

Shaping the Digital Society

April 2023



Our Social Contract : Taking a leadership role in shaping the Digital Society

In 2019, we recognised the need for a fundamental reset of the broader telecoms sector's relationship with society. As an industry we need to work closely with governments and policymakers to establish a more sustainable, pro-investment environment that encourages innovation, is supportive of returns, addresses societies' needs and ensures Europe and Africa are fit to compete in an increasingly digital world.

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Why is a reset of the regulatory framework so important?

Historical policy choices have impacted the European telecoms sector

2

How are we achieving this?

Our 'Social Contract' – enabling a digital society

3

What is needed?

Pro-investment policy reform is essential for Europe to meet its digital objectives

1 :

Why is a reset of the regulatory framework so important?
Historical policy choices have impacted the European telecoms sector



Highlights

A

The telecoms sector plays a unique role in enabling the Digital Decade

B

EU regulation has adversely impacted the sector for the last 10 years

C

How did we get here? Three key policy areas that led to this outcome

D

We aim to rebalance these competing objectives

A : The telecoms sector plays a unique role in enabling the Digital Decade

The last few years have seen enormous shifts in society and the direct role telecoms plays within it.

Digital is now a top priority for European governments.

The political spotlight is on us in three important ways:



Economic

- Digital is increasingly determining the **relative competitiveness** of countries & continents
 - Driving industrial **growth & productivity**
 - Determining who wins in the '**data economy**'
 - Enabling high value **job creation**

5G is estimated to add €8 trillion to global GDP by 2030¹



Societal

- Supporting **inclusive and environmentally sustainable** societies
 - **Bridging digital gaps** (rural connectivity)
 - **Smart cities/Digital4Green**
 - **Education/digital skills**

Supporting Europe's Digital Decade ambitions



Geo-political

- Enhancing **security & resilience**
 - Technological sovereignty
 - Cyber capabilities
 - Food & energy security

At the heart of responding to emerging challenges



COVID-19

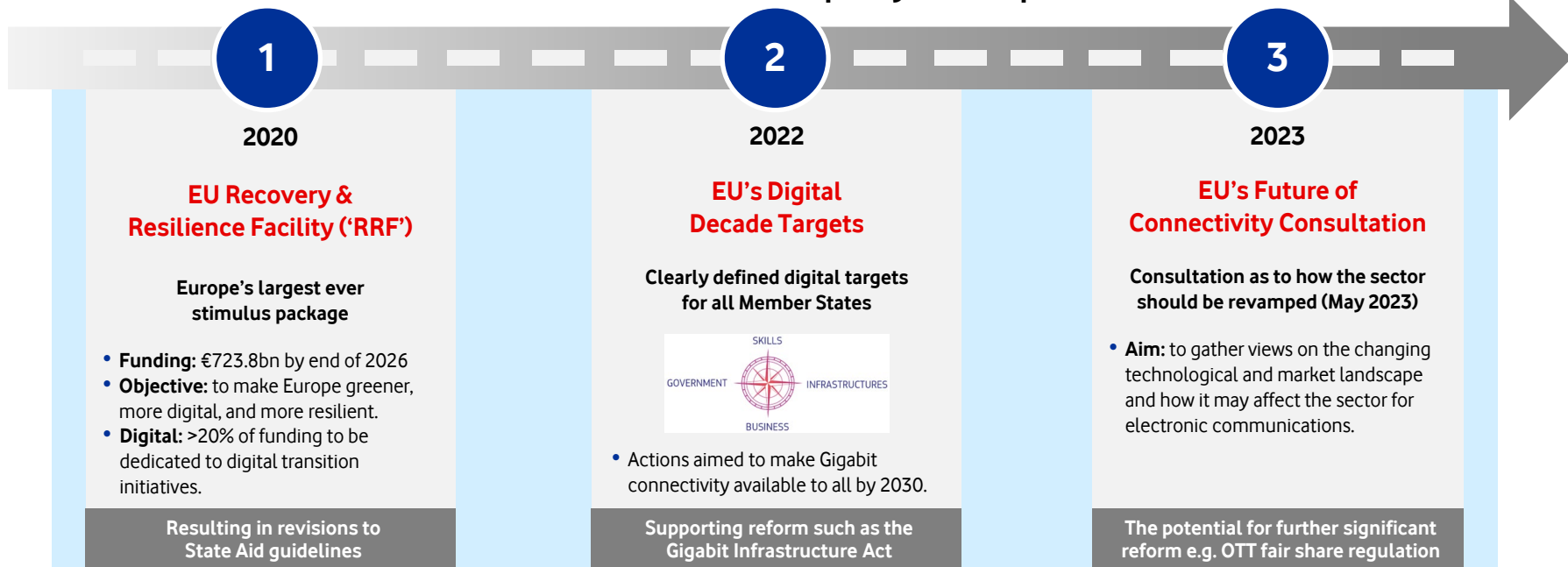
These trends have been amplified by the recent crisis. The COVID-19 pandemic highlighted the critical role that the telecoms sector plays within society & has led to an acceleration in countries' digital ambitions

A : This is translating into concrete political ambitions & a new set of actions



The EU's 'three-pronged' approach: paving the way towards a broader reset of the telecoms framework

The EU Commission's policy roadmap



Helping to shape these through our Social Contact

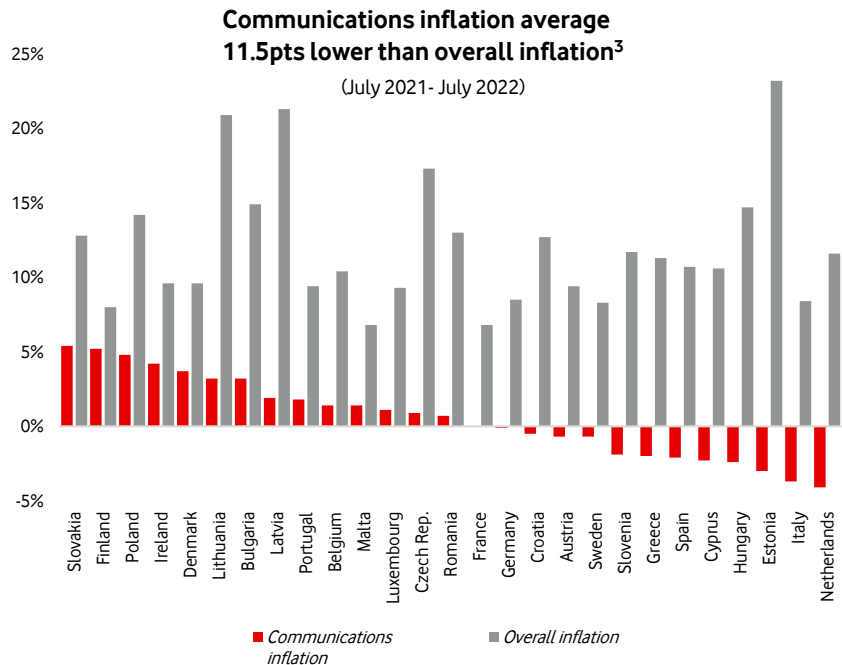
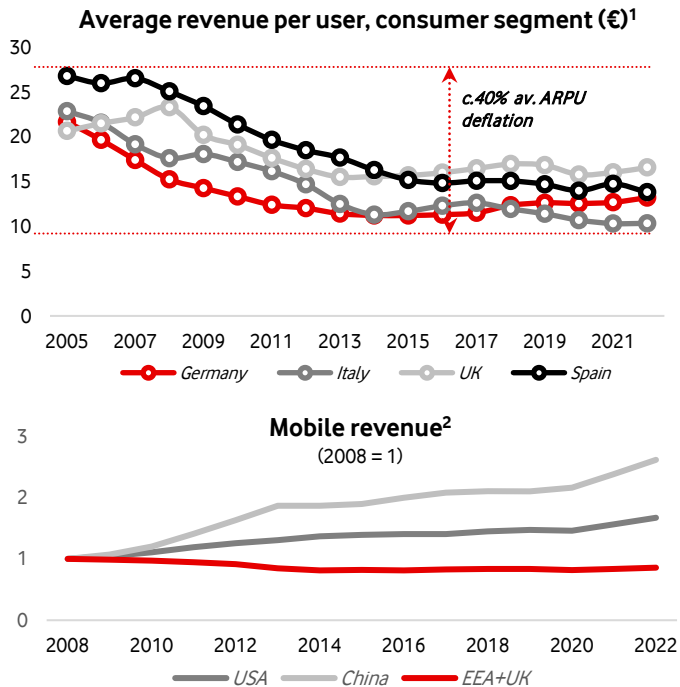
B : There is now broad recognition that EU regulation is not fit for the future

