

2008 Strategic Value Profile

Vodafone Group



Company:	Vodafone Group plc	Overall Score	7.9	Contents: Strategy/Objectives – 2; Performance/KPIs – 3; Future factors/Risk – 4; Strengths & Resources – 5; SEE / Communication – 6; Coherence – 7; Ranking – 8-9
Financial period ending:	31 March 2008	Change on previous year	+1.3	
Version & Report date:	2008/1 – 26 August 2008			
Evaluation basis:	ASB 2006 Reporting Statement			

Core finding

Vodafone Group [*stock symbol VOD*] scores 7.9 for the strategic value added in its 2008 narrative reporting. This reflects a marked improvement of +1.3 on 2007, promoting the Company from the second quartile to the upper reaches of the top quartile of the FTSE350 Strategic Value Ranking – see page 8 of this Profile. Vodafone Group's 2008 Annual Report is a distinct cut above the offerings of previous years. This is at last an effective piece of communication with a coherent narrative that begins to do justice to the Company. Arguably the most compelling aspect is the comprehensive explanation of the Group's business at the heart of the narrative. The impact of this is to make the remainder of the narrative content that much more intelligible. Analysts and investors should now find this narrative engaging and even compelling. There are still weaknesses to address, though. Vodafone does not explain what it means by "*Our goal is to be the communications leader in an increasingly connected world*". It needs a sharper, more clearly specified ambition to provide an integrating focus for the six strategic objectives. Without clearer specification many may consider Vodafone has already achieved its declared strategic intent. Report users will also search in vain for a clear financial goal.

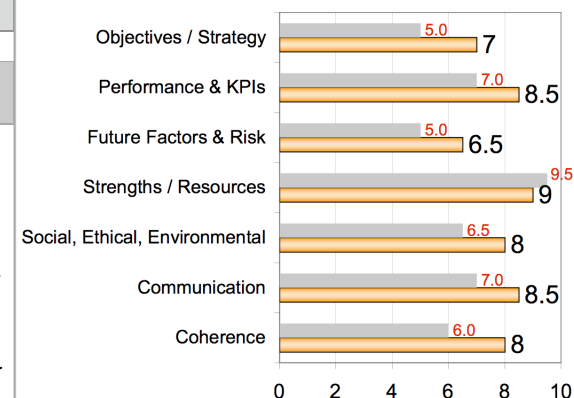
The Group publishes its Annual Report in hard copy and in offline and online electronic versions. The Report presents the Group's strategy but, in the absence of any overarching business and financial goals, labels the six strategies as objectives. The performance commentary provides very good evidence of strategy in action, supported by an exemplary array of KPIs. The future orientation of the narrative is the weakest aspect with the focus on the short-term horizon. This perception is compounded by the treatment of risks that could be a much more effective contributor to the strategic capability discussion, instead of a compliant section. Coverage of strengths and resources is excellent in both breadth and depth of commentary. Reporting of social ethical and environmental matters is good but still lacks a commitment to sustainability in its fullest sense. Overall, the standards of communication and coherence are very good indeed, making the document compelling reading.

The historical stock market performance chart shows how VOD has fared against the FTSE Telecommunication Services Index and the FTSE100 over the 56-month plus period from 1 December 2003 to 15 August 2008. During this period the sector shrank by 6.4% while VOD declined by 8.2% – putting it 1.8% beneath the Sector, and 34.8% below the FTSE100.

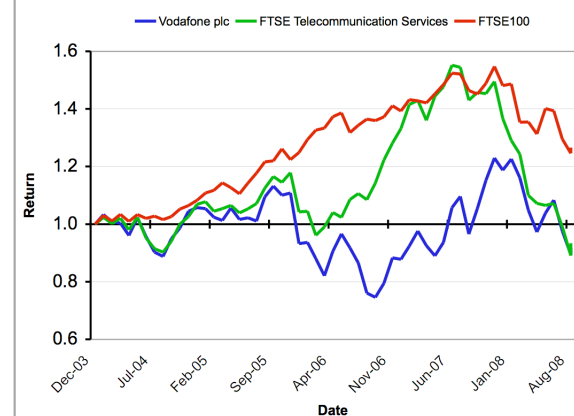
The purpose of this Report is to evaluate the quality of strategic value added in annual reporting. This is so that investors can make informed judgments about the relative effect of narrative content upon a company's share price over the medium term. The evaluation basis is the OFR Best Practice 'Reporting Statement' as this sets a more comprehensive standard than the now mandatory Enhanced Business Review. Full details of narrative reporting impact on market value and this scoring system is on our website <http://www.futurevalue.co.uk>

