Overview & Investment Thesis:

- Vodafone Group provides an extensive range of telecommunication services, including mobile voice and data communications.

- Vodafone is one of the world's largest telecommunication companies and a leading mobile telecommunications company with a 7% share of the global market.

- The group has ownership in 31 countries across 5 continents and has partner markets in a further 40 countries. It employs approximately 85,000 and has a 45% stake in Verizon Wireless the largest wireless operator in the U.S.A.
- At March 31, 2010, based on the registered customers of mobile telecommunications ventures in which it had ownership interests at that date, the Group had 341 million customers, excluding paging customers, calculated on a proportionate basis in accordance with the Company's percentage interest in these ventures.

- Nearly 80% of Vodafone's service revenue comes from traditional voice and messaging services. The remaining 20% stems from the faster growing areas of mobile data and fixed broadband.

- Revenue from traditional voice and messaging services in mature markets is declining due to ongoing competitive and regulatory pressures, partly offset by faster growth in newer areas of data and fixed services.
- The combination of competition and regulatory pressures have contributed to a 17% per annum decline in the average price per minute across Vodafone's global network over the last three years. However price pressures are being partly offset by increased usage. During 2009/2010 Vodafone's customers spoke for an average of 191 minutes per month compared to 137 in 2007.

- Vodafone has completed network upgrades ahead of the competition and so is now particularly well placed to offer better quality service than over-loaded competition networks.
- Demand for data services such as laptop access to the internet and mobile internet browsing lead to a four fold increase in Vodafone's data traffic over the last two years. Data revenue has expanded from £1.1 billion in the 2006 financial year to £4.1 billion in the 2010 financial year. Data growth has been driven by faster network speeds and increased penetration of mobile broadband services and smartphones.

- Smartphones accounted for 15% of the industry handset shipments in 2009 compared to 8% in 2006. 24% of Vodafone's new handset sales in Europe during 2009/10 were smartphones and this is expected to grow further over the next few years.
- Since 2007 handsets (notably iphone) have served as the major differentiator for operators. However, Apple's new multi-operator distribution policy suggests smart-phone exclusivity will be a less important driver of commercial success. As societies move into a data-heavy smart-phone environment, we believe that network performance and quality will become the key differentiator.

- Vodafone's low cost devices are targeted at developing markets and certain prepaid segments in Europe. Demand has been driven by lower prices and an expanding portfolio with attractive features, including touchscreen and data capabilities.

- Verizon Communications, the 55% owner of the Joint venture Verizon Wireless, has to date vetoed any upstream dividend to itself or Vodafone, so frustrating Vodafone's ability to receive cashflow from this investment. Instead, the generated cashflow has paid down inter-company debt but as we expect such debt to be extinguished by 2012, Vodafone's patience must soon be rewarded.
- The U.S. business (Verizon) therefore, in our view, represents substantial hidden value - with the potential to boost free cash flow by over 50% once Verizon's dividend payment is resumed. Also Vodafone enjoys a tax efficient ownership of Verizon Wireless from which its group tax rate is believed to be reduced by up to 5%.

- Emerging market opportunities in India, Egypt and South Africa remain signficant.
- Although Vodafone Essar (India) took an impairment charge in 2010 upon entry of 6 new competitors - it already has over 100 million customers - a significant longer term advantage.
- Vodafone has begun offering money transfer via cell phones in 3 African countries (S. Africa, Kenya, Tanzania) with 13 million customers transferring US $3.6 billion during 2009/2010.

- Unlike large incumbent telephone companies, Vodafone is not bound by any of the Government relationships and quid pro quos that make high employment necessary.

Business Description:

Vodafone Group Plc is the world's leading mobile telecommunications company, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States through the Company's subsidiary undertakings, joint ventures, associated undertakings and investments.

The Group's mobile subsidiaries operate under the brand name "Vodafone". In the U.S. the Group's associated undertaking operates as Verizon Wireless. During the last few years, Vodafone Group has entered into arrangements with network operators in countries where the Group does not hold an equity stake. Under the terms of these Partner Market Agreements, the Group and its partner operators co-operate in the development and marketing of global products and services, with varying levels of brand association.

