

# Strategy update

Vittorio Colao  
Group Chief Executive



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# We are now starting Chapter 3 of the Vodafone story

1996-2002

## CHAPTER 1

**VODAFONE**



**m**annesmann

- Ride wave of mobile penetration/voice
- International expansion

2002-2012

## CHAPTER 2



- Emerging market expansion
- Portfolio rationalisation and move to control positions
- Focussed effort on scale synergies

2013 onwards

## CHAPTER 3



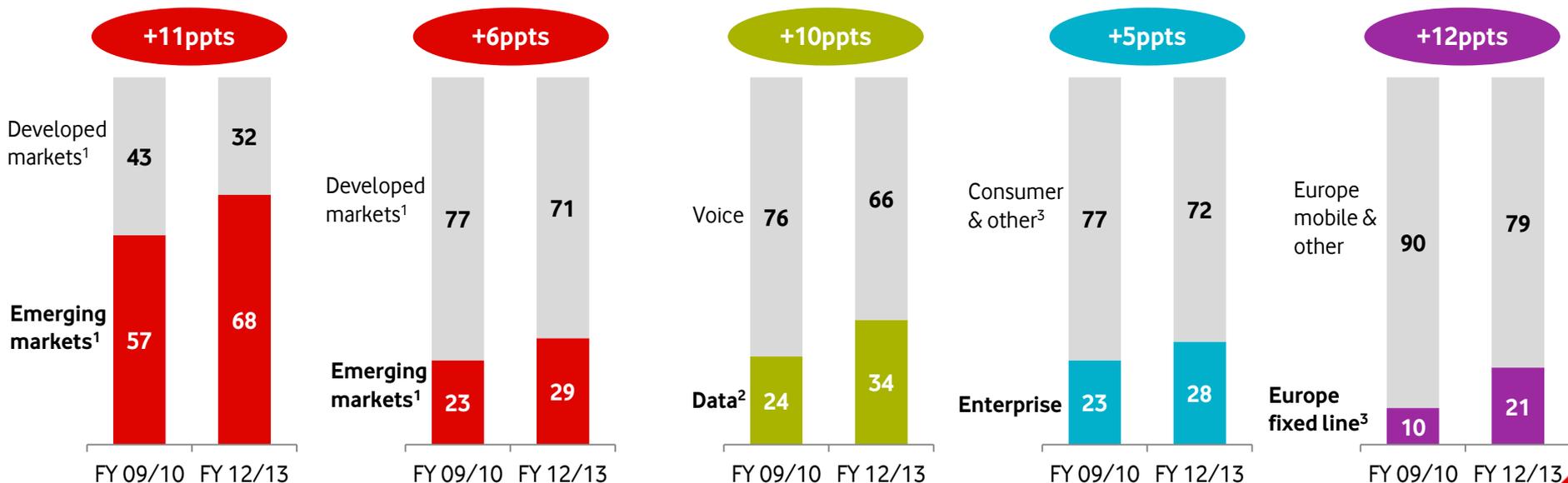
- **A data company**
- **Deeper and stronger in existing markets**
- **Enterprise expansion**
- **Continue to leverage group synergies**



# Our strategy is already changing the profile of Vodafone

Vodafone Group customers (m)

Vodafone Group service revenue (reported, % split)

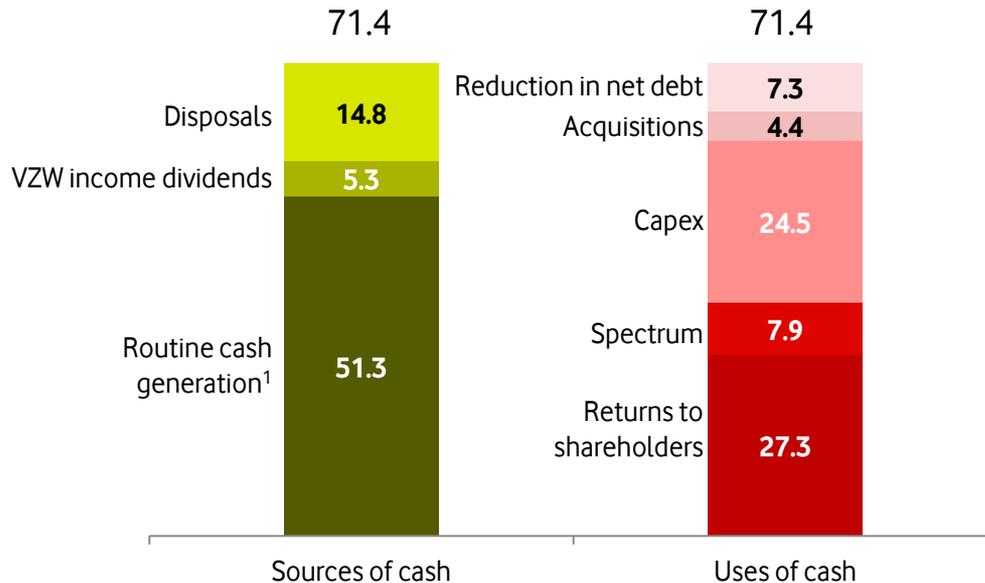


1. Emerging markets: AMAP (excluding Australia and New Zealand) plus Turkey; Developed markets: Europe plus Australia and New Zealand
2. Includes messaging revenue; excludes fixed line, visitor and wholesale revenue
3. Includes CWW and KDG on a pro forma basis for FY 12/13



