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

Convergence

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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

Year	Value
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.

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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

Internet of Things connections
million

2014	20.2
2015	27.8
2016	**38.0**
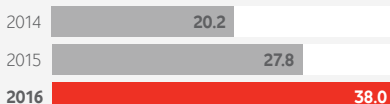
28%
of our service revenue is from enterprise customers

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.

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.

Chief Financial Officer's review

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.

Cost efficiency

Project Spring execution

Acquisition integration

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.

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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.

Strategic performance

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**

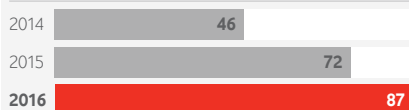### Europe 4G coverage

%
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.
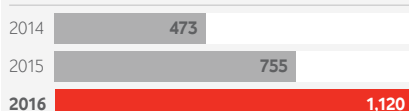
More work to do

2014	46
2015	72
2016	**87**

Europe average monthly smartphone data usage[1]

MB
Data

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**

Fixed broadband customers

million
Convergence

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.
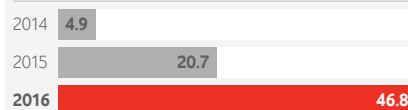
Achieved

2014	9.2
2015	12.0
2016	**13.4**
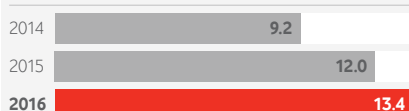
4G customers

million
Data

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 NGN coverage (owned assets)[2]

million homes passed
Convergence

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**
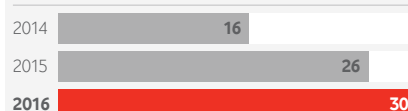
Fixed as a percentage of enterprise service revenue

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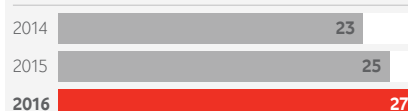
Notes:
1 Based on Android and iPhone devices.
2 Next Generation Network providing high-speed broadband over 30 Mbps.
3 Before the impact of M&A, spectrum purchases and restructuring costs.

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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.
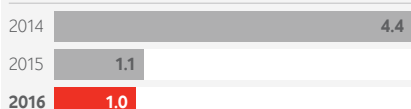
Achieved

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

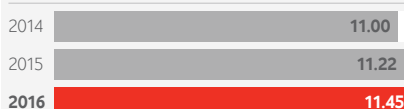|	
2014	4.4
2015	1.1
2016	**1.0**

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**
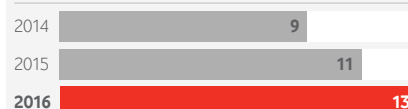
Employee engagement

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**
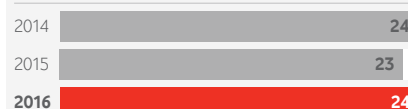
The people behind our business

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.

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Employees by location %

Spain 5%
Italy 6%
Vodacom 7%
Germany 14%
UK 15%
India 20%
Other 33%
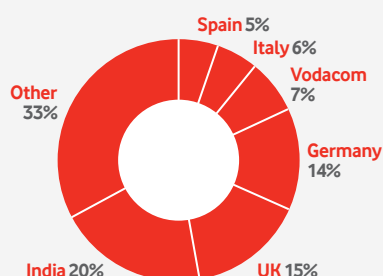
Monthly average employees[1] number

2014	92,812
2015	101,443
2016	**107,667**

Employee engagement index

2014	77
2015	77
2016	**79**

Employee turnover rate %

2014	15
2015	18
2016	**19**

Nationalities in top senior leadership roles

2014	24
2015	24
2016	**21**

Gender of employees %

Female 36%
Male 64%
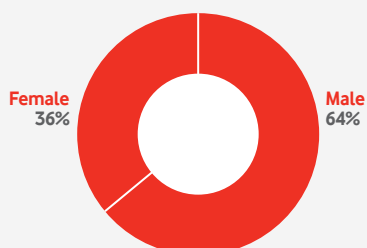
Our "Discover" programme for graduates accelerates the careers of high performing graduates, with over 700 people recruited onto this programme during the year. After the programme, a number of "Discovers" join an international programme, "Columbus" with the purpose of building leadership skills through 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.

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.

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.

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Greenhouse gas ('GHG') emissions
million tonnes of CO$_2$e

2014	0.34	2.04	2.38
2015	0.37	2.10	2.47
2016	0.41	2.16	2.57

■ Scope 1 emissions (over which we have direct control)
■ Scope 2 emissions (from purchased electricity)
☐ Total of Scope 1 and Scope 2

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$_2$e

2014	8,200
2015	3,100
2016	1,900

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

2014	1.19
2015	1.41
2016	1.74
2018	Target 2.00

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$_2$e (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$_2$e/ 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$_2$e 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$_2$e 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$_2$e for every tonne of CO$_2$e 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$_2$e.

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.
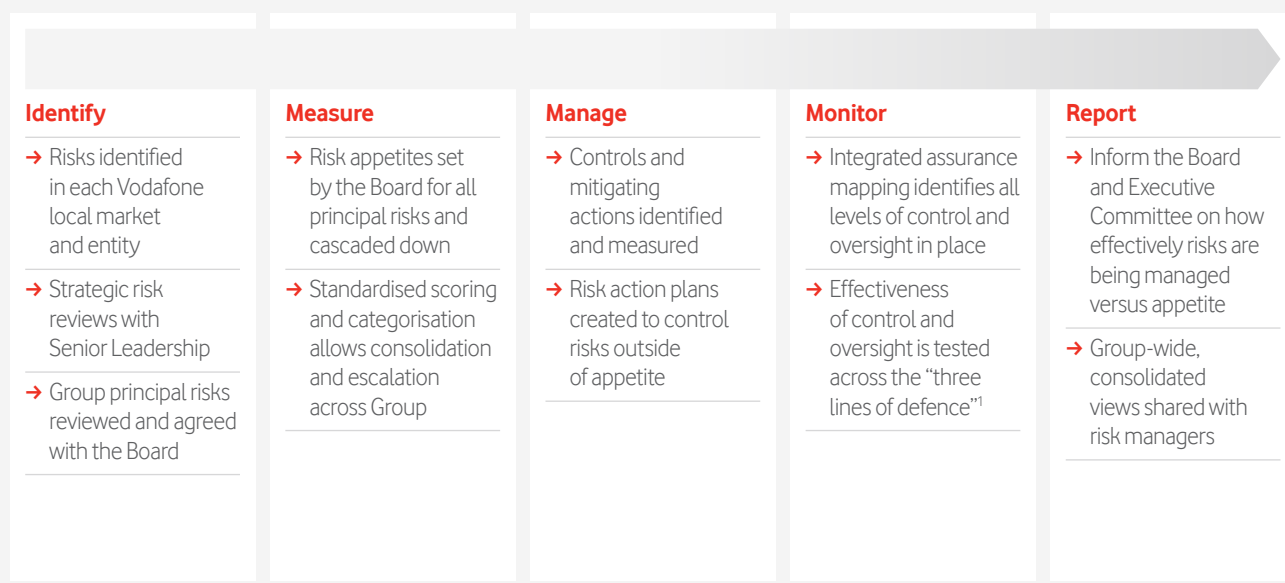
Identifying and managing our risks

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).

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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

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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

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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

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

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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.