However, the gap between policymakers' newly formulated digital ambitions and Europe's current situation is significant.

EU telecoms has experienced more deflation than any other sector over the last 10 years.

EU policy has been predominantly focused on price competition for short-term consumer benefit...

... which has led to an unsustainable sector pricing environment

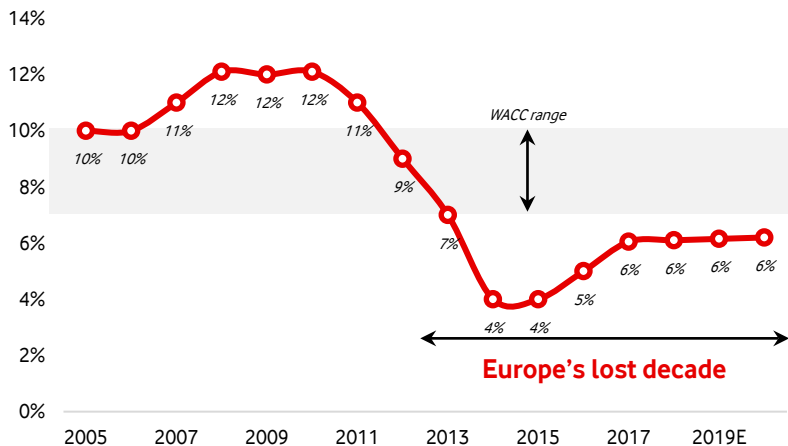


B : There is an estimated €300bn investment gap vs. the EU's digital agenda

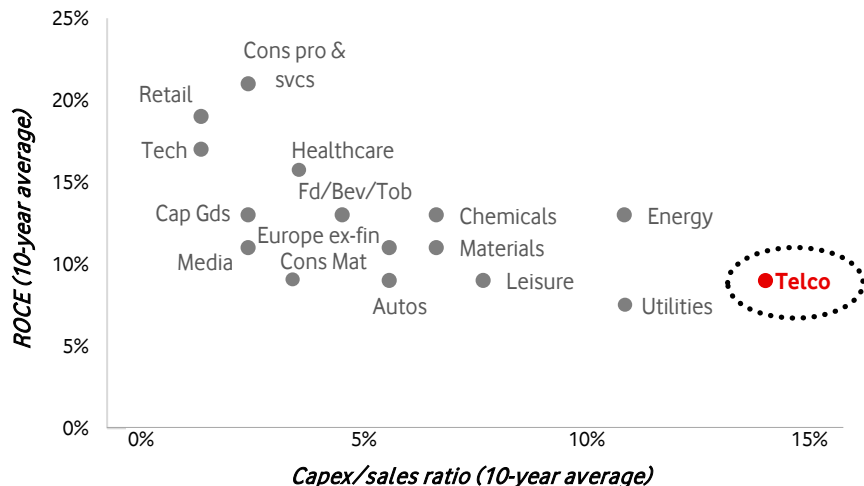
Policy-driven deflation + extractive taxation has led to financially unattractive investments: $ROCE < WACC$

European telecoms ROCE is lower than other sectors, while capital investment requirements are the highest

European Wireless Telco ROCE¹



ROCE versus capex/sales ratio²



The telecoms sector is required to make ever-greater investment in faster, more reliable networks, however due to regulation, returns remain below the cost of capital and have been that way for a decade

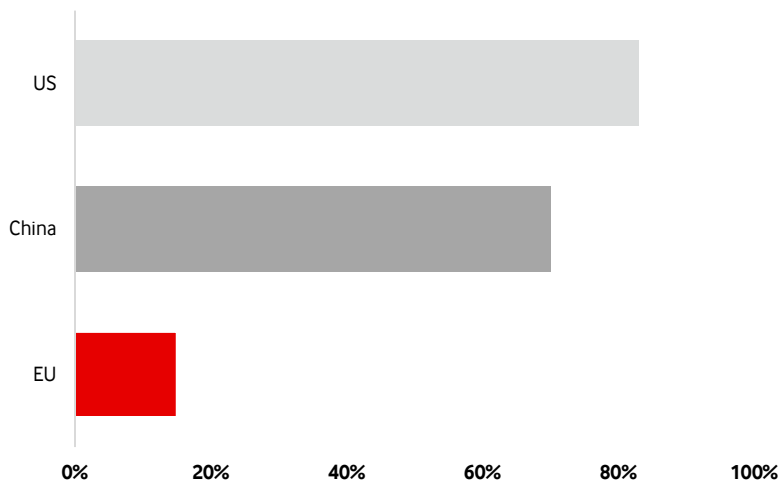
B : This is a unique European phenomenon

This situation comes not only at a hefty price for telecoms,
but for European economies at large

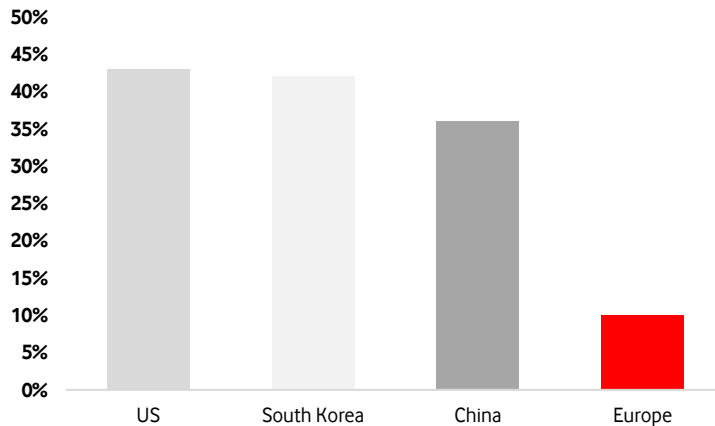
5G rollout in Europe is now significantly behind other regions...