# We have been investing significantly and delivering strong shareholder returns

Cash movements, four years to March 2013 (£bn)

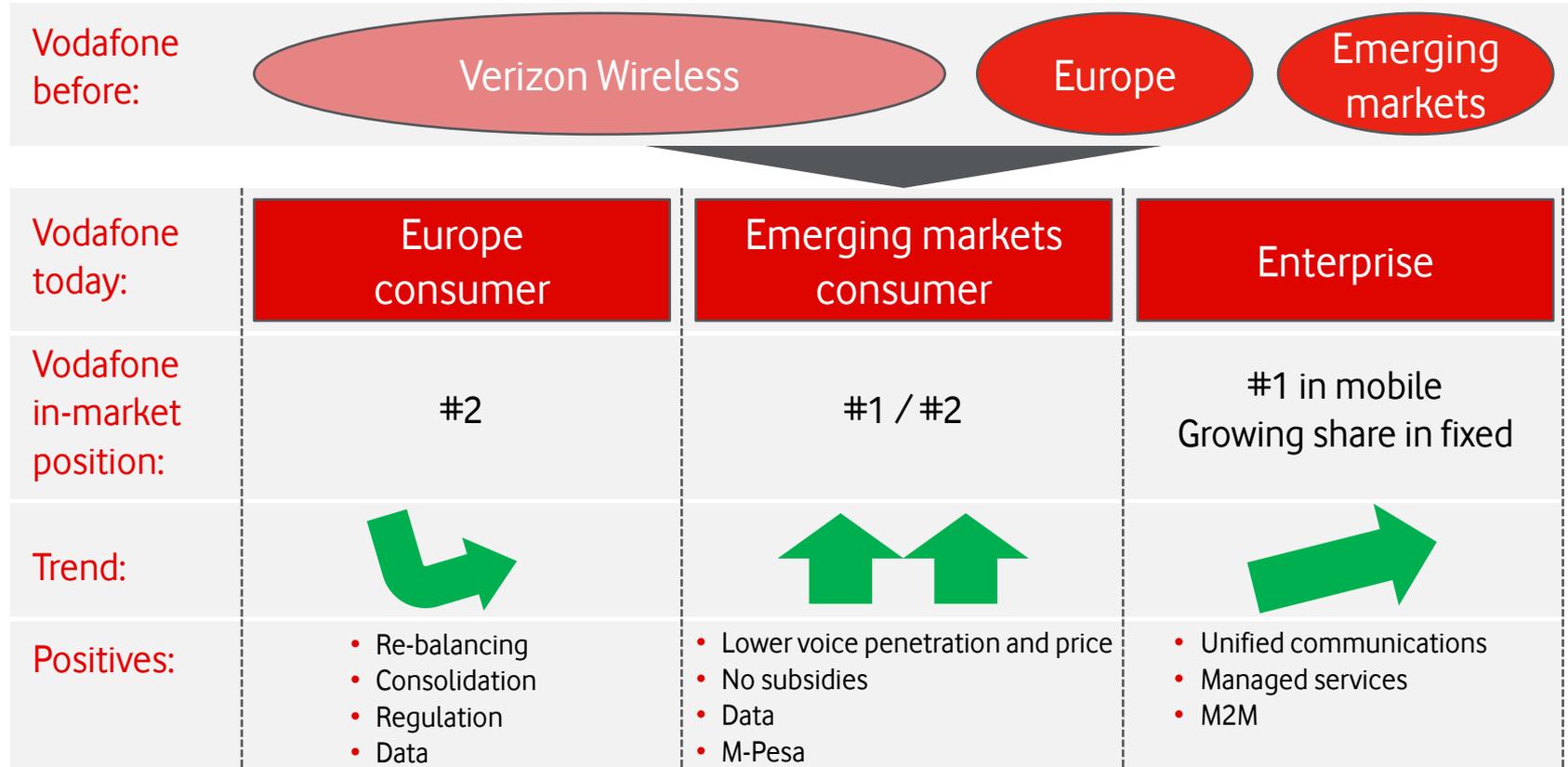


- Strong cash inflows from operations and VZW dividends
- Disposals of material non-controlling interests (SFR, China Mobile, Polkomtel, Softbank) for a total of £14.8bn
- Substantial investments in mobile networks, unified communications, enterprise and spectrum
- Over £27bn cash returned to shareholders in the last 4 years
- Consistent track record of achieving or exceeding AOP and free cash flow guidance

1. Includes tax and interest payments, non-VZW dividends and foreign exchange



# Vodafone Group evolution



# Where we will be five years from now

## Europe consumer

- Converged in all our key markets
- Leader in mobile

## Emerging markets consumer

- Strong leader
- First choice for data

## Enterprise

- Major international player with full service offering

## Project Spring: turbo-charging differentiation

### Always best connected

- Best mobile voice and data (coverage and quality) – 4G/HSPA+
- Competitive in fixed and best converged experience

