and oversight is tested across the "three lines of defence"[1]

Report

- Inform the Board and Executive Committee on how effectively risks are being managed versus appetite
- Group-wide, consolidated views shared with risk managers

Strengthening our approach to risk management

To support the implementation of this framework, the following actions have been put in place during the 2016 financial year.

- Created a Group Risk function reporting to the Group Risk & Compliance Director
- Brought together a global risk community from local markets and specialist risk areas to support the delivery of the framework and share best practices
- Completed an Integrated assurance mapping project to identify and enable oversight into the mitigations and level of assurance in place for the key risks in all local markets and entities
- Assigned Executive Committee owners and Senior Leadership champions for each principal risk

Further enhancements are planned during the 2017 financial year, including the implementation of a Risk & Integrated Assurance platform that can bring the framework to life and support the ongoing development of integrated assurance across the "three lines of defence"[1].

Note:
1 A term used to describe the systematic approach to how we manage risk and provide assurance to the Board that risks are managed effectively. The first line of defence typically sits in the business operations (e.g. Technology), the second line of defence has oversight over the first line of defence (e.g. Compliance or Risk Management), and the third line of defence are the independent assurance providers (e.g. Internal Audit).

Oversight of risks

The Board has overall responsibility for the Group's risk management and internal controls system. The Audit and Risk Committee, under delegation from the Board, monitors the nature and extent of risk exposure against risk appetite for our principal risks. Details of the activities of the Audit and Risk Committee are set out on pages 47 to 52 of this report.

At an operational level, risks are reviewed and managed by the Executive Committee and through its delegated sub-committee, the Risk and Compliance Committee. Details of the activities of the Risk and Compliance Committee are set out on page 39 of this report.

As part of the Board review of all risks, an exercise is completed to assess the long-term viability of the company, which includes stress-testing our principal risks. The output from this is contained in the Long-Term Viability Statement on page 29.

Our principal risks

The risk management framework covers all risks to our business but includes a process to identify the principal risks to our strategic objectives through the integration of bottom-up and top-down exercises. The bottom-up exercise identifies and consolidates all of the priority risks raised by local markets and entities. The top-down exercise involves interviews with around 30 senior executives. The aggregated results from these exercises are used to form the principal risks which are approved by the Executive Committee, prior to submission to the Audit and Risk Committee and the Board. Each principal risk is assigned to a senior executive who is responsible for managing the risk and reporting on progress to the Executive Committee.

Vodafone's principal risks are similar to those reported last year, although with some changes to the driving force behind the risks, and one new risk regarding legal and regulatory requirements. Any changes from last year's principal risks are highlighted in the tables below.

Cyber threat

Movement from 2015: **Stable**

What is the risk?

A successful cyber-attack or internal event could result in us not being able to deliver service to our customers and/or failing to protect their data. This could include a terrorist attack, state sponsored hacking, hacktivists or threats from individuals.

How could it impact us?

This risk could have major customer, financial, reputational and regulatory impact in all markets in which we operate. As some systems operate at Group level and support more than one market, we could be affected in multiple markets at one time and for both consumer and enterprise customers, magnifying the impact.

Changes from 2015

This risk combines two risks from our previous annual report; malicious attack causing service disruption; and customer data breach. We have merged these to reflect that a single cyber-attack could result in both outcomes.

How do we manage it?

- We have a global security strategy that is risk-based and approved by Executive Committee
- We have a global security function that sets policies and processes. Security controls are implemented centrally and in local markets, and we have a continuous improvement programme to mitigate the changing threats we face
- We manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 proactive monitoring of our global infrastructure, responds to incidents and manages recovery from those incidents
- Applications or infrastructure that store or transmit confidential personal and business voice and data traffic have layers of security control applied
- We have an assurance programme that incorporates both internal reviews and reviews of third parties that hold data on our behalf. Vodafone holds internationally recognised certifications for its information security processes
- We regularly provide mandatory security and privacy awareness training to Vodafone employees

Failure to deliver on convergence

Movement from 2015: **Increased**

What is the risk?

We face competition from providers who have the ability to sell converged services (combinations of fixed line, broadband, TV content and mobile) on their existing infrastructure. If we fail to deliver converged services in key markets, due to inability to access infrastructure or content at a reasonable price, this could potentially lead to higher customer churn and/or significant downward pressure on our prices.

How could it impact us?

Our own convergence strategy may be compromised if we are unable to obtain regulated or equivalent access to infrastructure and content, or acquire, rent or build the right assets, or if we are unable to effectively integrate those businesses we do acquire into our existing operations.

Changes from 2015

The risk has slightly increased as regulation is failing to deliver a level playing field across fixed and content markets leading to potential re-monopolisation by incumbent operators.

How do we manage it?

- We actively look for opportunities, in all markets, to provide services beyond mobile through organic investment, acquisition, partnerships, or joint ventures. In key European and some non-European markets we are already providing converged services
- Timely and coordinated intervention with regulatory and competition authorities to ensure that dominant infrastructure access and content providers cannot discriminate or restrict competition
- Integration plans ensure that cost synergies and revenue benefits are delivered and acquired businesses are successfully integrated through the alignment of policies, processes and systems

Adverse political measures

Movement from 2015: **Stable**

What is the risk?

Vodafone operates under licence in most markets. Increased financial pressures on governments may lead them to target foreign investors for further licence fees or to charge unreasonably high prices to obtain or renew spectrum.

Similarly we could be exposed to additional liabilities if we faced a new challenge from tax or competition authorities or if local or international tax laws were to change, for example as a result of the OECD's recommendations on base erosion and profit shifting or the proposed EU tax and financial reporting Directives.

How could it impact us?

If we are not licensed to operate, we cannot serve our customers. If the cost of operations were to significantly increase, directly or indirectly, this would impact Vodafone's profitability and returns to shareholders.

Additionally, disputes in regards to the level of tax payable and any related penalties could be significant, as reflected in our ongoing dispute in India.

Changes from 2015

There have been no significant changes over the last 12 months.

How do we manage it?

- We work with governments and regulators, nationally and internationally, to help shape any proposals that impact our business
- We maintain constructive but robust engagement with the tax authorities, relevant government representatives and non-governmental organisations as well as active engagement with a wide range of international companies and business organisations with similar issues
- Where appropriate, we engage advisers and legal counsel to obtain opinions on tax legislation and principles

EMF related health risks

Movement from 2015: **Stable**

What is the risk?

Concerns have been expressed that electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks. Authorities, including the World Health Organization ('WHO') agree there is no evidence that convinces experts that exposure to radio frequency fields from mobile devices and base stations operated within guideline limits has any adverse health effects. A change to this view could result in a range of impacts from a change to national legislation, to a major reduction in mobile phone usage or to major litigation.