... leading to structurally lower 5G adoption

5G stand-alone population coverage (2022)¹



5G connections, 2022
Share of total mobile connections (%)²



We are seeing a gulf created in digital infrastructure deployment and technology advancement between Europe and other leading continents. With 5G, it now runs a serious risk of handicapping European competitiveness.

C : How did we get here? Three key policy choices that led to this outcome



The telecoms sector is uniquely regulated

c.40-50%
of EBITDAaL¹

*across the industry is
influenced by government
policy & regulation*



Policies have been too short-term focused
over the last 10 years

- Artificially adding/maintaining the number of players
- Forcing price deflation
- Extractive spectrum auctions
- The lack of a level-playing field vs. technology giants

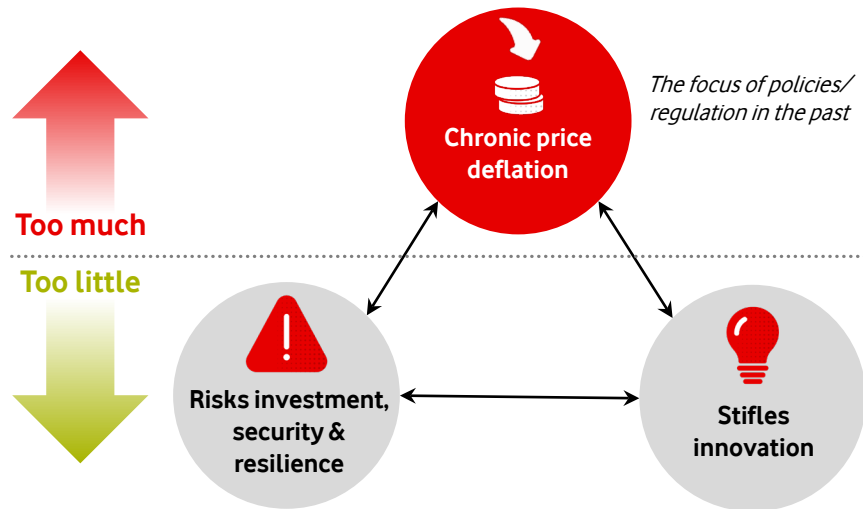


Leading to significant unintended consequences
for Europe's digital society

- Returns below cost of capital
- Investment gaps in both networks & broader security capabilities
- US and China have taken the lead in 5G & technology innovation

Governments now face a 'trilemma'

With a **changing external environment**, the current approach is not serving Europe's interests well. Digital acceleration, 5G investments, security, resilience and technology leadership are now key political preoccupations.



A better balance between these conflicting objectives
is needed in order to meet governments' digital objectives

Supporting & shaping this is fundamental to long-term success.

This is why our Social Contract is essential.

C : How did we get here? Three key policy choices that led to this outcome

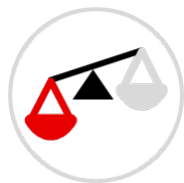


Spectrum policy

Past spectrum policies have been too focused on extracting the maximum amount of money from the industry

Policy focus

Extractive, revenue maximising spectrum auctions, distorting markets



Outcome

Impacting coverage & slowing down rollout of next generation connectivity



Artificially limiting the spectrum available



Auction design that maximises revenue



High reserve prices



Expiring licences require renewal through auction



Using auctions as an opportunity to change market structure



Additional annual fees on-top on auction cost

Industry outcome

- 1 **Value destructive for the industry & created long-term headwinds** (i.e. Vodafone UK 3G auction cost £6bn and was amortised over 20 years)
- 2 **Shaped market structure** – distorting the market by inducing new entrants with discriminatory conditions
- 3 **Reduces capacity to invest in network rollout & resiliency** – money for spectrum cannot be used for network investment
- 4 **Uncertainty around long-term rights** & associated network investments
- 5 **Drives up network costs** – less spectrum means increased network densification in order to achieve capacity requirements

Case study : Netherlands

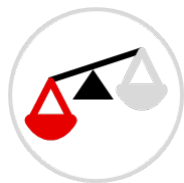
- The 4G auction rules in 2010 and 2012 **favoured a new entrant**, leading to Tele2 creating a fourth MNO in the market
 - Tight spectrum caps were applied for the 2.6GHz auction in 2010
 - In 2012, 2x10 MHz of 800MHz spectrum was reserved for a new entrant
- This resulted in significant spectrum scarcity among incumbents, driving a highly extractive outcome with prices more than double the next highest in Europe, and resulting in T-Mobile failing to win any 800MHz spectrum, which was necessary to build a nationwide 4G service.
- Tele2 was initially aggressive on pricing – however, it failed to become profitable, and in 2018 the European Commission allowed Tele2 to merge with T-Mobile

C : How did we get here? Three key policy choices that led to this outcome



Competition policy

The singular focus of most competition authorities has been the number of operators and short-term pricing.



Outcome

Compounding limitation on capacity to invest

Policy focus

Short-term price deflation through artificial intervention in competition & market structure



Merger control focussed on short-term pricing



Reluctance to consider merger efficiencies



Preoccupation with number of players



Assumption that investment will just happen



MVNOs not considered credible competitors



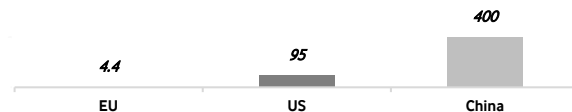
Remedies focused on short term pricing impact

Industry outcome

1

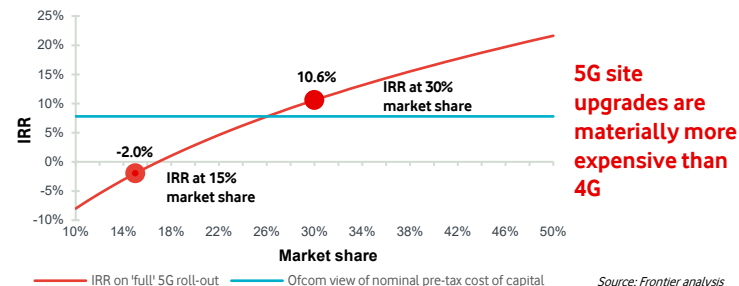
EU network operators have been unable to achieve scale

Average subs per operator (m)¹



2

Minimum viable scale in a 5G world doesn't support 4 operators



Case study : Italy

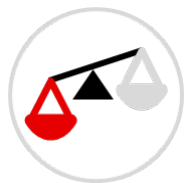
- Wind/Tre merger was approved but with onerous remedies to recreate new 4th player
- Remedies increased competitive intensity in the short-term
- However, in the longer term market structure has undermined 5G investment in Italy
- Tower consolidation and network sharing has only partially offset

C : How did we get here? Three key policy choices that led to this outcome



Technology regulation

Policymakers have applied a 'light touch' approach to over-the-top ('OTT') tech giants despite them benefitting massively from operator's network investments.