Vodafone Group – 2008 Score

(2006/7 score)



UK Market Performance - Sector & FTSE100 Comparison
1 December 2003 – 15 August 2008



STRATEGY & OBJECTIVES		N/A	Definitely	Mostly	Largely	Partially	Not really	Not at all	Comment
Group specific									"The Group is organised in two geographic regions - Europe and EMAPA."
1	How effectively does the document address group mission, objectives and strategies?								The strategy content is quite straightforward. There are six "strategic objectives" that are really operating objectives, if not strategic priorities for an absent overarching business goal, vision or ambition. There is no mission statement.
2	Does the narrative explain why this group exists, what it is trying to be especially good at?								There is a statement of what the Group does, but not why it exists, however there is a goal: "Our goal is to be the communications leader in an increasingly connected world".
3	Is there a lead objective in financial terms that specifies what is the group's financial target or aspiration?								There is no financial goal. There are general and unspecified financial objectives within the "strategic objectives" but these are not an overriding financial goal.
4	How well does the narrative explain how the group is managed and why this way of managing adds lots of value?								The logic of the structure becomes apparent in 'Group at a glance' with the separation of mature markets – Europe, and Emerging – everywhere else. "The Group is organised in two geographic regions – Europe and EMAPA – with the objective of aligning operations with the Group's strategy and focusing the Group's businesses according to different market and customer requirements."
General									
5	Does the document explain what businesses the company will invest in and why these businesses will benefit from being part of the company/group?								Acquisitions are important: "We took a major step forward in building our developing market presence with the acquisition of Vodafone Essar in India last year". The policy is: "... acquiring assets when substantial additional value for shareholders can be achieved. Potential acquisitions are subject to strict criteria including appropriate financial returns, a strong local position and an identifiable path to control".
6	Does the narrative aim to show how the style, culture and values of the company contribute to strategy implementation?								The brand essence is "Red, Rock Solid and Restless", and the Group makes considerable effort to: "...develop and retain the most talented, motivated people that are well aligned with the Vodafone brand essence."
Segment / Single Business specific									
7	To what extent does the narrative specifically address segment/single business strategy and objectives?								The key focus of each business unit is stated and aligned to group strategy. There is no separate discussion or commentary of segment strategy. The key strategic "objective" [priority] for each segment is one of the six "strategic objectives".
8	Is there a discussion of competitive dynamics and profitability? Specifically, does the narrative indicate the company's competitive position or market share?								The narrative does provide good insight into the drivers of profitability, external and internal. It addresses competition but only in general terms and without any share data.
9	How effectively does the narrative explain the business model? Does it indicate how value emerges or is it simply a description of principal activities?								There is a fairly clear explanation of the multi-faceted and complex business model in the section on 'Business Overview'. The excellent schematic also offers a pointer to the later sections of the Business review chapter – Technology, People, Brand etc.
10	How well does the narrative articulate a financial target ?								There are no financial targets for the segments.
11	To what extent does the narrative provide non-financial objectives expressed in terms of a goal, aim or vision?								"Revenue stimulation and cost reduction in Europe" and "Deliver strong growth in emerging markets" from the Group strategy become operating objectives for the segments.
12	Are the strategies convincing? Do they each identify some source of advantage or competitive edge?								The strategy content is convincing with the pre-amble of the operating environment and the sources of advantage mostly become apparent to the Report user. Sadly, the narrative doesn't spell out these sources.