How could it impact us?

This is an unlikely risk; however, it would have a major impact on services used by our customers in all our markets – particularly in countries that have a very low tolerance for environmental and health-related risks.

Changes from 2015

There have been no significant changes to this risk over the last 12 months.

How do we manage it?

→ We have a global health and safety policy that includes standards for electromagnetic fields ('EMF') that are mandated in all our local markets. Compliance to this policy is monitored and overseen by the Risk and Compliance Committee

→ We have a Group EMF Board that manages potential risks through cross sector initiatives and which oversees a coordinated global programme to respond to public concern, and develop appropriate advocacy related to possible precautionary legislation

→ We monitor scientific developments and engage with relevant bodies to support the delivery and transparent communication of the scientific research agenda set by the WHO

Major enterprise contracts

Movement from 2015: **Stable**

What is the risk?

We have a number of high-value, ongoing contracts with corporate customers, including some government agencies and departments. Successful and profitable delivery of our major enterprise contracts is dependent on complex technologies deployed across multiple geographies, as well as relative stability in the requirements, strategies and businesses of our customers.

How could it impact us?

Failure to deliver these enterprise services may lead to a reduction in our expected revenue and could impact our credibility to deliver on large, complex deals. Delivery challenges for any national critical service would have a particularly adverse impact on our reputation.

Changes from 2015

We are facing new competitors for our Enterprise customers, specifically from major technology companies. Despite this, and the new business brought in over the last 12 months, the risk remains stable.

How do we manage it?

→ Our Group Enterprise customer operations are now consolidated within one function, aligned to industry best practice which will deliver a standard service model to our customers

→ We have implemented a single process across Group Enterprise that ensures alignment, visibility and control across the entire customer experience, from sales governance and commercial risk through to service delivery, billing and in-life operations. This is supported by global standardised "ways of working" frameworks

→ We have an investment plan in implementation to digitise service operations, with investment having started in the 2016 financial year and to conclude in the 2018 financial year. This plan is aimed at lifting our Enterprise customer experience into a market leadership position

Unstable economic conditions

Movement from 2015: **Stable**

What is the risk?
As a multinational business, we operate in many countries and currencies, so changes to global economic conditions can impact us. This could be because another global crisis would result in reduced spending power for customers or because a relative strengthening or weakening of the major currencies in which we transact could impact our profitability. As a UK business, the UK leaving the European Union may impact us, and it could lead to wider concerns about the stability of the Eurozone.

How could it impact us?
The potential for another global financial crisis may lead to further economic instability and subsequent reductions in corporate and consumer confidence and spending. It could also have a prolonged impact on capital markets that may restrict our financing.

Changes from 2015
Eurozone stability has improved but low commodity prices, in part a consequence of reduced forecast growth in China, means the threat of another global financial crisis remains a significant risk factor, given the inability of central banks to reduce interest rates much further.

How do we manage it?
- We monitor closely economic and currency situations in both our AMAP and European markets
- We include contingencies in our business plans to cater for negative operational impacts that could arise from a variety of causes including the impact of lower economic growth than is generally expected
- We have credit facilities with 30 relationship banks that are committed for a minimum of five years and which total £5.8 billion. Such facilities could be used in the event of a prolonged disruption to the capital market
- Our exposure to any depreciation of sterling, for example from the UK leaving the EU, is limited by the fact that the vast majority of our income is denominated in other currencies

Market disruption

Movement from 2015: **Stable**

What is the risk?
We face increased competition from a variety of new technology providers, new market entrants and competitor consolidation.

How could it impact us?
There are two ways in which this risk could occur. First, advances in offerings of over the top ('OTT') services could reduce demand for our traditional voice and text services and impact revenue. Secondly, new entrants investing heavily or the consolidation of competitors could result in price wars in key markets. The threat from OTT competition is relevant for all markets where alternative services are commonly available and has the potential for major impact on service revenues. The risk of competitor disruption is higher in new and emerging markets.

Changes from 2015
This risk previously included supplier concentration. Improvements in how we manage key supplier groups and ensuring competitive tendering have reduced this risk.

How do we manage it?
- We have developed strategies which strengthen our relationships with customers through integrated voice, messaging and data price plans to avoid customers reducing their out of bundle usage through internet/Wi-Fi based substitution. The loss of voice and messaging revenue is partially offset by the increase in data revenue
- We monitor the competitor landscape in all markets, and react appropriately, working to make sure each market has a fair and competitive environment

Network/IT infrastructure failure

Movement from 2015: **Increased**

What is the risk?

If our network or IT systems fail, voice, video or data transmissions may be significantly interrupted. We need to ensure that our critical assets are protected and our systems are resilient, so that impact on our customers is minimised, particularly during our major IT transformation projects.

How could it impact us?

For the majority of network and IT infrastructure failures, the associated impacts would be confined to a single market. There are, however, some exceptions where data centres and critical network sites serve multiple markets.

There are a number of causes for failure such as major incidents caused by suppliers, natural disasters, deliberate attacks or a failure as a result of an internal project or transformation.

Failure to successfully implement key IT transformation projects would also increase the risk of IT systems being unable to support our strategic objectives.

Changes from 2015

During 2016 a number of major projects to improve key IT systems are taking place in some of our markets, which increases this risk, during the project implementation phase.

How do we manage it?

- → Specific back-up and resilience policy requirements are built into our network and IT infrastructure
- → We monitor our ability to replace strategic equipment promptly in the event of end-of-life failure, and for high risk components we maintain dedicated back-up equipment ready for use
- → A blueprinted approach to geographic resilience, where the secondary IT location is expected to be in a different country, has been developed with external market specialists. This will be used for business applications which require this degree of location resilience
- → Network and IT contingency plans are in place to cover the residual risks that cannot be mitigated
- → A crisis management team and escalation processes are in place both nationally and internationally. Crisis simulations are conducted annually

Non-compliance with laws and regulation

Movement from 2015: **New**

What is the risk?

Vodafone must comply with a multitude of local and international laws as well as regulations. These encompass but are not limited to, licence requirements, customer registration, data privacy, anti-money laundering, competition law, anti-bribery and economic sanctions. Non-compliance with these requirements exposes Vodafone to financial and reputational risk.

How could it impact us?

Non-compliance with legislation or regulatory requirements could lead to reputational damage, financial penalties and/or suspension of our licence to operate.

Changes from 2015

Now included in our principal risks due to changes in laws and their enforcement.

How do we manage it?