Policy focus

Intervention heavily skewed to telecoms operators & light regulation on technology & OTTs



Facebook allowed to acquire WhatsApp in 2014, with no ex-ante regulation



Control of data & digital advertising markets



Net Neutrality regulation focuses only on telecoms within digital ecosystem



Unequal restrictions on identical services



No intervention on OTT Private DNS applications



Increased consumer protection & competition regulation

Outcome

Compounding limitation on capacity to invest & reduced incentives for innovation

Industry outcome

1

Lack of a 'level playing field' – with telecoms subject to 'innovation by permission' while OTTs can launch new products with little intervention

2

Telecoms unable to recover increased network costs despite the largest OTTs largely driving the growth in data

Estimated total costs attributable to OTT traffic on EU fixed and mobile networks

	Fixed	Mobile
Weighted average cost per subscriber	€40-47	€43-46
Annualised OTT costs across Europe	€8-10bn	€28-30bn

Source: Frontier Economics 2022

3

Fragmentation for telcos – lack of a single market

Case study : IoT deployment

Cellular IoT deployment

Clearance required with each national regulator on pan EU solution which uses 'global' IoT SIM. Complex, fragmented, lengthy process (years).

Negative impact on innovation & speed

Non-Cellular IoT deployment

Able to deploy without delays and complexity associated with the suite of regulation typically applicable to telecoms services.

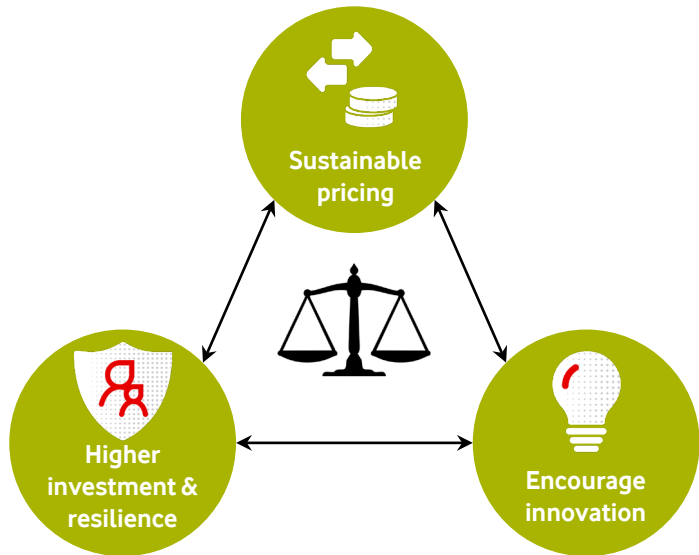
Able to deploy faster, with lower costs

D :: We aim to rebalance these competing objectives

A rebalancing of objectives is required to meet governments' & regulators' own digital objectives

Facing up to the trilemma

Rebalancing the policy myopia of the past



Rebalancing
policy enables
delivery of EU
digital priorities

Policymakers' digital priorities

- 1 Roll-out of fast & secure next generation networks
- 2 Economic recovery & supporting jobs
- 3 Accelerating digital & green transitions
- 4 Safeguarding global competitiveness
- 5 Digital access & skills
- 6 Enhanced security and resilience

Summary

A

The telecoms sector plays a unique and critical role in delivering Europe's digital ambitions

B

The EU has set out a clear vision – empowering businesses and people for a more sustainable and prosperous digital future

C

However, to achieve its ambitions, Europe needs to acknowledge the unintended consequences of past policy choices

D

Through our Social Contract, we are partnering with governments & policymakers, showing them there is a better way to rebalance competing objectives and deliver their digital vision

2: How are we achieving this? Our 'Social Contract' – enabling a digital society



Highlights

A

A reset of our relationship with society

B

Improving our broader reputation is essential

C

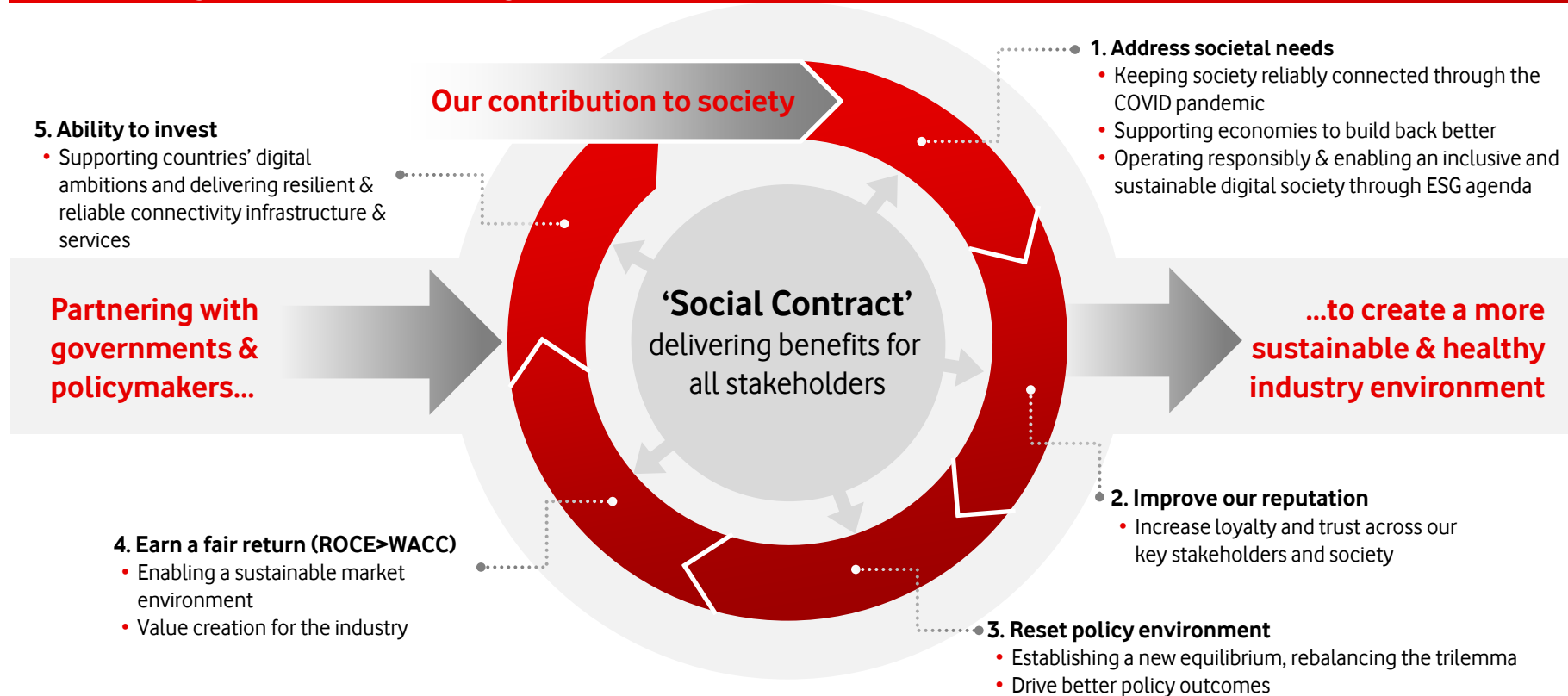
Our Social Contract directly helps governments meet their objectives

D

Central relationship between industry ROCE & infrastructure investment

A : A reset of our relationship with society

In 2019, we announced our Social Contract – representing a fundamental reset of our relationship with society. The aim was to establish a more collaborative, partnership approach that addresses societies' needs, enables governments & regulators to achieve their digital ambitions, and helps shape a healthier pro-investment industry structure.