### Unmatched customer experience

- Number one in customer experience – in store, online, on the phone
- Consistent execution across markets

### Integrated worry-free solutions

- Simplest connectivity and price plans
- Converged Enterprise product suite
- Innovator in M2M, IP Comms, mCommerce

### Cost efficient organisation

- Operating with efficient and effective processes and systems



# Vodafone 2015 progressing well

## Strategy

## Progress

### Consumer 2015

- 7.5m Vodafone Red customers
- Per customer data usage +39%<sup>1</sup>
- In-bundle now 57% of European mobile service revenue
- M-Pesa now in nine Vodafone markets including India

### Enterprise 2015

- Creation of discrete organisational structure
- Successful integration of CWW
- New Carrier Services & Cloud/Hosting businesses established
- Market leader in M2M (25% European market share)

### Networks 2015

- 4G now in 14 markets
- Unified comms capability in 12 markets
- Over 80% of European data sessions at 1 Mbps floor
- HSPA 43.2Mbps at 56% of European 3G footprint

### Operations 2015

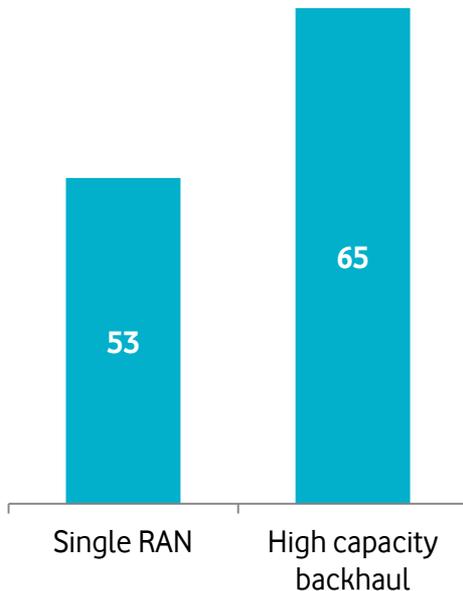
- Continuing cost reduction, strong performance in S Europe
- Nearly 9k employees now in shared services across Europe and AMAP
- On track to deliver £0.3bn opex reduction in Europe this year

1. Android and iOS smartphones



# We have invested in a strong asset base

## 4G network readiness (% of European sites<sup>1</sup>)



1. Excludes Turkey
2. Independent survey by P3 conducted in September 2013

## 3G/4G spectrum readiness

### Market position

	Spectrum < 1GHz	Average downlink speeds <sup>2</sup>
Germany 	=1	2
Italy 	=1	1
UK 	1	=1
Spain 	2	1
India 	2	1
South Africa 	=1	1