- → We have subject matter experts in legal and regulatory teams at a local and global level who manage risk across the Group
- → Our Compliance team monitors all high risk policies and tracks remedial actions for non-compliance or partial compliance
- → We train our employees in "Doing what's right", our training and awareness programme which defines and reinforces our ethical culture across the organisation

Customer Experience

Movement from 2015: **Reduced**

What is the risk?

If we fail to deliver a differentiated and superior experience to our customers in store, online and on the phone, this could diminish our brand and reputation, weakening our relationship with customers and reducing their loyalty to Vodafone.

How could it impact us?

This risk is relevant to all our markets in both our consumer and enterprise businesses. Differentiation based on a superior customer experience involves a number of areas, including those that directly deal with customers and others that look after our network and IT systems.

Changes from 2015

We have now completed one year of our Customer eXperience eXcellence programme. In the 2016 financial year we achieved improvements in our consumer Net Promoter Score ('NPS') position in 15 out of 20 of our Local Markets.

Vodafone is now ranked number one in 13 out of 21 markets. Nine out of 13 of these markets increased their gap over the closest competitor, supporting our ambition to become a clear customer experience leader. Most of the remaining markets significantly decreased the gap between Vodafone and the leader.

This marks Vodafone's best annual improvement on overall NPS to date.

How do we manage it?

- Customer experience has been prioritised as a key component of our strategy. Our customer experience programme has been implemented across the business to deliver a range of system capability improvements to support an enhanced customer experience
- We track and monitor our performance in delivering a superior customer experience through a range of KPIs; the most critical being our NPS and Brand Consideration metrics
- We communicate with our customers clearly and transparently particularly around tariffs and roaming costs
- We provide a leading customer experience through our My Vodafone app and online channels

Long-Term Viability Statement

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the approval of the financial statements. The Board has concluded that the most relevant time period for this assessment should be three years to align with the Group's normal business forecasting cycle and to reflect the pace of ongoing change in the telecoms industry.

The plans and projections prepared as part of this forecasting cycle include the Group's cash flows, committed and required funding and other key financial ratios. They were drawn up on the basis that debt refinance will be available in all plausible market conditions and that there will be no material changes to the business structure over the review period. As of 31 March 2016, the Group had sources of liquidity (primarily comprised of certain cash and cash equivalent balances) and available facilities, of £17.7 billion, which includes undrawn Revolving Credit Facilities expiring in 2020.

The Risk Management Framework on page 22 outlines the approach the Board has taken to identifying and managing risk. In making this statement, the Board carried out an assessment of the principal risks facing the Group, detailed on pages 23 to 28, including those that would threaten its business model, future performance, solvency or liquidity.

Against this background, the output of the long-range plan has been used to perform central debt profile and cash headroom analysis, including a review of sensitivity to "business as usual" risks to revenue and profit growth. In addition, severe but plausible scenarios in the event of each of the principal risks materialising individually and where multiple risks occur in parallel, were also tested. This combined scenario included the impact of a global economic downturn, with a major impact on consumer and enterprise sentiment causing material impact on financial performance, and a significant reduction in the Group's refinancing capability. This was considered together with a cyber-attack resulting in a major customer data breach in multiple markets leading to a broader reputational risk.

To assess viability, the headroom position under these scenarios has been calculated using the cash and facilities available to the Group. The assessment took into account the availability and likely effectiveness of the mitigating actions that could be taken to reduce the impact of the identified underlying risks. The headroom remained positive in all scenarios tested.

Having considered the principal risks that the Group may face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances, taking into account the inherent uncertainty involved. Although this review has considered severe but plausible scenarios relevant to the Group, any such review cannot consider all risks which may occur, therefore an overall view of the total level of risk required to impede our viability was also considered. The cash and available facilities at year end, along with the mitigating actions available to reduce cash outgoings, provides a sufficient level of headroom.

Based on the results of their analysis, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 March 2019.

Our financial performance

This section presents our operating performance, providing commentary on how the revenue and the EBITDA performance of the Group and its operating segments have developed over the last year.

Group[1]

	Europe £m	AMAP £m	Other[2] £m	Eliminations £m	2016 £m	2015 £m	% change £	% change Organic
Revenue	26,718	13,208	1,160	(113)	40,973	42,227	(3.0)	2.3
Service revenue	24,461	11,843	968	(113)	37,159	38,497	(3.5)	1.5
Other revenue	2,257	1,365	192	–	3,814	3,730		
EBITDA	7,686	4,042	(116)	–	11,612	11,915	(2.5)	2.7
Adjusted operating profit	**1,409**	**1,813**	**(105)**	**–**	**3,117**	**3,507**	**(11.1)**	**(3.9)**
Adjustments for:								
Impairment loss					(450)	–		
Restructuring costs					(236)	(157)		
Amortisation of acquired customer bases and brand intangible assets					(979)	(1,269)		
Other income and expense					(75)	(114)		
Operating profit					**1,377**	**1,967**		
Non-operating income and expense					(2)	(19)		
Net financing costs					(1,824)	(853)		
Income tax (expense)/credit					(3,369)	4,765		
(Loss)/profit for the financial year from continuing operations					**(3,818)**	**5,860**		
Profit for the financial year from discontinued operations					**–**	**57**		
(Loss)/profit for the financial year					**(3,818)**	**5,917**		

Notes:
1 2016 results reflect average foreign exchange rates of £1:€1.37, £1:INR 98.61 and £1:ZAR 20.72.
2 The "Other" segment primarily represent the results of the partner markets and the net result of unallocated central Group costs.

Revenue

Group revenue decreased 3.0% to £41.0 billion and service revenue decreased by 3.5% to £37.2 billion. Reported growth includes the full year impact from the acquisitions of Hellas Online ('HOL') and Cobra Automotive ('Cobra') in the prior year. In Europe, organic service revenue declined 0.6%* reflecting continued competitive pressures in a number of markets, with improving trends throughout the year. In AMAP, organic service revenue increased by 6.9%* continuing its sustained track record of strong organic growth.

EBITDA

Group EBITDA declined 2.5% to £11.6 billion, with organic growth in Europe and AMAP and the acquisitions of HOL and Cobra being more than offset by foreign exchange movements. On an organic basis, EBITDA rose 2.7%* and the Group's EBITDA margin stabilised at 28.3%.

Operating profit

Adjusted operating profit excludes certain income and expenses that we have identified separately to allow their effect on the results of the Group to be assessed (see page 190). The items that are included in operating profit but are excluded from adjusted operating profit are discussed below.

An impairment loss of £450 million was recognised in the current financial year (2015: £nil). Further detail is provided in note 4 to the Group's consolidated financial statements. Restructuring costs of £236 million (2015: £157 million) have been incurred to improve future business performance and reduce costs.