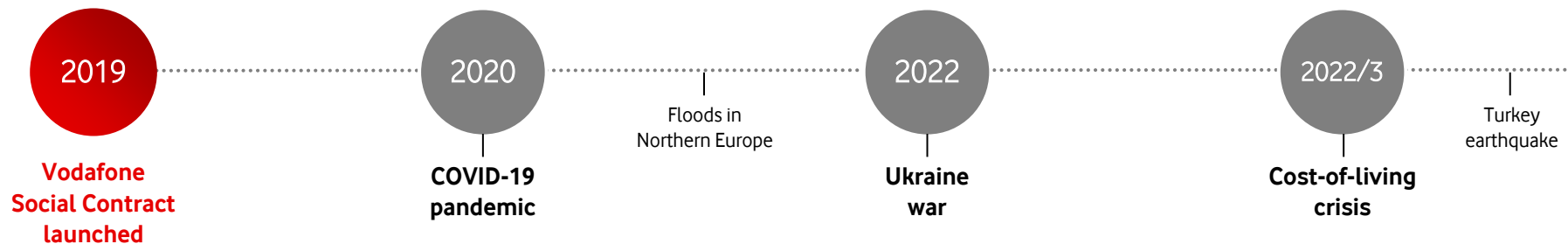
A :: Supporting the societies within which we operate

Address
societal needs



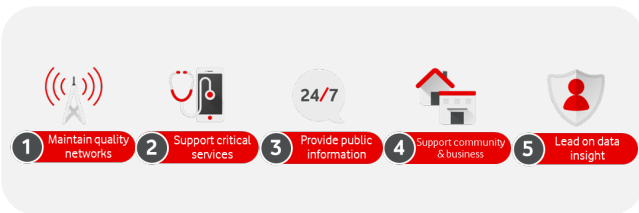
The COVID-19 pandemic was a major catalyst for us to build on the Social Contract...

...we continue to respond to major crises and in turn, this has deepened our relationships with governments and policymakers



Our rapid responses

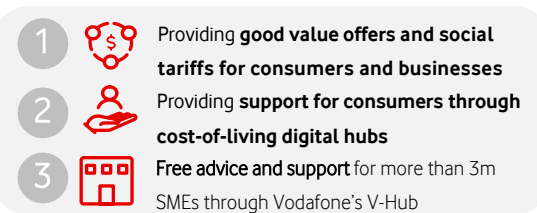
Vodafone COVID-19 five point plan



Crisis support

- Free roaming, calls and texts for those affected
- Free SIMs and handsets
- Charitable donations from Vodafone and its employees
- Partnerships with NGOs to support relief efforts

Vodafone cost-of-living plan



Creating a framework to support society

A: Supporting the societies within which we operate

Address
societal needs



UK example - our everyone.connected plan in response to the cost-of-living crisis

How are we getting everyone connected

1



Creating affordable & accessible products

Providing good value offers & social tariffs for consumers and businesses

2



Giving connectivity and devices

Donating free mobile connectivity, phones and tablets to those in need with the help of our charity partners and customers

3



Building confidence and skills

Helping digitally transform small businesses & upskill people in communities across the UK

We have delivered **over £100 million** in social value across the UK



1m

SIMs donated



230k

SMEs supported with digital training



7k

customers on social tariffs



11k

Phones and tablets provided

Targeting to help four million people and businesses in communities across the UK by 2025

B : Improving our broader reputation is essential

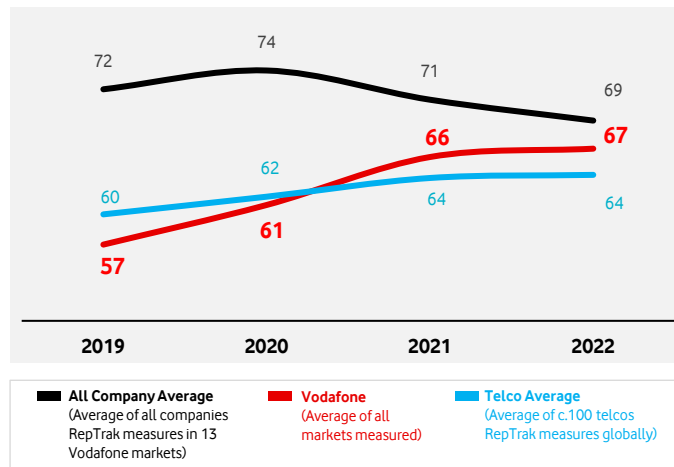
Our reputation is improving through our Social Contract,
deepening our relationship with customers and encouraging governments to partner with us

Telecoms sector

- When we launched our Social Contract, the Global telecoms industry ranked **#18 out of 18** by RepTrak in 2019
- Low industry reputation was largely driven by **lack of alignment on key societal needs**
- *Implications:*
 - **Telecoms de-prioritised** vs. other sectors by politicians
 - **Unbalanced regulation** & limited customer appreciation
 - **Low returns for the industry**

Though our Social Contract

- Our Group reputation score has increased by **c.10pt since 2019**
- **We are #1 most admired in Europe; #2 telco globally¹**



Therefore it makes us an essential digital enabler, and a bridge between what governments need and what is needed by the industry

Polymakers' digital priorities

Our priorities are aligned

What we need to deliver these priorities

1 Roll-out of fast & secure next generation networks

2 Economic recovery & supporting jobs

3 Accelerating digital & green transitions

4 Safeguarding global competitiveness

5 Digital access & skills

6 Enhanced security and resilience

We are digitally enabling...



SMEs



Public services *including health, education and smart cities*



Europe's industrial base



Rural communities
& agriculture

...with our secure
green gigabit networks

I Healthy & sustainable market structures

II End extractive spectrum auctions

III Reduce barriers to network sharing

IV Improve resilience through vendor diversity

V Simplify deployment of network infrastructure

VI Pro-investment & pro-innovation regulation

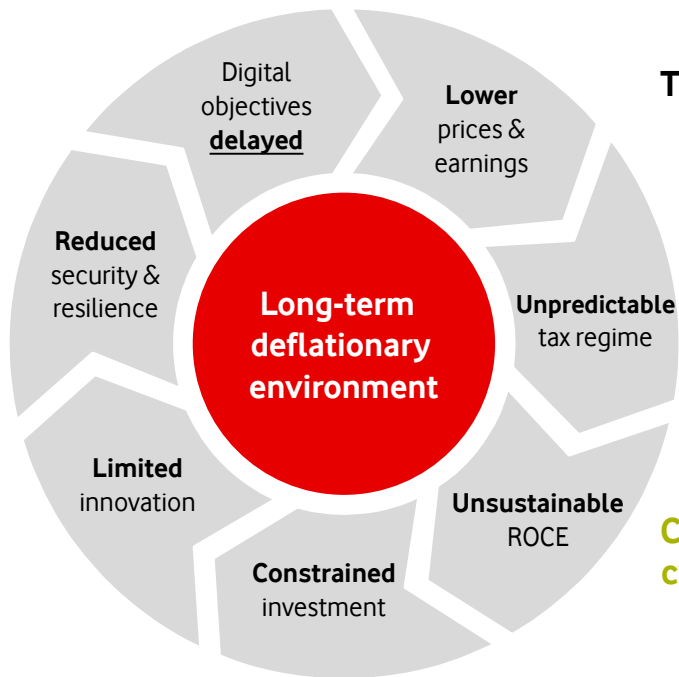
VII Optimise state funding & policy reforms