# The European telecoms market is approaching a turning point

## Growth drivers

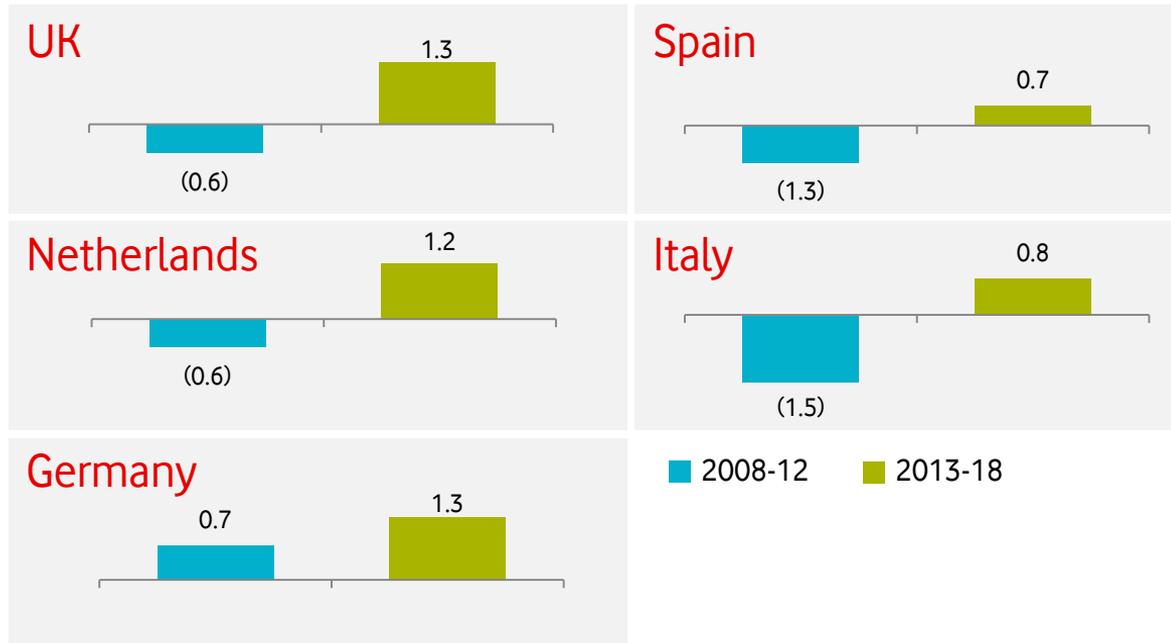
## Trends

Economic environment	<ul style="list-style-type: none"><li>• Return to economic growth in 2013/14<ul style="list-style-type: none"><li>– Northern Europe in 2013</li><li>– Southern Europe in 2014</li></ul></li></ul>	
Demand	<ul style="list-style-type: none"><li>• Rapid growth of mobile data usage</li><li>• Shift to multiple mobile devices</li><li>• Increase in demand for unified services</li></ul>	
Supply	<ul style="list-style-type: none"><li>• 4G spectrum finally widely available</li><li>• Richer supply of content for streaming</li></ul>	
Regulation	<ul style="list-style-type: none"><li>• Regulatory focus shifting towards incentivising investment</li><li>• Potentially more positive stance on in-market consolidation</li></ul>	



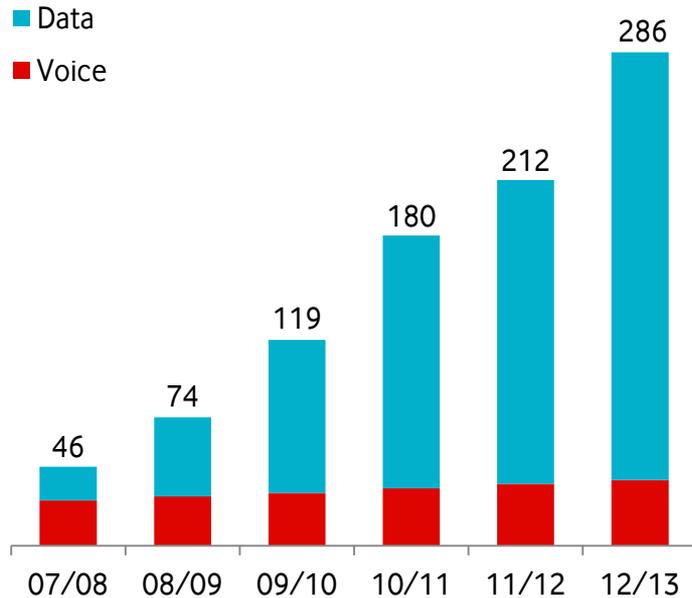
# Economic environment: Europe

Real GDP growth rates across major European markets,  
CAGR 2008-12 vs. 2013-18 (%)

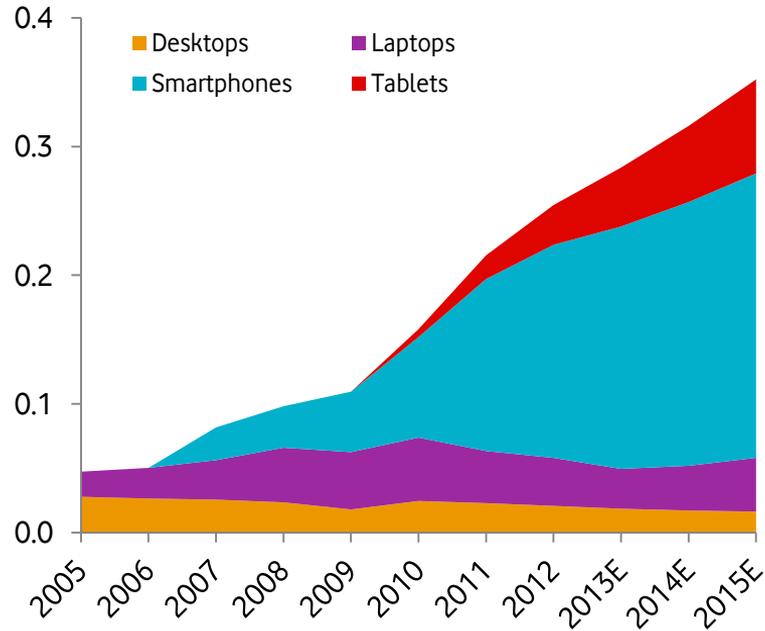


# Demand: growth in mobile data and multiple mobile devices

Vodafone mobile voice and data traffic  
(Petabytes, European markets)



Smartphone and tablet growth<sup>1</sup>  
(Billion units sold, Western Europe)