Amortisation of intangible assets in relation to customer bases and brands are recognised under accounting rules after we acquire businesses and decreased to £979 million (2015: £1,269 million) due to the acquisition of Ono.

Including the above items, operating profit decreased by £0.6 billion to £1.4 billion as the £0.45 billion impairment charge, £0.3 billion reduction in EBITDA and £0.1 billion increase in restructuring costs were partly offset by £0.1 billion of lower depreciation and amortisation charges and £0.1 billion higher contribution from associates and joint ventures.

Net financing costs

	2016 £m	2015 £m
Investment income	300	883
Financing costs	(2,124)	(1.736)
Net financing costs	**(1,824)**	**(853)**
Analysed as:		
Net financing costs before interest on settlement of tax issues	(1,107)	(1,160)
Interest (expense)/credit arising on settlement of outstanding tax issues	(15)	4
	(1,122)	**(1,156)**
Mark-to-market losses	(247)	(134)
Foreign exchange[1]	(455)	437
	(1,824)	**(853)**

Note:
1 Comprises foreign exchange rate differences in relation to certain intercompany balances.

Net financing costs, excluding mark-to-market losses and foreign exchange differences in relation to certain intercompany balances, decreased by 3% primarily due to the impact of foreign exchange losses on financing costs.

Taxation

	2016 £m	2015 £m
Income tax		
Continuing operations before deferred tax on revaluation of investments in Luxembourg	(162)	(703)
Deferred tax on revaluation of investments in Luxembourg	(3,207)	5,468
Total income tax (expense)/credit – continuing operations	**(3,369)**	**4,765**
Tax on adjustments to derive adjusted profit before tax	(436)	(305)
Recognition of deferred tax asset for losses in Luxembourg	–	(3,341)
Deferred tax following revaluation of investments in Luxembourg	3,207	(2,127)
Deferred tax on use of Luxembourg losses	423	439
Adjusted income tax expense	**(175)**	**(569)**
Share of associates' and joint ventures' tax	(104)	(117)
Adjusted income tax expense for calculating adjusted tax rate	**(279)**	**(686)**
(Loss)/profit before tax	**(449)**	**1,095**
Adjustments to derive adjusted profit before tax (see earnings per share)	2,191	1,122
Adjusted profit before tax	**1,742**	**2,217**
Share of associates' and joint ventures' tax and non-controlling interest	104	117
Adjusted profit before tax for calculating adjusted effective tax rate	**1,846**	**2,334**
Adjusted effective tax rate	**15.1%**	**29.4%**

The Group's underlying tax rate for the year ended 31 March 2016 was 28.8%. Certain non-recurring items had a significant effect on the adjusted effective tax rate in the year, which was 15.1%. These include a benefit of 18.4% following the restructuring and simplification of our Indian business, partially offset by a tax cost of 4.6% due to the reduction in the UK corporation tax rate (which resulted in a decrease in the value of our UK capital allowances).

The Group's adjusted effective tax rate is expected to be in the mid-twenties over the medium term reflecting the ongoing impact from the re-organisation of our Indian business.

The Group's adjusted effective tax rate for both years does not include the use of Luxembourg losses in the year of £423 million (2015: £439 million) and a reduction in the deferred tax asset in the period of £3,207 million (2015: recognition of an additional asset of £2,127 million) arising from the tax treatment of the revaluation of investments based upon the local GAAP financial statements. These items reduce the amount of losses we have available for future use against our profits in Luxembourg and do not affect the amount of tax we pay in other countries.

Additionally, the adjusted effective tax rate in the year ended 31 March 2015 did not include the impact of the recognition of an additional £3,341 million deferred tax asset in respect of the Group's historic tax losses in Luxembourg. The losses were recognised as a consequence of the acquisition of Ono.

Earnings per share

Adjusted earnings per share, which excludes the reduction in the tax losses in Luxembourg following the revaluation of investments in the local statutory accounts in the current period and the recognition of deferred tax assets in respect of tax losses in Luxembourg in the prior year, was 5.04 pence, a decrease of 9.2% year-on-year, reflecting the Group's lower adjusted operating profit for the year.

Basic earnings per share was a loss of 15.08 pence primarily due to the reduction in deferred tax on losses, as described above, which has been excluded from adjusted earnings per share.

	2016 £m	2015 £m
(Loss)/profit attributable to owners of the parent	**(4,024)**	**5,761**
Adjustments:		
Impairment loss	450	–
Amortisation of acquired customer base and brand intangible assets	979	1,269
Restructuring costs	236	157
Other income and expense	75	114
Non-operating income and expense	2	19
Investment income and financing costs	449	(437)
	2,191	**1,122**
Taxation	3,194	(5,334)
Discontinued operations	–	(57)
Non-controlling interests	(17)	(21)
Adjusted profit attributable to owners of the parent	**1,344**	**1,471**

Europe[1]

	Germany £m	Italy £m	UK £m	Spain £m	Other Europe £m	Eliminations £m	Europe £m	Restated 2015 £m	% change £	% change Organic
Year ended 31 March 2016										
Revenue	7,787	4,405	6,173	3,633	4,835	(115)	26,718	27,687	(3.5)	0.4
Service revenue	7,197	3,758	5,849	3,274	4,494	(111)	24,461	25,588	(4.4)	(0.6)
Other revenue	590	647	324	359	341	(4)	2,257	2,099		
EBITDA	2,537	1,478	1,289	915	1,467	–	7,686	7,894	(2.6)	1.7
Adjusted operating profit	378	590	(69)	53	457	–	1,409	1,733	(18.7)	(12.9)
EBITDA margin	32.6%	33.6%	20.9%	25.2%	30.3%		28.8%	28.5%		

Note:
1 The Group has amended its reporting to reflect changes in the internal management of its Enterprise business. The primary change has been that on 1 April 2015 the Group redefined its segments to report international voice transit service revenue within Common Functions rather than within the service revenue amount disclosed for each country and region. The service revenue amounts presented for the year ended 31 March 2015 have been restated onto a comparable basis together with all disclosed organic service revenue growth rates. There is no impact on total Group service revenue or costs.

Revenue decreased 3.5% for the year. M&A activity, including HOL and Cobra, contributed a 1.3 percentage point positive impact, while foreign exchange movements contributed a 5.2 percentage point negative impact. On an organic basis, service revenue decreased by 0.6%*, reflecting continued competitive pressures in a number of markets.