D :: Central relationship between industry ROCE & investment

Earning a fair return
& ability to invest



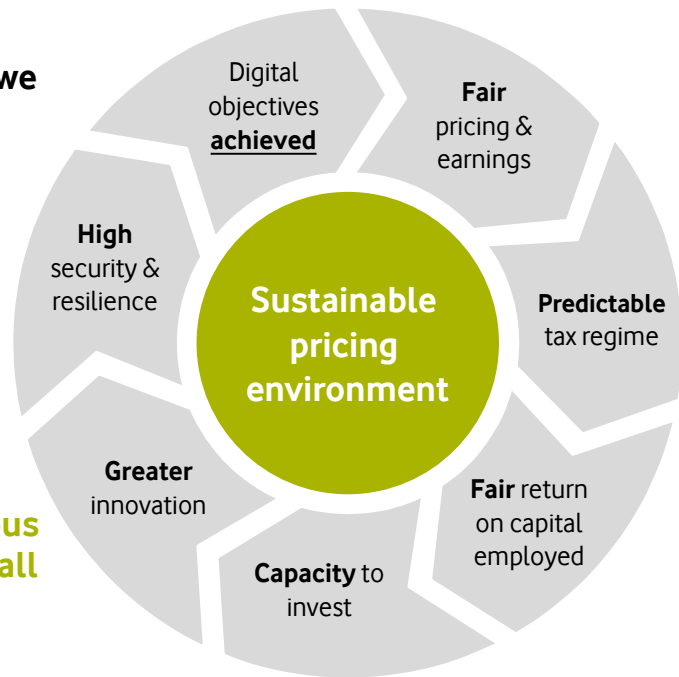
Addressing societal needs, improving our reputation, and the way we engage and align with governments and their objectives, delivers value not only to society but also to us as a company and our shareholders.



Though our Social Contract we
are reshaping these
interventions



Creating a virtuous not vicious
cycle that delivers more for all
stakeholders



Summary

A

Through our Social Contract we will continue to demonstrate leadership in our sector – as genuine partners to society, to governments and to the economies in which we operate

B

We will further improve our reputation, not just with politicians and policymakers, but with our customers & society more broadly

C

As a digital enabler we will partner with governments, helping them achieve their objectives, and giving them the confidence that rebalancing the trilemma will yield the right outcomes for Europe

D

By addressing societal needs, improving our reputation and our engagement with policymakers, **we can earn a better return and improve our ability to invest – creating value for all**

3:

What is needed?

Pro-investment policy reform is essential for EU to meet its digital objectives



Highlights

A Europe is at a crossroads on delivering its digital ambitions

B We have made strong progress but it's not enough

C The Social Contract is essential to enable Europe's Digital Decade

D It is a fundamental part of our DNA

A : Europe is at a crossroads on delivering its digital ambitions

The route that policymakers choose will have significant long-term consequences...

“As is” ... continue down a similar path to before

OR

“To be” ... globally competitive & fit for the digital age

1 Hyper-market fragmentation & increased private ownership

European Union:

- 27 national markets
- c.100 operators
- >700 registered MVNOs

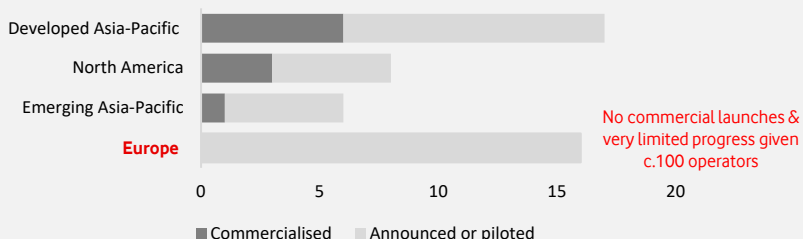
US & China:

- 3 nationwide scaled operators

2 Low returns environment with limited ability to invest

3 Limited innovation & resilience

Number of operators that have announced edge cloud services (Q1 '21)¹






1 Scaled operators – driving local & regional competition

2 Supportive of innovation and Europe's security ambitions

3 Delivering improved/fair returns for the sector

4 Enabling greater investment per capital

	US	China	Europe
			
Scaled operators in other regions vs EU ²			
Mobile customers	144 million	975 million	110 million
Capex per capita (€)	€66	€18	€17
Return on capital ³	12%	19%	5%
5G connections (%)	46%	34%	<5%

A :: Our vision – addressing the present and building for the future

The telecommunications policy framework was created 20 years ago and is no longer fit for purpose

Major technological evolutions are taking place.....

...enabling a new wave of innovations...

...where Europe will continue to be left behind unless it resets its regulation

1

From physical to virtual networks,
terrestrial to non-terrestrial (i.e. satellites)

1

Network-as-a-Service (API-based),
centralised core/security centres

1

**Incentivising investment in secure networks
and innovation**

2

From speed (2G-4G) to quality (5G,
slicing, latency)

2

5G slicing, edge computing enabling
advanced applications such as metaverse
and virtual/augmented reality

2

**Less artificial intervention and redefining
minimum viable scale**

3

From verticalised to delayed industry

3

5G IoT at scale, cloud business,
cybersecurity, digitalisation of SMEs, SaaS

3

**Increased public/private partnerships and fair
share from digital ecosystem**

4

**From closed networks to open
infrastructure (i.e. OpenRAN)**

4

Scaled European OpenRAN ecosystem

A: Further action is needed across key policy areas

Further policy reform will be needed to ensure a effective balance of objectives and deliver Europe's digital ambitions

How to achieve further policy reform



Spectrum

European-led consistent policy



Technology

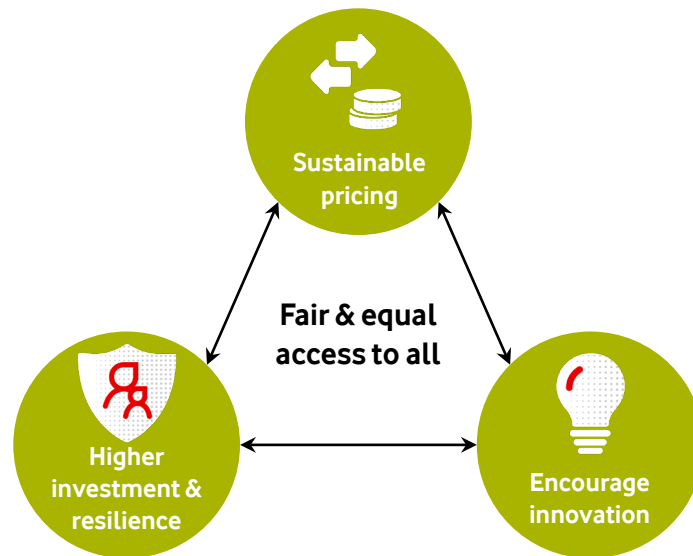
Stronger & proactive regulation



Competition

Enable scaled challengers at local & European level

Establishing a policy environment that is
pro-investment & supportive of returns



B : We have made strong progress but it's not enough

There have been positive shifts in policymaking....