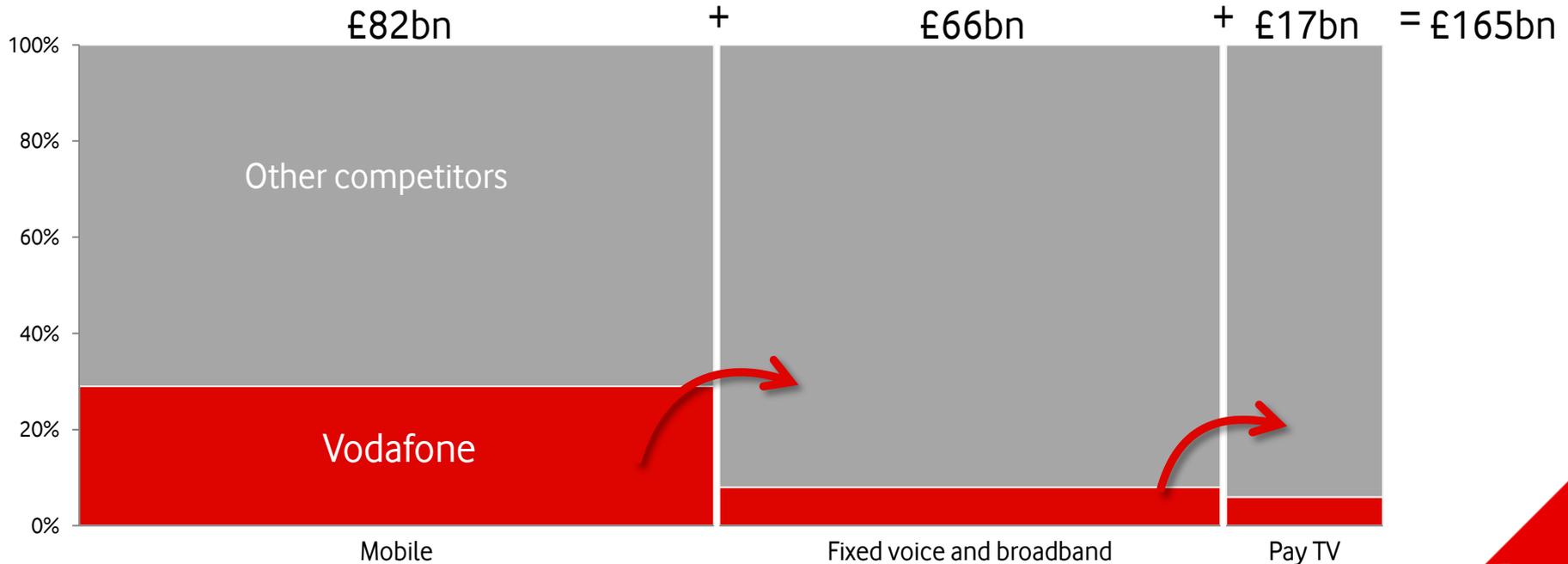


1. Source: Gartner



# Demand: unified communications creates market opportunities

European telecoms market by technology<sup>1</sup>  
(£bn, Vodafone European markets, 2012)



1. Mobile and fixed markets include Germany, UK, Italy, Spain, Netherlands, Portugal, Greece, Romania, Czech Republic, Hungary, Turkey and Ireland; Pay TV markets include Germany, UK, Italy, Spain, Netherlands, Romania, Czech Republic, Hungary and Ireland; Source: IDC



# Regulation: outlook stabilising after years of headwinds

Factor	Issue	Outlook
<b>Regulated rates</b>	<ul style="list-style-type: none"><li>• Regulation on MTRs and roaming has had a material impact on mobile service revenue in Europe</li><li>• Equivalent to around 75% of the total decline in the last 3 years<sup>1</sup></li></ul>	<ul style="list-style-type: none"><li>• MTRs now generally at or close to €0.01; future impact reducing</li><li>• Roaming glide path in place to 2016; significant opportunity in daily packages</li></ul>
<b>Artificial competition</b>	<ul style="list-style-type: none"><li>• Asymmetric auction structures lower costs of entry</li><li>• Mandated MVNOs</li></ul>	<ul style="list-style-type: none"><li>• More consistent and long-term regime on spectrum proposed</li></ul>
<b>Consolidation</b>	<ul style="list-style-type: none"><li>• Disproportionate remedies (e.g. Austria)</li><li>• Failed Yoigo sale (Spain)</li></ul>	<ul style="list-style-type: none"><li>• More favourable view towards cross-border scale</li><li>• Potentially more positive stance on in-market consolidation</li></ul>