EBITDA decreased 2.6%, including a 1.2 percentage point positive impact from M&A activity and a 5.5 percentage point negative impact from foreign exchange movements. On an organic basis EBITDA increased 1.7%* driven by good cost control in a number of our markets, as well as the benefits of acquisition integrations.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Europe	**0.4**	**1.3**	**(5.2)**	**(3.5)**
Service revenue				
Germany	(0.4)	–	(6.7)	(7.1)
Italy	(0.8)	–	(6.7)	(7.5)
UK	(0.3)	(0.4)	(0.1)	(0.8)
Spain	(3.5)	8.7	(6.6)	(1.4)
Other Europe	1.5	1.9	(6.8)	(3.4)
Europe	**(0.6)**	**1.3**	**(5.1)**	**(4.4)**
EBITDA				
Germany	2.1	–	(6.7)	(4.6)
Italy	3.1	–	(6.8)	(3.7)
UK	1.2	(5.4)	–	(4.2)
Spain	4.2	19.6	(6.8)	17.0
Other Europe	(1.5)	1.3	(6.5)	(6.7)
Europe	**1.7**	**1.2**	**(5.5)**	**(2.6)**
Europe adjusted operating profit	**(12.9)**	**(0.2)**	**(5.6)**	**(18.7)**

Note:
1 "Other activity" includes the impact of M&A activity. Refer to "Organic growth" on page 191 for further detail.

Germany

Service revenue declined 0.4%* for the year, but returned to growth in Q4 (Q3: -0.4%*; Q4: 1.6%*) led by improvements in consumer mobile and fixed trends and aided by an accounting reclassification in fixed line.

Mobile service revenue declined 1.6%*. Consumer contract revenue stabilised in the year, supported by consistent growth in contract net adds (+594,000 for the year). This performance has been driven by an increased focus on direct channels and our 'Otelo' second brand; during Q4, higher competition in indirect channels weighed on our contract net additions. The Enterprise market became increasingly competitive during the year, leading to a deteriorating revenue trend as falling ARPU more than offset good contract wins. We have made further strong progress on network investment, with 87% 4G coverage and dropped call rates declining 25% year-on-year to an all-time low of 0.44%. In November, the independent "Connect" test confirmed the premium quality of our voice network in Germany and a strong second and most improved data position.

Fixed service revenue growth was 1.5%*, with continued strong growth in cable and a slowing decline in DSL-related revenue. Cable net adds growth continued to be strong throughout the year, supplemented by ongoing migrations from the DSL base; in the second half of the year DSL net adds also turned positive, with growing customer demand for VDSL. Broadband ARPU was down year-on-year in a promotional market, with improvements in cable offset by DSL declines, although the pace of decline began to moderate during H2. The integration of KDG has been completed; we expect cost synergies to meet the initial targets set out at the time of acquisition, and now expect further upside potential longer-term. In November, we launched Vodafone Red One, our fully integrated fixed, mobile and TV service combining high speed mobile and fixed; as of 31 March 2016 we had 54,000 customers.

EBITDA grew 2.1%*, with EBITDA margin improving by 0.8* percentage points. The impact of lower revenues and increased Project Spring network opex was more than offset by opex efficiencies (including KDG synergies), savings in commercial costs (aided by our increased focus on direct channels) and a change in commission processes.

Italy

Service revenue declined 0.8%* for the year, but returned to growth in Q4 (Q3: -0.3%*; Q4: 1.3%*), aided by the leap-year benefit. The mobile business is on a steady recovery path, while fixed line performance continues to be positive despite increased competition in recent months.

Mobile service revenue declined 1.1%*, as a recovery in ARPU supported by prepaid price increases only partially offset the year-on-year decline in the customer base. Mobile number portability in the market has reduced in recent quarters and the customer base decline stabilised during the year, aided by market-leading NPS scores in mobile following our Project Spring investments. Consumer trends improved faster than Enterprise, where competitive intensity has increased in H2. As of 31 March 2016 we have 95% population coverage on our 4G network and 6.5 million 4G customers (September 2015: 4.0 million).

Fixed service revenue was up 1.2%*, driven by sustained commercial momentum. We added 168,000 broadband customers during the year, a strong performance, and in Q4 50% of our gross adds have taken a fibre-based service. Of our base of 2.0 million broadband customers, 297,000 are fibre customers. We have now built out our own fibre network to over 16,000 cabinets, enabling us to reach 3.6 million households. Our high speed broadband rollout in Italy will be enhanced by our commercial agreement with Enel, which plans to roll out Fibre-To-The-Home (FTTH) to 224 cities nationwide, providing access on competitive commercial terms. In these areas Enel will be our exclusive fibre partner going forward.

EBITDA was up 3.1%*, as we successfully offset the decline in service revenue with savings in commercial costs and operating expenses. The EBITDA margin was stable year-on-year due principally to higher handset revenues.

UK

Service revenue declined 0.3%* for the year (Q3: -0.7%*; Q4: -0.1%*), with improving trends in fixed line offset by a slowdown in mobile, reflecting operational challenges following a billing system migration. Q4 growth benefited from strong carrier services activity; excluding this, underlying trends were stable. The organic growth rate for the year excludes one-off settlements with other network operators in Q2.

Mobile service revenue declined 0.7%*. Contract customer growth slowed in Q4, impacted partly by higher churn in relation to the billing system migration. Revenue trends were also impacted by the pricing and usage of 08XX numbers following the introduction of Non-Geographic Call Services regulation, and a focus on giving customers more control of their out-of-bundle data spend. As a result, in-bundle revenue and demand for data add-ons continued to grow. Enterprise mobile trends remained relatively stable despite increased competition. National 4G coverage reached 91% (based on the OFCOM definition), and 99.5% in London; based on our estimations, 4G coverage was 84%, and despite some delays the pace of 4G coverage expansion in conjunction with our network sharing partner is now accelerating. We achieved significant growth in 4G customers, with 7.0 million at the period end (September 2015: 5.3 million).

Fixed service revenue grew 1.1%*. Excluding carrier services, fixed service revenue grew 2.4%* in the second half of the year including an improving performance in Enterprise. After regional trials during the summer, we began to offer our consumer broadband service to 24 million premises across the UK (98% of BT's fibre footprint) in October, securing 38,000 customers by 31 March 2016. Our new TV service is in field trials with plans to launch later in the current calendar year.

EBITDA grew 1.2%*, with a 0.2* percentage point increase in the EBITDA margin driven by continued operational efficiencies. Reported EBITDA benefited from one-off settlements with other network operators in the first half of the year.

Spain

Service revenue declined 3.5%* (Q3: -3.1%*; Q4: -3.2%*), with mobile revenue recovering steadily despite the negative effect of handset financing, and continued positive momentum in fixed. Excluding handset financing effects, service revenues declined by 0.3%* in the year.