SCORE **7** OUT OF 10


PERFORMANCE & KPIS		N/A	Definitely	Mostly	Largely	Partially	Not really	Not at all	Comment
Performance									
13	Is there a discussion that effectively links group performance to strategy and objectives?		█						The Chief Executive reviews group performance within the framework of the six strategic objectives.
14	Is there a discussion that links segment [the single business's] performance to strategy and objectives?			█					To the extent that there is performance commentary related to each of the segment-specific group strategic objectives. 'Operating results' in the 'Performance' chapter also makes a clear and simple contribution to the understanding of achievement against segment objectives.
15	How effectively does the narrative highlight key issues in group performance as apparent evidence of strategic achievement?		█						Progress towards strategic objectives' comprises four items in 'Highlights'. These are the headline strategic achievements in 2007/08.
16	To what extent does the narrative review market conditions and their impact upon performance – at group and segment level, where appropriate?		█						The Chief Executive's comments on the 'Evolving environment' provide both current and prospective views of the market and its impact on performance. The 'Operating environment' piece preceding Strategy also contributes to the view of prevailing conditions.
17	Overall, how well does the performance discussion indicate strategy in action?			█					It does this well.

SCORE (OUT OF 5) 4.5

KPIs		N/A	Definitely	Mostly	Largely	Partially	Not really	Not at all	Comment
18	How effectively does the narrative address financial KPIs to support discussion of performance?		█						There is a clear statement of financial KPIs with a helpful explanation of each one.
19	How well does the narrative address non-financial operational KPIs at the segment [single business level] to support discussion of performance?		█						The narrative provides an array of non-financial KPIs, classified into two categories: operating and strategic. The strategic set addresses Group and the Europe and EMAPA segments.
20	Do the performance measures include some that are externally comparable or intuitively understood by the reader?				█				Customer Delight Index (CDI) is definitely intuitive. Others in the array are partially intuitive. There are no comparable metrics, other than a comment about VOD outperforming competitors on CDI.
21	How much historical KPI data does the Company provide to indicate trends to, or enable extrapolation by, the user?				█				Three years data.
22	Does the use of KPIs add to the understanding of performance against strategy and objectives?		█						The segment KPIs measure exactly the segment operating objectives. This is very good.

SCORE (OUT OF 5) 4 TOTAL 8.5 OUT OF 10

		KPI Effectiveness Grid		
		Short-	Mid-	Long-
UNDERSTANDABILITY	Relatively Comparable	█	█	█
	Intuitive	█	█	█
	Internally Coherent	█	█	█
Colour code		Seems adequate	Thin	Missing

FUTURE FACTORS & RISK									Comment
Future Factors									
23	Is there a perceptible forward-looking orientation to the narrative?		█	█					There is a solid future orientation to the narrative both external and internal. The absence of any longer-term goal or ambition rather detracts, 'though.
24	How well does the narrative explore external factors and trends and their likely impact on next year's performance?		█						The Chief Executive discusses the 'Evolving environment'. 'Operating Environment' preceding strategy also adds to the understanding of the immediate future.
25	To what extent does the narrative address specific internal factors shaping next year's performance?			█					'Prospects for the year ahead' and, to a lesser extent, 'Outlook' provide a useful if not complete view of the 2008/09 year.
26	Does the narrative evaluate future factors and trends as influences on progress towards strategic goals (i.e. beyond immediate next period)?				█	█			To some degree the external commentary is addressing trends with a longer term perspective. However, there is little internally. Indeed, the absence of a specific and longer-term business goal or ambition makes this more apparent.
27	Overall, how sensitive does the Company appear to be to future issues?			█	█				Sensitive to the shorter term future, but less prepared to include medium- to longer-term thinking.