1. Source: Analysis Mason/Vodafone



# Emerging market positive trends will continue

## Drivers

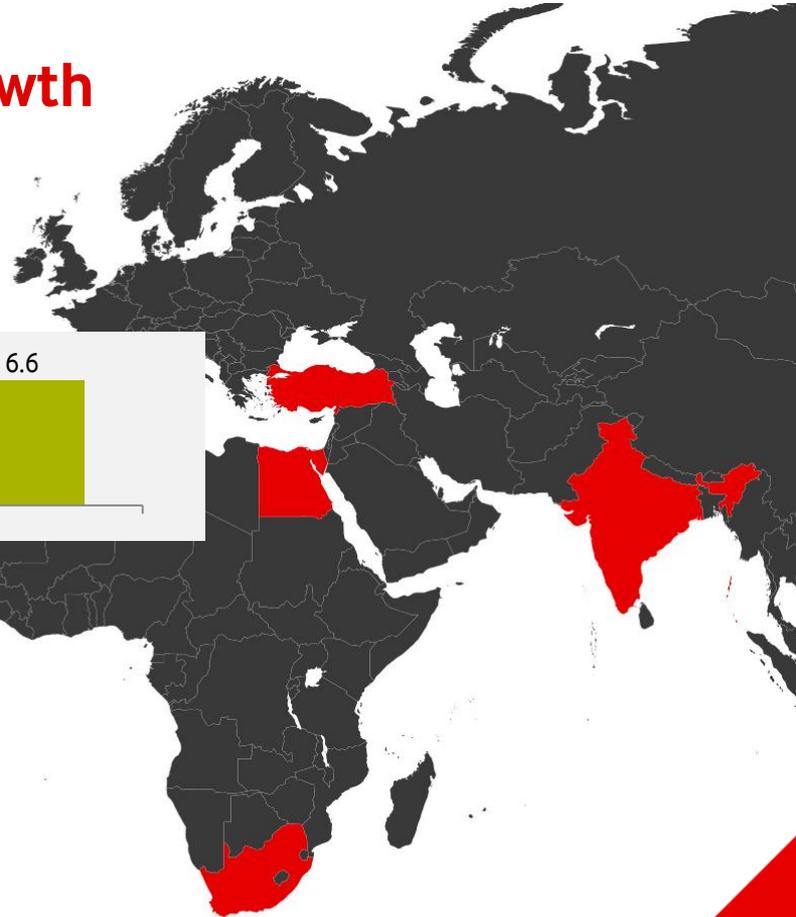
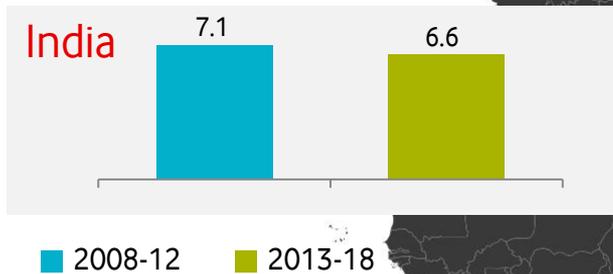
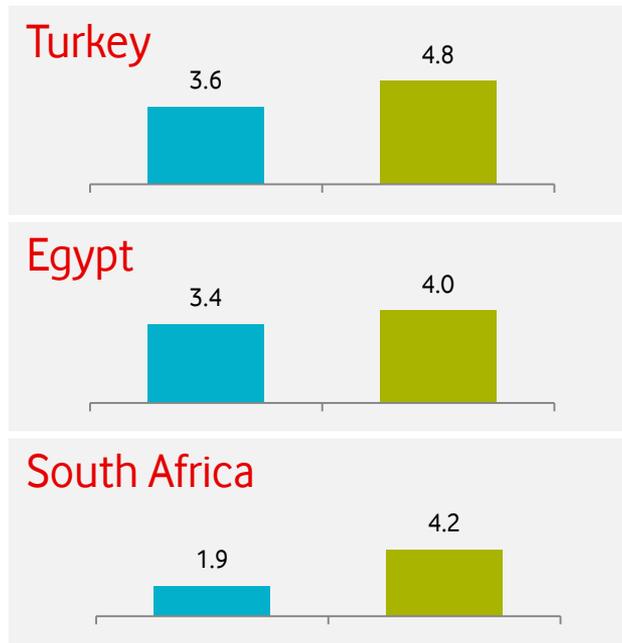
## Trends

Economic environment	<ul style="list-style-type: none"><li>• Growth to re-accelerate in 2014, following 2012/13 slow down</li></ul>
Demand	<ul style="list-style-type: none"><li>• Voice penetration and minutes of use still growing</li><li>• Strong demand for new services: M-Pesa transfers up 29% YoY</li><li>• Data traffic growth 108% YoY</li></ul>
Regulation	<ul style="list-style-type: none"><li>• Foreign investment restrictions becoming less common</li><li>• Partnership model with local institutions successful (e.g. Kenya, Egypt, Ghana, Qatar)</li></ul>
Industry structure	<ul style="list-style-type: none"><li>• Expected consolidation and focus on improving economics</li></ul>



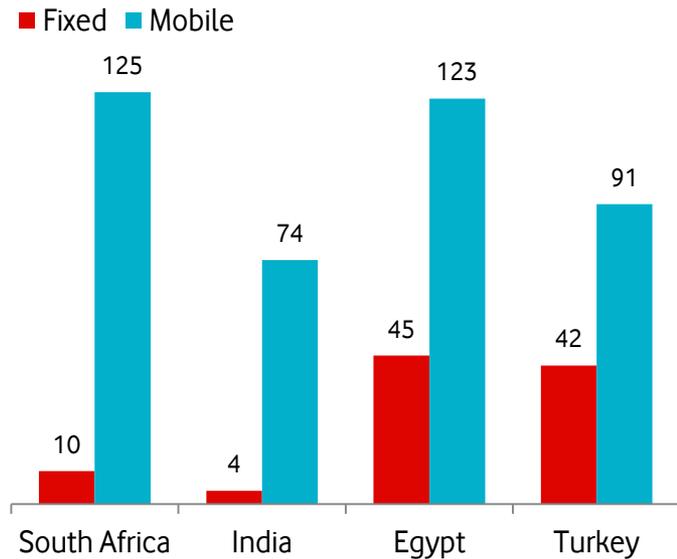
# Economic environment: continued growth expected across emerging markets