Industry Growth Drivers/Trends:

- The industry has 4.7 billion customers across the globe, up from 2.7 billion in 2006, with growth of around 20% per annum over the last three years.
- Consumers are increasingly choosing to make voice calls over mobile rather than fixed phones and mobile calls accounted for 70% of all phone calls made in 2009 compared to 50% in 2006. As a result the number of mobile users now far exceeds the number of fixed telephones (1.3 billion). Over the last three years mobile customer growth has been strongest in emerging markets such as India and China. In contrast growth has been more muted in developed regions such as Europe which are relatively mature.
- Mobile penetration (the proportion of the population that have mobile) has grown to around 70% from 40% in December 2006.
- Looking forward the number of worldwide mobile phone users is expected to continue to grow strongly. Most of this growth is expected in emerging markets such as India, China and Africa where mobile penetration is around 50% compared to about 130% in mature markets such as Europe.
- Developing countries are generally expected to deliver faster GDP growth which combined with relatively little alternative fixed line infrastructure is positive for mobile penetration growth prospects.

Competitive Advantages:

- We believe, Vodafone has a better mobile infrastructure then peers in all its major markets and enjoys better relative network and price perception and so is likely to win the lion's share of data driven growth.
- We believe Vodafone is seeking to replicate Verizon Wireless's very successful 'best network' message - already claiming it owns 7 of Europe's Best Performing 10 networks We therefore, see Vodafone as well positioned for the 3 waves of wireless data (early smart-phone adapters, mass-market, data-cards).
- We believe data useage (with contracts getter longer and consumers increasingly shifting to contracts rather than prepaid consumption) is creating a new class of high spending customer and the advantage Vodafone gains over the next few years is likely to last.
- Vodafone existing scale also provides both cost flexibility and opportunities to grow in a consolidating industry.

Competition/Regulation:

- Main competitors include: Telefonica (02), Deutsche Telecom (T-Mobile), Sprint, British Telecom, France Telecom (Orange), Hutchison Whampoa (3), China Mobile, Bharti Airtel and Reliance Communications (India).
- Competition in the telecommunications industry is intense. Consumers have a large choice of communication offers from established mobile and fixed line operators. Newer competitors, including handset manufacturers, internet based companies and software providers, are also entering the market offering converged communications services.
- Industry regulators continue to impose lower mobile termination rates (the fees mobile companies charge for calls received from other companies' networks) and lower roaming prices. Termination fees and roaming charges accounted for 17% of Group revenue in 2010.

Barriers to Entry:

- Capital and technology intensive to meet network demands and fickle consumer demand.
- Heavily regulated industry.
- Scale advantage - market share needs to be in top 4 or likely to be at a cost disadvantage.

Customers:

- Vodafone has an extremely diversified customer base and as such no single customer contributes a meaningful amount to total revenue.

Officers and Directors:

Leadership team: Chairman of the Board, Sir John Bond (68) became Chairman in July 2006 when he retired as Executive Group Chairman of HSBC Holdings plc.
Victtorio Colao (48) appointed CEO in July 2008, having joined Vodafone Italy. In 2004 he left Vodafone to join RCS Media Group, a leading Italian publishing company where he was CEO until rejoining Vodafone.
Andy Halford (51) CFO joined Vodafone in 1999 as Financial Director Vodafone U.K., being previously Finance Director of East Midlands Electricity plc.
Michael Combes (48) Chief Executive, Europe Region, previously Sr. VP & CFO France Telecom Group
Stephen Pusey (48) Group Chief Technology Officer, formerly with Nortel and British Telecom.

Board of Directors:

- 14 member board of which 9 are independent non-executives.
- Non-executive directors are drawn from a range of industries (accounting, energy, I.T.,mining (gold and iron ore), retail, property and telecommunications.
- The Chairman of both the Audit Committee (Nick Land) and Remuneration Committee (Luc Vandervelde) are financially literate independent non-executives.
- Executive Compensation (4 executives) was £7.5 m in 2010 < 0.1% of group profits before tax.