Mobile service revenue fell 8.0%*. The contract customer base continued to grow in a more stable market, despite increased promotional activity around the start of the new football season. We are seeing signs that ARPU is beginning to stabilise, aided by our market-leading NPS scores in mobile and our 'more-for-more' pricing strategy, in which customers receive higher data allowances and additional features (e.g. free European roaming) together with an increase in the monthly tariff. Our 4G population coverage reached 91% at 31 March 2016 and we have 5.4 million 4G customers.

Fixed service revenue rose 7.8%*, supported by consistent growth in broadband net additions. The integration of Ono has proceeded successfully and we have already achieved 100% of the original €240 million of cost and capex synergies targeted. We now expect to be able to deliver €300 million of annualised run-rate savings over the original timeframe. In part this reflects the very successful launch in May of Vodafone One, our fully integrated cable, mobile and TV service, which has already reached 1.5 million customers. Including our joint fibre network build with Orange, we now reach 8.5 million premises with cable or fibre. Our recent agreement with Mediapro together with the wholesale obligations imposed on the incumbent provide us with access to a full range of premium TV channels for the coming years, albeit at an increased cost.

EBITDA increased 4.2%* year-on-year with a 1.3* percentage point increase in the EBITDA margin, as strong cost control, the benefit to margin from handset financing and the cost synergies from the Ono acquisition more than offset rising TV costs.

Other Europe

Service revenue rose 1.5%* (Q3: 1.6%*; Q4: 2.1%*), with all markets except Greece achieving growth during the year. In Q4, Romania (7.7%*), Portugal (3.5%*) and the Czech Republic enjoyed an improvement in top-line growth.

In the Netherlands, service revenue increased 0.3%*, with growth moving into decline during H2 (Q3: 0.2%*; Q4: -1.3%*) as continued gains in fixed line (partly aided by a Q4 accounting reclassification) were offset by a decline in mobile contract ARPU. In Portugal, fixed service revenue continues to grow strongly and mobile is recovering as ARPU and churn pressure from the shift towards convergent pricing begins to moderate. Our FTTH network now reaches 2.4 million homes. Ireland returned to service revenue growth in Q2, with strong momentum in fixed line and an improving trend in mobile. The initial 4G roll-out is complete with 95% population coverage. In Greece macroeconomic conditions remained a drag, however good cost control led to improved margins. The integration of HOL is progressing according to plan.

EBITDA declined 1.5%*, with a 1.0* percentage point decline in EBITDA margin, mainly driven by lower margins in Portugal and Romania.

Africa, Middle East and Asia Pacific[1]

	India £m	Vodacom £m	Other AMAP £m	Eliminations £m	AMAP £m	Restated 2015 £m	% change £	% change Organic
Year ended 31 March 2016								
Revenue	4,516	3,887	4,814	(9)	13,208	13,382	(1.3)	7.0
Service revenue	4,497	3,233	4,122	(9)	11,843	11,935	(0.8)	6.9
Other revenue	19	654	692	–	1,365	1,447		
EBITDA	1,331	1,484	1,227	–	4,042	4,086	(1.1)	7.2
Adjusted operating profit	469	992	352	–	1,813	1,802	0.6	11.7
EBITDA margin	29.5%	38.2%	25.5%		30.6%	30.5%		

Note:
1 The Group has amended its reporting to reflect changes in the internal management of its Enterprise business. The primary change has been that on 1 April 2015 the Group redefined its segments to report international voice transit service revenue within Common Functions rather than within the service revenue amount disclosed for each country and region. The service revenue amounts presented for the year ended 31 March 2015 have been restated onto a comparable basis together with all disclosed organic service revenue growth rates. There is no impact on total Group service revenues or costs.

Revenue decreased 1.3%, with strong organic growth offset by a 7.7 percentage point adverse impact from foreign exchange movements, particularly with regards to the South African rand, Turkish lira and Egyptian pound. On an organic basis, service revenue was up 6.9%* driven by growth in the customer base, increased voice and data usage, and continued good commercial execution. Overall growth was negatively impacted by MTR cuts and other regulatory charges, mainly in India.

EBITDA decreased 1.1%, including a 7.9 percentage point adverse impact from foreign exchange movements. On an organic basis, EBITDA grew 7.2%*, driven by growth in all major markets.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – AMAP	**7.0**	**(0.6)**	**(7.7)**	**(1.3)**
Service revenue				
India	5.0	–	(0.2)	4.8
Vodacom	5.4	–	(12.7)	(7.3)
Other AMAP	10.1	(1.9)	(9.3)	(1.1)
AMAP	**6.9**	**(0.7)**	**(7.0)**	**(0.8)**
EBITDA				
India	4.1	–	(0.3)	3.8
Vodacom	12.7	–	(15.5)	(2.8)
Other AMAP	4.5	(1.3)	(7.1)	(3.9)
AMAP	**7.2**	**(0.4)**	**(7.9)**	**(1.1)**
AMAP adjusted operating profit	**11.7**	**(1.1)**	**(10.0)**	**0.6**

Note:
1 "Other activity" includes the impact of M&A activity. Refer to "Organic growth" on page 191 for further detail.

India

Service revenue increased 5.0%* (Q3: 2.3%*; Q4: 5.3%*) as customer base growth and strong demand for 3G data was partially offset by a number of regulatory changes, including MTR cuts, roaming price caps and an increase in service tax. Excluding these impacts, service revenue growth was 10.0%*. Q4 growth recovered versus Q3 as voice price competition moderated during the quarter and regulatory impacts began to reduce in March.

We added 14.1 million customers during the year, taking the total to 197.9 million. Growth in total minutes of use continued, but this was offset by a decline in average revenue per minute as a result of ongoing competition on voice business.

Data growth continues to be very strong, with data usage over the network up 64% year-on-year, and the active data customer base increasing by 3.8 million to 67.5 million. The 3G customer base grew to 27.4 million, up 41.4% year-on-year, and smartphone penetration in our four biggest urban areas is now 52.8%. In Q4, browsing revenue represented 19.2% of local service revenue, up from 14.9% in the equivalent quarter last year.

Since the launch of Project Spring we have added over 37,700 new 3G sites, taking the total to 55,500 and our population coverage to 95% of target urban areas. We have launched 4G in five key circles and plan to expand to cover over 60% of our data revenues in the coming year, ahead of the upcoming spectrum auction.

Our M-Pesa business continues to expand, with 1.3 million active customers at March 2016, and approximately 120,000 agents. In August, the Reserve Bank of India granted us 'in principle' approval to set up a payments bank.