Real GDP growth rates across major emerging markets, CAGR 2008-12 vs. 2013-18

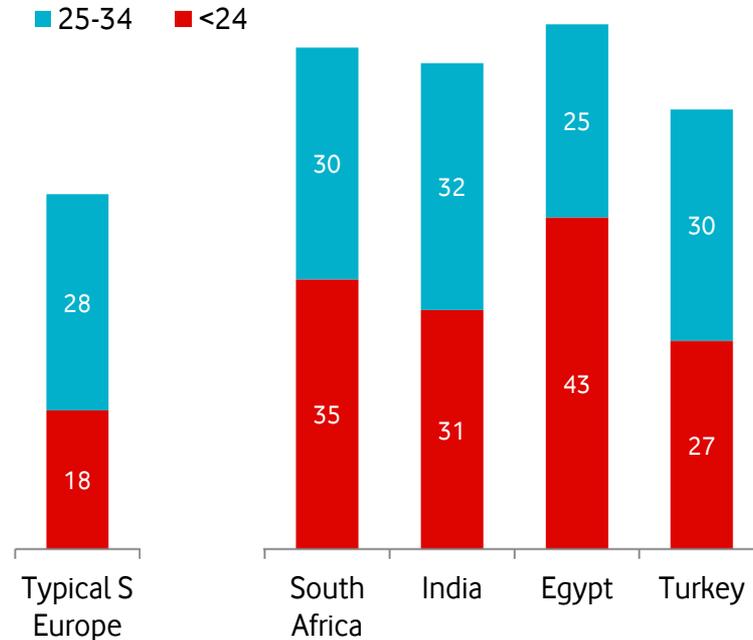


# Demand: emerging markets offer structural long-term growth

Mobile penetration exceeds  
(and often replaces) fixed  
(Penetration by telecom type %)



Better demographics  
(Age distribution (%) of smartphone users)



Note: 2012 data

Source: TeleGeography, GlobalComms Database, OECD, Egyptian ministry of Communications and Information Technology



# Project Spring accelerates & extends our Vodafone 2015 strategy

Always best  
connected

Unmatched customer  
experience

Integrated worry-free  
solutions

Cost efficient  
organisation

Europe  
consumer

Emerging markets  
consumer

Enterprise

Project Spring: acceleration and extension of Vodafone 2015

- Network differentiation
- 4G
- Unified communications
- Customer experience

- Wireless data
- 3G+
- New services

- Unified communications
- Hosting
- VGE in Asia/USA



'Recovery'



'Accelerated growth'



'Steady expansion'



# Project Spring accelerates & extends our Vodafone 2015 strategy

	Goals	Incremental deliverables include:	Approx. spend (£bn)
European mobile	<ul style="list-style-type: none"> <li>• Perfect voice</li> <li>• Best 4G, competitive in 3G</li> <li>• High-speed transport</li> </ul>	<ul style="list-style-type: none"> <li>• 36k 4G sites</li> <li>• 15k modernised sites</li> <li>• &gt;500 enterprise installations</li> <li>• 18k small cells</li> </ul>	3.0
AMAP mobile	<ul style="list-style-type: none"> <li>• Perfect voice</li> <li>• Best urban data; best/co-best nationwide</li> <li>• High-speed transport</li> </ul>	<ul style="list-style-type: none"> <li>• 11k new physical sites</li> <li>• 22k 3G sites</li> <li>• 36k WiFi access points</li> <li>• 15k high capability backhaul sites</li> </ul>	1.5
Unified communications	<ul style="list-style-type: none"> <li>• Strengthen convergence position through extended fibre build</li> <li>• Targeted xDSL coverage expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Italy FTTC footprint in 150 cities</li> <li>• 14,000km fibre in India</li> <li>• Portugal additional 500k FTTH</li> </ul>	1.0
Enterprise	<ul style="list-style-type: none"> <li>• Invest in growth areas: IP-VPN, Hosting &amp; Cloud, M2M</li> <li>• Leverage carrier services platform</li> <li>• International expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Expand GDSP platform (M2M) to 75 markets</li> <li>• IP-VPN in 11 new markets</li> </ul>	0.5
Unmatched customer experience	<ul style="list-style-type: none"> <li>• Accelerate retail redesign</li> <li>• Selectively increase direct distribution</li> <li>• Enhance online/mCare capabilities</li> <li>• Create consistently strong contact centre experience</li> <li>• Faster deployment of mobile payment services</li> </ul>	<ul style="list-style-type: none"> <li>• Additional 6,500 outlets redesigned</li> </ul>	1.0



# Project Spring has an attractive returns profile

- £7bn capex by March 2016
  - Slightly weighted to FY 14/15
  - c.£0.5bn committed in current year
- EBITDA neutral by FY 16/17
  - Capex effect on network and retail opex
  - Short-term EBITDA impact of -£0.6bn in FY 14/15
- Incremental FCF of over £1bn in FY 18/19
  - ARPU accretion in high value segment
  - Enterprise expansion
  - Broadband and services market share
- Cash payback c.7 years<sup>1</sup>