Ownership:

Blackrock 7.6%, Axa 5.4%, Legal & General 4.0%, Franklin Resources 4.1%, Investco Ltd 2.1%, Norges Bank 1.9%, Vanguard Group 1.8%, M&G Investment 1.8%, Standard Life 1.6%, Alliance Bernstein 1.5%

Capital Allocation/Uses:

A decade ago telecom companies misallocated capital by overpaying for "3rd generation" technology on the prediction of a mobile internet revolution. Although that vision has finally arrived, the bulk of returns to date have been garnered by margins on handsets and software (e.g. Apple's iPhone). By comparison Vodafone embarked on a misguided acquisitive growth strategy overpaying for size and geographical reach with insufficient attention to returns and service.
Over the last 2-3 years Vodafone has gone from having the worst price perception, no new devices, internally focused country managers and cost rather than network-focused consumers - to being perceived as best in class on: pricing, competitive and attractive devices; country managers now compensated on more commercial grounds and; consumers increasingly focused on the quality of network - where Vodafone can excel. With a wave of data useage supporting revenue growth, (favouring, in our view, full service operators like Vodafone) and not yet forcing up capital expenditure, Vodafone's core operations should do well over the next 2 - 3 years.
The new CEO has accelerated the changed capital allocation process focusing on strengthening core franchises in Europe (where Vodafone is #1 or #2: Germany, Italy, Spain and U.K.) and key emerging growth markets (South Africa, Turkey, India and Egypt). The CEO is also divesting the groups more peripheral franchises and has taken impairment losses on both Spain and India in 2009 and 2010 respectively. We believe a smaller, deeper portfolio of core franchises will enable the group to extract better overall returns, providing cost flexibility and strategic optionality as the telecoms market continues to consolidate. The group will also receive a welcome tangible boost when Verizon Wireless upstreams its dividends so enabling the group to adopt both a progressive dividiend policy and share buybacks, while not compromising its approach to maintain top quality networks.

Porfolio Comparison:

Revenue by Service	2007	2008	2009	2010
Voice	77%	75%	70%	67%
Messaging	12%	12%	12%	12%
Data	5%	7%	8%	10%
Fixed Line & Other	6%	6%	10%	11%

Group Revenue by Geography*	2007	2008	2009	2010
Germany	17%	19%	19%	18%
Italy	14%	13%	13%	13%
Spain	14%	14%	14%	13%
U.K.	16%	15%	13%	11%
Other Europe	26%	13%	13%	12%
S.Africa/Vodacom	-	5%	4%	10%
Other Africa	8%	9%	9%	8%
India	-	5%	7%	7%
Other Asia Pacific	5%	7%	8%	8%

Group Profit by Geography	2007	2008	2009	2010
Germany	14%	16%	16%	15%
Italy	17%	13%	13%	13%
Spain	12%	11%	10%	9%
U.K.	6%	9%	7%	5%
Other Europe	19%	10%	10%	8%
S.Africa/Vodacom	-	3%	3%	7%
Other Africa	7%	6%	5%	3%
India	-	4%	4%	4%
Other Asia Pacific	3%	5%	5%	4%
U.S.A. Verizon Wireless	22%	23%	27%	31%

Financial Statement Summary: (£MM, years ended March 31)

Income Statement	2007	2008	2009	2010
Total Revenue	31,104	35,478	41,107	44,472
Impairment losses	-	-	(5,900)	(2,100)
Operating Profit (loss)	(1,564)	10,047	5,857	9,480
Profit after tax	(5,222)	6,756	3,080	8,618
Diluted earnings per share	(9.7)p	12.50p	5.81p	16.36p
Cash dividend per share	6.76p	7.51p	7.77p	8.31p
Balance Sheet				
Total equity shareholder's funds	67,067	78,043	86,162	90,381
Diluted average number of shares	55,144	53,287	52,969	52,849
Net Asset Value/Share	1.21	1.46	1.63	1.71
Total Debt	22,615	27,194	41,373	39,795
Total Debt: Total Equity	0.34	0.35	0.48	0.44

Key Profitability Ratios and Figures:

Y/E March 31	2007	2008	2009	2010
Free Cash Flow (£mm)	6,127	5,580	5,722	7,241
Proportionate # mobile customers (mm)	206.1	260.5	302.6	341.1
Voice usage (in billions of minutes)	125.3	427.9	548.4	686.6
Return on Equity	(7.8%)	8.7%	3.6%	9.5%
S&P Credit Rating	A-	A-	A-	A-

Sourced from Thomson Reuters and 2007 - 2009 company filings.
**values for Verizon Wireless are not included in Group Revenue as Verizon Wireless is an associate.*

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