EBITDA grew 4.1%*, with a 0.2* percentage point deterioration in EBITDA margin as the benefits of service revenue growth were offset by the ongoing increase in operating costs related to Project Spring, higher acquisition costs and the translation effects of non-rupee operating costs.

Market conditions remain competitive and may be further impacted by the forthcoming spectrum auctions and a new entrant. Preparations continue for a potential IPO of Vodafone India.

Vodacom

Vodacom Group service revenue increased 5.4%* (Q3: 7.2%*; Q4: 6.3%*), supported by strong momentum in both South Africa and the International operations.

In South Africa, organic service revenue grew 4.7%* (Q3: 7.2%*; Q4: 6.5%*), with the consumer and enterprise businesses both performing well. We continued to focus on building brand and network differentiation, with our performance driven by strong demand for data. We further enhanced our leading network position, more than doubling our LTE/4G sites to over 6,000, taking coverage to 58.2% on LTE/4G and 98.9% on 3G. Data revenue growth remained strong at 18.8*% in Q4 and data is now 36.3% of local service revenue. Our pricing transformation strategy is making good progress, with 85% of contract customers now on integrated price plans and churn falling to our lowest levels at 6.9% in Q4. Total bundle sales reached 1.1 billion, supported by our 'Just 4 U' personalised offers.

Service revenue growth in Vodacom's International operations outside South Africa was 10.0%*, driven by increased voice revenue as a result of pricing strategies and bundle offerings, data take-up and M-Pesa. Active data customers reached 10.1 million, 37% of total customers, and active M-Pesa customers totalled 6.8 million in Q4, all benefiting from sustained network investment.

Vodacom Group EBITDA increased 12.7%*, significantly faster than revenues, with a 3.6* percentage point improvement in EBITDA margin. This strong performance partly reflected a change in accounting for certain transactions in the indirect channel, which depressed equipment sales and total revenues with no impact on EBITDA. Excluding this effect, EBITDA margins rose driven by operating leverage, tight cost control and a tailwind from foreign exchange gains.

Other AMAP

Service revenue increased 10.1%* (Q3: 10.8%*; Q4: 12.1%*), with strong growth in Turkey, Egypt and Ghana partially offset by a decline in Qatar.

Service revenue in Turkey was up 19.7%*, reflecting continued strong growth in consumer contract and Enterprise revenue, and we launched 4G services in April 2016. Fixed line momentum was strong, almost quadrupling the fixed broadband customer base to 363,000 at the end of the period. In Egypt, service revenue was up 8.9%* driven by continued strong growth in data. New Zealand returned to modest growth, with solid mobile contract customer trends and improving fixed line ARPU.

EBITDA grew 4.5%*, with a 2.1* percentage point contraction in EBITDA margin. A strong revenue performance and improved margins in Turkey were partly offset by higher costs for imported goods post foreign exchange rate devaluations across the region.

Associates and joint ventures

Indus Towers, the Indian towers company in which Vodafone has a 42% interest, achieved local currency revenue growth of 5.8%. Indus Towers owned 119,881 towers as at 31 March 2016, with a tenancy ratio of 2.25. Our share of Indus Towers EBITDA was £305 million and its contribution to the Group's adjusted operating profit was £74 million.

Safaricom, Vodafone's 40% associate which is the leading mobile operator in Kenya, saw local currency service revenue growth of 13.8% for the year, with local currency EBITDA up 16.8%, driven by an increase in the customer base leading to growth across all revenue streams, predominantly mobile data and M-Pesa. 4G coverage is now in 20 out of 47 counties.

Vodafone Hutchison Australia ('VHA'), in which Vodafone owns a 50% stake, is performing solidly in an intensely competitive environment, with service revenues (excluding MTR impact) returning to growth after five years in decline. EBITDA growth was driven by an increase in revenue and improved cost management.

Notes:
References to "Q4" are to the quarter ended 31 March 2016 unless otherwise stated. References to "Q3" are to the quarter ended 31 December 2015 unless otherwise stated. References to the "second half of the year" or "H2" are to the six months ended 31 March 2016 unless otherwise stated. References to the "year" or "financial year" are to the financial year ended 31 March 2016 and references to the "prior financial year" are to the financial year ended 31 March 2015 unless otherwise stated.
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 page 191 "Non-GAAP information" for further details.

Financial position and resources

Consolidated statement of financial position

The consolidated statement of financial position is set out on page 88. Details on the major movements of both our assets and liabilities in the year are set out below:

Assets

Goodwill and other intangible assets

Goodwill and other intangible assets increased by £3.3 billion to £46.8 billion. The increase primarily arose as a result of £7.3 billion of additions, including £5.4 billion for spectrum purchased in India, Germany, Turkey, Spain, Italy and the UK, plus £2.3 billion of favourable movements in foreign exchange rates which were partly offset by £4.3 billion of amortisation, £1.7 billion transferred to assets held for resale and £0.5 billion of goodwill impairment.

Property, plant and equipment

Property, plant and equipment increased by £1.5 billion to £28.1 billion, principally due to £6.7 billion of additions driven by investment in the Group's networks as a result of Project Spring plus £1.0 billion of favourable foreign exchange movements, partly offset by £5.2 billion of depreciation charges and £0.9 billion transferred to assets held for resale.

Other non-current assets

Other non-current assets decreased by £2.0 billion to £30.7 billion, mainly due to decrease in deferred tax assets primarily due to the reduction of tax losses in Luxembourg (see note 6 for further details).

Current assets

Current assets increased by £8.3 billion to £28.1 billion, mainly due to a £3.3 billion increase in cash and cash equivalents, £2.9 billion of assets held for resale and a £1.1 billion increase in trade receivables.

Total equity and liabilities

Total equity

Total equity decreased by £0.4 billion to £67.3 billion as the £2.8 billion of proceeds from the convertible bonds was offset by £3.2 billion of dividends paid to equity shareholders and non-controlling interests and the total comprehensive loss for the year of £0.1 billion.

Non-current liabilities

Non-current liabilities increased by £7.1 billion to £33.0 billion, primarily due to a £6.9 billion increase in long-term borrowings.

Current liabilities

Current liabilities decreased by £4.5 billion to £33.4 billion, mainly due to £3.4 billion of additional short-term borrowings and a £0.8 billion increase in trade and other payables. Trade payables at 31 March 2016 were equivalent to 45 days (2015: 43 days) outstanding, calculated by reference to the amount owed to suppliers as a proportion of the amounts invoiced by suppliers during the year. It is our policy to agree terms of transactions, including payment terms, with suppliers and it is our normal practice that payment is made accordingly.

Contractual obligations and commitments

A summary of our principal contractual financial obligations and commitments is shown below.