SCORE (OUT OF 5)

4

Risk									
28	Is there compelling consideration of strategic, commercial, operational risks and uncertainties, and of the process for managing them [other than in the Corporate Governance section]?				█	█			The section on 'Principal risks and uncertainties' simply launches into the twelve risk factors without any discussion or reference to the risk identification and management process.
29	How well does the exploration of risks and uncertainties weigh up the internal and controllable with the external and uncontrollable factors?		█						There are twelve specific factors that amount to mostly external strategic and internal operational factors.
30	Is there an exploration of mitigating factors in respect of each risk or uncertainty listed?							█	There are no comments on mitigating activities.
31	Does the evaluation of market and financial risk project any strategic bearing?				█	█			This is only covered in 'note 24 to the consolidated financial statements'. It addresses the financial risk management process and throws some light on financial strategy.
32	Does the treatment of risks and uncertainties enhance the assessment of strategy and objectives?				█	█			The section on risks and uncertainties does help with strategic understanding but only if the Report user is prepared to do the work and make the connection on his/her own.

SCORE (OUT OF 5)

2.5

TOTAL

6.5

OUT OF 10

STRENGTHS & RESOURCES		N/A							Comment	
		Definitely	Mostly	Largely	Partially	Not really	Not at all			
33	What evidence is there of the Company's investment in the creation of value for customers, with customers?								There are over forty five customer-related references with the emphasis on Innovation – Product improvement, and Leadership – Authority.	
34	How well does the narrative manifest the Company's investment in its principal partners, suppliers and/or distributors?								VOD is evidently sensitive to its extended enterprise and its role in this dynamic and rapidly changing environment. As for customers, Leadership and Innovation are the dominant elements.	
35	How persuasively does the narrative examine the Company's investment in its employees, their development and their effectiveness?								There is a good breadth and depth of employee-related references.	
36	How effectively does the narrative present investment in the organisation as a whole and in its development as an effective enterprise?								Innovation, Systems and Process are the three most recurrent themes in respect of organisational drivers.	
		TOTAL							9.0	OUT OF 10

Note: Completion of the Resources Grid provides the basis for scoring this section

Off-Balance Sheet Resources Grid		Customers	Partners/Suppliers	Employees	Organisation
		Strategy	Market Position	Value Chain Position	Employee Engagement
Culture & Values	Relationships	Mutuality	Alignment	Adaptive Capability	
Leadership	Authority	Relationship	Role Clarity	Leadership Distribution	
Innovation	Product Improvement	Collaborative Capacity	Creativity	Systemic Innovation	
Systems	Customer Management	Systems Integration	Leverage Capacity	Technology Infrastructure	
Process	Engagement/Involvement	Supply Chain Management	Task Clarity	Process Management	
Knowledge	Intelligence & Insight	Sharing Process	Competence	Explicit/Tacit Knowledge	
Reputation	Brand	Probity	Trust	Governance	
Colour code	c. 4 or > positive references	14	1 positive reference	2	
	circa 3 positive references	2	Inference		
	circa 2 positive references	11	No mention	3	

SOCIAL, ETHICAL, ENVIRONMENTAL									Comment
Social, ethical and environmental									
37	How effectively does the Company address the full span of its stakeholders, economic as well as non-economic e.g. suppliers, communities?								There is fairly good coverage of stakeholders, which includes employees, suppliers, customers and community.
38	To what extent does the Company address the issue of ethics, its expected standards and general observance of them?								The Group's 'Code of Ethical Purchasing' relates to suppliers and the supply chain. The Group only addresses ethical behaviour and expectations of employees in 'Corporate Governance'.
39	How convincing is the Company's coverage of its actions and intentions on environmental issues?								The section on environmental management is concise but useful. "In 2006, the Group set a target to reduce CO2 emissions per unit of data transmitted by 40% by 2011. This target has been achieved in 2008, three years in advance,..."
40	How far does the Company go to evidence its commitment to sustainability and an approach to social, economic and environmental issues that is integrated with the business?								"The board regards responsible behaviour in all Vodafone's operations as underpinning the value of the brand and has established 'being a responsible business' as one of the Group's long term goals." Sustainability is a CR objective but only in relation to products and services, not as an overall and integral concept.
41	What is the strength of external validation of the Company's approach to social, ethical and environmental matters e.g. international standards, independent audit, index membership?								"Vodafone is included in the FTSE4Good and Dow Jones Sustainability Index and rated fifth in the Global Accountability Rating, published by Fortune."