1. Cumulative incremental EBITDA – capex



# Over £19 billion of investment by March 2016

£bn	Mobile network Europe	Mobile network AMAP	Unified communications	Enterprise	Customer experience and other	<b>Total</b>
Existing plans	5.0	3.0	1.1	0.5	2.5	<b>12.1</b>
Project Spring (approx.)	3.0	1.5	1.0	0.5	1.0	<b>7.0</b>
<b>Total</b>	<b>8.0</b>	<b>4.5</b>	<b>2.1</b>	<b>1.0</b>	<b>3.5</b>	<b>19.1</b>

Plus inorganic investment if opportunities arise



# Summary

## Financial performance

- Europe approaching turning point
- AMAP growing strongly, margins improving
- Strong cash flow and dividends

## Strategic progress

- Continued shift from voice to data
- Significant progress in unified comms capability
- Enterprise leadership strengthening

## Project Spring

- Accelerates and extends Vodafone 2015
- Further strengthens network and service differentiation
- Timed to align with medium term improvement in market conditions



# Forward-looking statements

This presentation contains "forward-looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to the Group's financial condition, results of operations and businesses and certain of the Group's plans and objectives. In particular, such forward-looking statements include, but are not limited to: statements relating to the Group's future performance generally; statements relating to Vodafone's on-going efficiency programme to deliver €300 million in net savings; expectations regarding growth in customers and usage, especially in emerging markets; statements in relation to smartphone adoption, adoption of multiple devices, mobile data, SMS and fixed growth, and technological advancements; statements in relation to the global economic climate; statements in relation to regulatory developments; statements in relation to the launch of new products and service offerings, including those contemplated by Vodafone 2015; statements relating to Project Spring; and expectations regarding data growth, EBITDA, EBITDA margins and capital and operating expenditures.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "will", "anticipates", "aims", "could", "may", "should", "expects", "believes", "intends", "plans" or "targets". By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: changes in macroeconomic or political conditions in markets served by operations of the Group that would adversely affect the level of demand for mobile services, and changes to the associated legal, regulatory and tax environments; greater than anticipated competitive activity, from both existing competitors and new market entrants, which could require changes to the Group's pricing models, lead to customer churn and/or make it more difficult to acquire new customers; levels of investment in network capacity and the Group's ability to deploy new technologies, products and services in a timely manner, particularly mobile data content and services, or the rapid obsolescence of existing technology; higher than expected costs or capital expenditures; rapid changes to existing products and services and the inability of new products and services to perform in accordance with expectations, including as a result of third party or vendor marketing efforts; the ability of the Group to integrate new technologies, products and services with existing networks, technologies, products and services; the Group's ability to generate and grow revenue from both voice and non-voice services and achieve expected cost savings; a lower than expected impact of new or existing products, services or technologies on the Group's future revenue, cost structure and capital expenditure outlays; slower than expected customer growth, reduced customer retention, reductions or changes in customer spending and increased pricing pressure; the Group's ability to expand its spectrum position, win 4G/3G allocations and realise expected synergies and benefits associated with 4G/3G; the Group's ability to secure the timely delivery of high quality, reliable handsets, network equipment and other key products from suppliers; loss of suppliers, disruption of supply chains and greater than anticipated prices of new mobile handsets; changes in the costs to the Group of, or the rates the Group may charge for, terminations and roaming minutes; the Group's ability to realise expected benefits from acquisitions, partnerships, joint ventures, franchises, brand licences or other arrangements with third parties, particularly those related to the development of data and internet services; acquisitions and divestments of Group businesses and assets and the pursuit of new, unexpected strategic opportunities, which may have a negative impact on the Group's financial condition and results of operations; the Group's ability to integrate acquired business or assets and the imposition of any unfavourable conditions, regulatory or otherwise, on any pending or future acquisitions or dispositions; the extent of any future write-downs or impairment charges on the Group's assets, or restructuring charges incurred as a result of an acquisition or disposition; developments in the Group's financial condition, earnings and distributable funds and other factors that the Group's Board of Directors takes into account in determining the level of dividends; the Group's ability to satisfy working capital requirements through borrowing in the capital markets, bank facilities and operations; changes in foreign exchange rates, including, particularly, the exchange rate of pounds sterling to the euro and the US dollar; changes in the regulatory framework in which the Group operates, including the commencement of legal or regulatory action seeking to regulate the Group's permitted charging rates; the impact of legal or other proceedings against the Group or other companies in the mobile communications industry; and changes in statutory tax rates and profit mix, the Group's ability to resolve open tax issues and the timing and amount of any payments in respect of tax liabilities.

Furthermore, a review of the reasons why actual results and developments may differ materially from the expectations disclosed or implied within forward-looking statements can be found by referring to the information contained under the headings "Forward-looking statements" and "Principal risk factors and uncertainties" in Vodafone Group Plc's Annual Report for the year ended 31 March 2013 and under the headings "Forward-looking statements" and "Risk Factors" in Vodafone Group Plc's half-yearly results announcement for the six months ended 30 September 2013. The Annual Report and the half-yearly results announcement can both be found on the Group's website ([www.vodafone.com/investor](http://www.vodafone.com/investor)). All subsequent written or oral forward-looking statements attributable to the Company or any member of the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this presentation will be realised. Except as otherwise stated herein and as may be required to comply with applicable law and regulations, Vodafone does not intend to update these forward-looking statements and does not undertake any obligation to do so.