	Payments due by period £m				
Contractual obligations and commitments[1]	Total	< 1 year	1–3 years	3–5 years	>5 years
Borrowings[2]	53,816	16,188	9,999	7,215	20,414
Operating lease commitments[3]	7,862	1,527	2,084	1,429	2,822
Capital commitments[3,4]	2,051	1,839	178	32	2
Purchase commitments[5]	6,952	3,857	2,697	274	124
Total	**70,681**	**23,411**	**14,958**	**8,950**	**23,362**

Notes:
1 This table includes commitments in respect of options over interests in Group businesses held by non-controlling shareholders (see "Potential cash outflows from option agreements and similar arrangements" on page 133) and obligations to pay dividends to non-controlling shareholders (see "Dividends from associates and to non-controlling shareholders" on page 133). The table excludes current and deferred tax liabilities and obligations under post employment benefit schemes, details of which are provided in notes 6 "Taxation" and 26 "Post employment benefits" respectively. The table also excludes the contractual obligations of associates and joint ventures.
2 See note 21 "Borrowings".
3 See note 29 "Commitments".
4 Primarily related to spectrum and network infrastructure.
5 Primarily related to device purchase obligations.

Dividends

We provide returns to shareholders through equity dividends and historically have generally paid dividends in February and August in each year. The Directors expect that we will continue to pay dividends semi-annually.

The £3.0 billion equity dividend in the current year comprises £2.0 billion in relation to the final dividend for the year ended 31 March 2015 and £1.0 billion for the interim dividend for the year ended 31 March 2016.

The interim dividend of 3.68 pence per share announced by the Directors in November 2015 represented a 2.2% increase over last year's interim dividend. The Directors are proposing a final dividend of 7.77 pence per share. Total dividends for the year increased by 2.0% to 11.45 pence per share.

Liquidity and capital resources

Our liquidity and working capital may be affected by a material decrease in cash flow due to a number of factors as outlined in "Principal risk factors and uncertainties" on pages 22 to 28. We do not use non-consolidated special purpose entities as a source of liquidity or for other financing purposes.

In addition to the commentary on the Group's consolidated statement of cash flows below, further disclosure in relation to the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk can be found in "Borrowings", "Liquidity and capital resources" and "Capital and financial risk management" in notes 21, 22 and 23 respectively to the consolidated financial statements.

Cash flows

A reconciliation of cash generated by operations to free cash flow, a non-GAAP measure used by management is shown on pages 190 and 191. The reconciliation to net debt is shown below.

	2016 £m	2015 £m
EBITDA	11,612	11,915
Working capital	(386)	(121)
Capital expenditure	(8,599)	(9,197)
Disposal of property, plant and equipment	140	178
Other	117	88
Operating free cash flow[1]	**2,884**	**2,863**
Taxation	(689)	(758)
Dividends received from associates and investments	67	224
Dividends paid to non-controlling shareholders in subsidiaries	(223)	(247)
Interest received and paid	(1,026)	(994)
Free cash flow[1]	**1,013**	**1,088**
Licence and spectrum payments	(2,944)	(443)
Acquisitions and disposals	(96)	(7,040)
Equity dividends paid	(2,998)	(2,927)
Foreign exchange	(1,968)	895
Convertible issue	2,754	–
Other[2]	(2,665)	(144)
Net debt increase	**(6,904)**	**(8,571)**
Opening net debt	(22,271)	(13,700)
Closing net debt[3]	**(29,175)**	**(22,271)**

Notes:
1 Operating free cash flow for the year ended 31 March 2016 excludes £186 million (2015: £336 million) of restructuring costs, £nil (2015: £365 million) UK pensions contribution payment and £nil (2015; £116 million) of KDG incentive scheme payments that vested upon acquisition.
2 Other cash flows for the year ended 31 March 2016 include £2,020 million (2015: £nil) of debt recognised in respect of spectrum in India and Germany, £186 million (2015: £336 million) of restructuring costs, £nil (2015: £365 million) UK pensions contribution payment, £nil (2015: £359 million) of Verizon Wireless tax dividends received after the completion of the disposal, £nil (2015: £328 million) of interest paid on the settlement of the Piramal option, £nil (2015: £116 million) of KDG incentive scheme payments that vested upon acquisition, £nil (2015: £176 million) tax refund relating to the rationalisation and reorganisation of our non-US assets prior to the disposal of our stake in Verizon Wireless and a £50 million (2015: £100 million) payment in respect of the Group's historic UK tax settlement.
3 Includes cash and cash equivalents of £14 million (2015: £nil) in respect of assets held for sale.

Cash generated by operations

Excluding restructuring and other costs, cash generated by operations increased 2.6% to £11.4 billion as lower EBITDA was offset by working capital movements.

Capital expenditure

Capital expenditure decreased £0.6 billion to £8.6 billion primarily driven by the completion of the Project Spring investment programme.

Free cash flow

Free cash flow was £1.0 billion, a decrease of £0.1 billion from the prior year, as higher cash generated by operations excluding restructuring and other costs and working capital movements in respect of capital expenditure were offset by lower capital expenditure and lower dividends received from Indus Towers.

Licence and spectrum payments

Payments for licences and spectrum include amounts relating to the purchase of spectrum in Germany of £1.4 billion, £0.6 billion in India, £0.6 billion in Turkey, £0.2 billion in Italy and £0.1 billion in the UK.

Acquisitions and disposals

Payments for acquisitions and disposals for the year ended 31 March 2015 primarily included £2,945 million in relation to the acquisition of the entire share capital of Ono plus £2,858 million of associated net debt acquired and £563 million in relation to the acquisition of the remaining 10.97% equity interest in Vodafone India.

Convertible issue and foreign exchange

A foreign exchange loss of £2.0 billion was recognised on net debt as losses on the euro and rupee offset favourable foreign exchange movements on the South African rand.

This was offset by £2.8 billion of proceeds from the issue of £2.9 billion of mandatory convertible bonds in February 2016, £2.8 billion of which have been classified as equity after taking into account the cost of future coupon payments.

The Group also holds $5.0 billion (2015: $5.25 billion) of Verizon loan notes, and has the potential to utilise the proceeds from these notes to repurchase the shares issued to satisfy the mandatory convertible bonds.

This year's report contains the strategic report on pages 1 to 37, which includes an analysis of our performance and position, a review of the business during the year, and outlines the principal risks and uncertainties we face. The strategic report was approved by the Board and signed on its behalf by the Chief Executive and Chief Financial Officer.

Vittorio Colao
Chief Executive

Nick Read
Chief Financial Officer

17 May 2016