Regulatory focus of the past

Revenue-maximising spectrum auctions & incentivising market entry



More efficient & non-discriminatory spectrum allocations



Spectrum costs reduced by >€1 billion compared to benchmark

Short-term price deflation through artificial intervention in competition & market structure



Greater recognition that a fair balance needs to be struck between short-term price competition & longer term innovation competition



Infrastructure consolidation & network sharing now fully accepted

Intervention heavily skewed to telecoms operators & light regulation on technology & OTTs



Levelling the playing field with Big-Tech



*Digital Markets Act ensuring fair & open digital markets
Communications code – same rules, same services for OTTs & telcos*

...BUT the change is not fast enough for what the industry needs

B : We have made strong progress but it's not enough



Spectrum: Seen a clear shift in governments' thinking on auctions & how they are used to achieve optimal outcomes

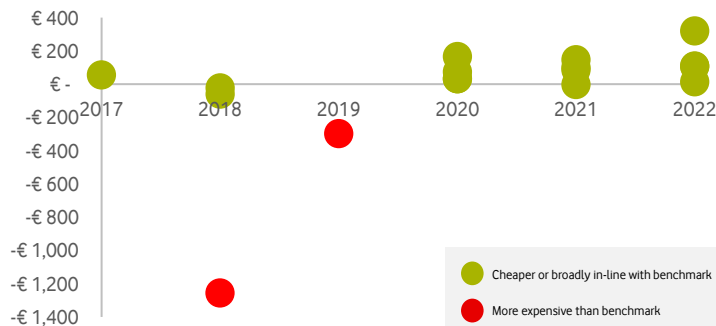
Fairer balance



- ✓ Non-discriminatory
- ✓ Efficient allocation/auction structure
- ✓ Supportive of investment

Our social contract engagement during 5G awards has delivered savings vs benchmark of more than €1bn since 2020

Savings vs Benchmark 5G auction cycle (€m)



Source: Vodafone internal benchmark data

What more is needed?

Short-term

- **Greater licensing consistency across Europe** – to reduce fragmentation and improve predictability
- **Longer licence periods** – through longer licence terms / straightforward administrative extensions and renewals (following precedent in Spain)
- **Addressing excessive annual fees** – freeing up cashflow for investment
- **Ensuring realistic rural coverage obligations** – maximising the role of state aid to address uneconomic rural coverage gaps

Long-term

- **Harmonised approach & perpetual licences** – already a given in the UK and the US
- **Additional spectrum** to support future mobile traffic growth cost effectively – identification of new harmonised bands (e.g. 6GHz band to support mobile cellular, not just WiFi)

B : We have made strong progress but it's not enough

Competition: *The European Commission is undertaking its biggest revamp of competition law*

Fairer balance



- ✓ Changes made to State Aid rules
- ✓ Network sharing now fully accepted
- ✓ Infrastructure consolidation permitted

However, the root cause of Europe's investment gap is the lack of scale & fragmentation across the telecoms market

Our Social Contract at work

- Encouraging signs that regulators see the need to encourage investment competition
- Network sharing is now widespread – reducing our future network investment required by c.€2.5bn¹
- Merger control policy also seems to be taking a longer view – INWIT, T-Mobile/Tele 2 (NL), Vodafone/Unitymedia (Germany), Orange/Telekom Romania

What more is needed?

Short-term

- **Full recognition within existing rules on the need to adapt** to current economic circumstances and market dynamics
- **Market definition** needs to take more account of potential competition and supply-side substitutability in digital markets
- **Turn words into action** – regulatory decisions now need to deliver
- **Strike a better balance** between short-term price competition and longer-term investment and innovation competition

Long-term

- **Enable sustainable market structures in European telecoms markets** that drive dynamic competition
- **Equivalent treatment at both European and national state level**, driving a single market approach

This is not a request for less competition – instead the industry and society needs sustainable investment competition

B : We have made strong progress but it's not enough



Technology: *Significant progress has been made on achieving a more level playing field*

Fairer balance



- ✓ European Electronic Code of Communications – begun to level the playing field
- ✓ Digital Markets Act – creates opportunity to promote effective EU digital competition
- ✓ Digital Decade Declaration – all market players make a fair and proportionate contribution to infrastructure costs

Our Social Contract at work

1. **Greater recognition of the challenge to innovation and scale** created by the big tech 'digital gatekeepers'
2. **Worked with various academics** to explore what a reasonable and proportionate solution might look like
3. **Active knowledge sharing** with the European Commission at the very start of their process, helping to shape an effective solution as a trusted partner
4. **The ideas we helped create** developed amongst the academic & policy community, and became more robust through the process

What more is needed?

Short-term

- **Ensure effective implementation of the Digital Markets Act**

This could increase the benefits to EU consumers by **€13 billion**, i.e. c.**6% increase** compared to the baseline.

It could also increase EU economic growth by between **€12 billion and €23 billion**

Based on estimates in the European Commission Impact Assessment, 2020

Long-term

- **A fair contribution** is needed from largest traffic generators to achieve the Digital Decade targets (6 content providers constitute more than 50% of all internet traffic)
- **Removal of legacy rules** which result in different regulation for the same services, such as IoT
- **Launch an EU Industrial Competitiveness Policy** for connectivity

B : We have made strong progress but it's not enough

Reset policy
environment

3.



Short term wins leading to a longer term reset: *New Connectivity Package published by the European Commission*

Draft Gigabit Infrastructure Act – harmonised EU rules removing red tape and reducing cost of network deployment

- 1 Simplifies and digitalises permit processes and reduces delays
- 2 Enhances coordination of civil works between network operators and operators of other utilities (which represents 70% of costs of deployment)
- 3 Brings fibre inside every new or majorly renovated building
- 4 Digitalises administrative procedures for operators rolling out gigabit networks

Consultation on the future of the connectivity sector and its infrastructure, including Fair Share

“Gigabit networks are the stepping stone to our digital transformation. They can provide innovative services, more efficient business operations and smart, sustainable, digital societies. Our connectivity is crucial to deliver these opportunities to everyone in Europe. With a view to a digital transformation that is human-centric.”

Margrethe Vestager, Executive Vice-President for a Europe Fit for the Digital Age (Feb 2023)

“Today we are making sure that everyone, everywhere in the EU, has access to fast and secure connectivity. But high-speed internet requires high investments. That is why, in addition to facilitating network deployment in the short term, we are exploring the important question of who should pay for the next generation of connectivity infrastructure, including whether platforms should share the cost of investment in next generation connectivity with telco operators.”

Thierry Breton, Commissioner for Internal Market (Feb 2023)

C : The Social Contract is essential to enable Europe's Digital Decade

Delivering sustainable, inclusive and resilient societies that meet the needs of...