TOTAL 8

COMMUNICATION									Comment
Communication									
42	How positive is the visual impact of the narrative sections on the Report user?								This makes a fairly positive visual impact.
43	From a communication perspective how well constructed and well laid out is the narrative?								The narrative is very well constructed and is a decided improvement on previous years. There is a clean simple layout that enables a very effective explanation of this quite complex business in every aspect and detail. There is plenty of white space. This is very accessible.
44	How extensively does the relevant content make effective use of charts and graphics as well as visuals to enable effective assimilation of content and data?								The document makes very effective use of charts, visuals and schematics.
45	How easy is it to navigate the content – in hard copy and online?								There is good simple navigability in the offline version, made possible by a simple structure, good indexing and cross referencing. Even so, there are still missed cross-referencing opportunities such as the risk section.
46	How effectively does the use of different media – e.g. online, annual reviews or super-summaries – integrate to provide a consistent message?								There is an online and offline Annual Report accessible from the Investor page of the corporate website. The interactive 'Business' section is quite effective in the online version.

TOTAL 8.5 OUT OF 10

COHERENCE							Comment
Coherence							
47	In respect of content, how effectively is the narrative structured (i.e. degree of fragmentation and completeness of coverage)?						The construction of this document is effective with its clearly defined separate chapters. It is largely complete – only some longer term future thinking is missing and the risk section is also limited. What is missing is the integration of the parts into a whole. It needs a little more integration of the strategy-related content.
48	To what extent is the style of the narrative objective, open and direct – as opposed to merely compliant or marketing pre-occupied?						This is fairly objective and transparent. The absence of a longer term business goal or ambition raises questions, but apart from that is effective.
49	How well does the narrative construct a cohesive discussion linking all the elements of strategic capability?						The strategy discussion is simple. There are six "strategic objectives" that are in effect operating objectives or strategic priorities. While there are segment strategic objectives, there is no segment strategy discussion.
50	How well does the narrative read? Does it minimise technical jargon and avoid unnecessary duplication?						This does read well, particularly in comparison to previous VOD Annual Reports. There is very little jargon and only a modicum of repetition.
51	To what extent does the company seem to balance brevity and conciseness with completeness of coverage?						It is moderate in length – much shorter than previous examples from this Company. It is largely complete from the strategic capability perspective.

TOTAL 8 OUT OF 10

WHAT WE SAID LAST YEAR

Vodafone Group scores 6.6 for the strategic value added in its 2006/7 reporting narrative. This is an improvement on 2005/6. This 2006/7 score now positions Vodafone higher in the second quartile of the FutureValue FTSE350 Strategic Value Ranking. In this 2006/7 report narrative the volume and scope of references to Vodafone's off-balance sheet strengths and resources will afford any Report user an excellent appreciation of the Company's attention to all those intangible drivers of value critical to its future success. But, Vodafone missed an easy opportunity here to add significantly more strategic value. It chose not to re-state its 2006-revised strategy in any depth, nor provide the rationale that would re-confirm to analyst and investor alike the validity of that strategic change in direction. Instead, it concentrates on reporting achievements against the new direction with an odd misapplication of strategy terminology. All the same, the 2006/7 score is an improvement on 2005/6. It does indicate that the strategic information imparted here will, on its own, be enough to reassure shareholders of the Company's capacity to realise its future potential.

OVERALL PREVIOUS YEAR SCORE 6.6

Disclaimer

This report is not an investment recommendation. FutureValue makes no representation or warranty whatsoever in respect of Vodafone Group plc, (the 'Company'), and assumes no liability or obligation in respect thereof. Investors are advised to seek professional advice prior to any investment decision and should conduct independent investigation and analysis of the Company as they deem appropriate to evaluate the merits and risks of any investments.

FTE350 Strategic Value Ranking

First and Second Quartiles - median = 5.60