Governments, regulators & policymakers

Delivering a competitive, pro-investment environment in a sustainable way



Telecoms sector

Improving the health of the sector and delivering a fair & level playing field to compete on



Shareholders

Enabling a fair return on capital employed



Consumers

Bridging the connectivity divide – ensuring fast, reliable & secure next generation connectivity and digital services for everyone at a fair price



Businesses

Accelerating the digitalisation of their operations, improve productivity, help internationalise SME's & creating better jobs



Economies

Delivering the innovation & infrastructure required to be globally competitive



Our contribution to society

...and safeguarding Europe's global competitiveness in an increasingly digital world

Social Contract – accelerating our Purpose & ESG initiatives...

Our Purpose : To connect for a better future



Digital Society

Connecting people and things and digitalising critical sectors.

- Digitalising business, especially SMEs
- Digitalising agriculture
- Digitalising healthcare



Planet

Reducing our environmental impact and helping society decarbonise.

- Energy efficiency and Net Zero
- Helping our customers reduce their carbon emissions
- Driving action to reduce network and device waste

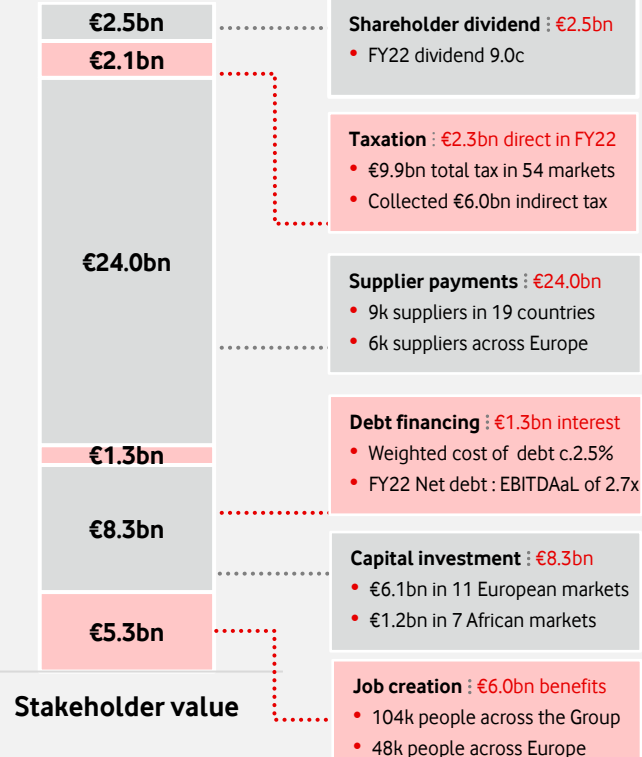


Inclusion for all

Ensuring everyone has access to the benefits of a digital society.

- Connectivity access for all
- Propositions for equality
- Workplace diversity and inclusion

... and creating value for all



Summary

A

Europe remains at a crossroads. More pro-investment policy reform is essential to support the reset necessary to drive growth & scale in order to achieve Europe's Digital ambitions

B

Progress has been made in a number of areas of policy reform with governments & regulators now more willing to engage in discussions on how to maximise long term societal outcomes

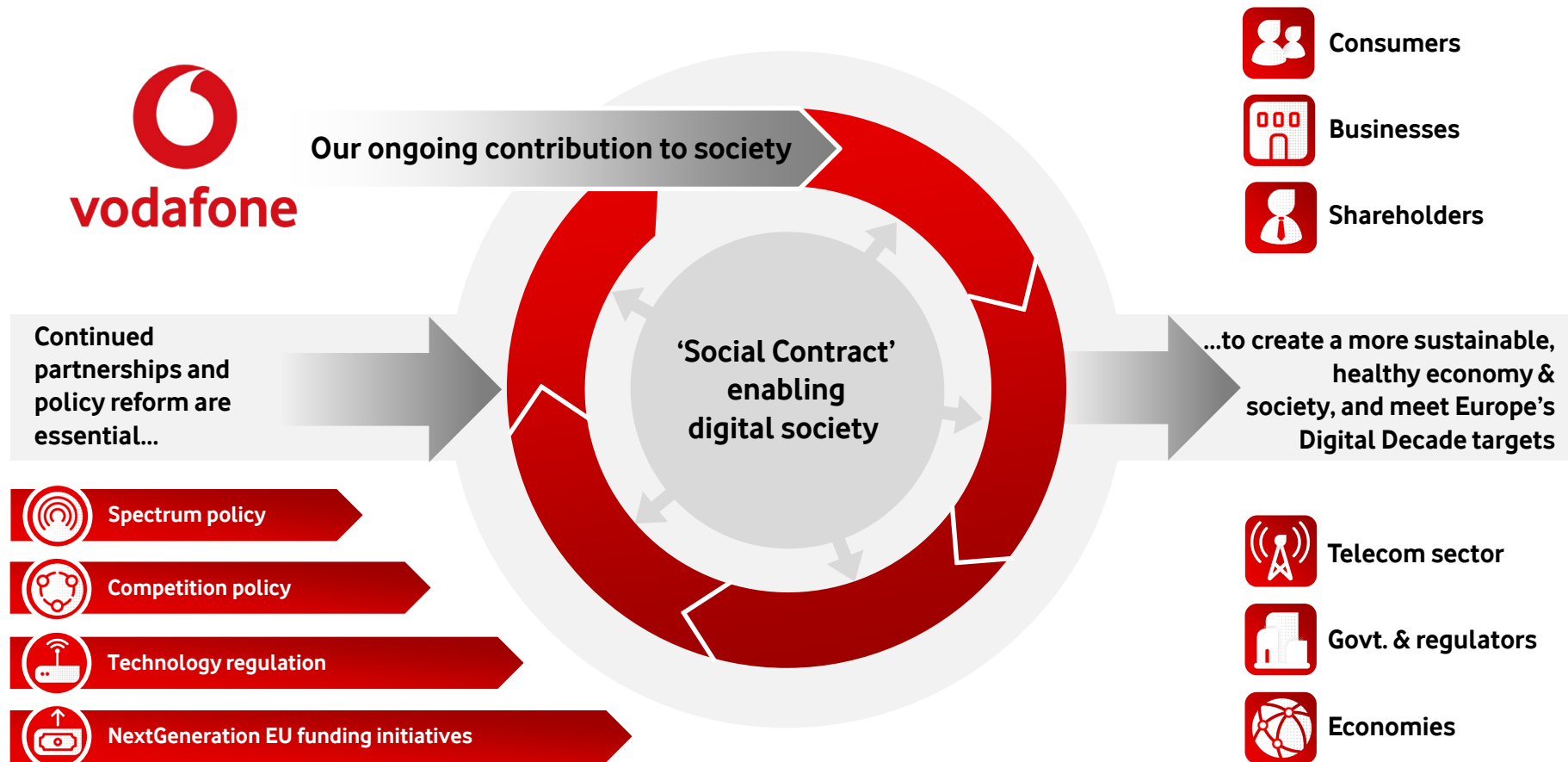
C

Our Social Contract has been key part of this success – we have taken centre stage as a key enabler for the Digital Decade

D

A pro-investment environment is important for telecoms & critical for society – providing Europe the opportunity to build a globally competitive digital economy

Conclusion : Embedding the Social Contract is critical for the Digital Decade



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Upcoming events



FY23 Results



FY24 Q1 Results



Annual General
Meeting