Operating results

This section presents our operating performance, providing commentary on how the revenue and the EBITDA performance of the Group and its operating segments within Europe, Africa, Middle East and Asia Pacific, and Non-Controlled Interests and Common Functions have developed in the last three years.

2011 financial year compared to the 2010 financial year

Group[(1)(2)]

	Europe £m	Africa, Middle East and Asia Pacific £m	Non-Controlled Interests and Common Functions[(3)] £m	Eliminations £m	2011 £m	2010 £m	% change £	% change Organic[(4)]
Revenue	32,015	13,304	659	(94)	45,884	44,472	3.2	2.8
Service revenue	30,097	12,292	412	(63)	42,738	41,719	2.4	2.1
EBITDA	10,823	3,999	(152)	–	14,670	14,735	(0.4)	(0.7)
Adjusted operating profit	5,726	1,272	4,820	–	11,818	11,466	3.1	1.8
Adjustments for:								
Impairment losses					(6,150)	(2,100)		
Other income and expense[(5)]					(72)	114		
Operating profit					**5,596**	**9,480**		
Non-operating income and expense[(6)]					3,022	(10)		
Net investment income/(financing costs)					880	(796)		
Profit before taxation					**9,498**	**8,674**		
Income tax expense					(1,628)	(56)		
Profit for the financial year					**7,870**	**8,618**		

Notes:
(1) The Group revised its segment structure on 1 October 2010. See note 3 to the consolidated financial statements.
(2) Current period results reflect average exchange rates of £1:€1.18 and £1:US$1.56.
(3) Common Functions primarily represent the results of the partner markets and the net result of unallocated central Group costs.
(4) Organic growth includes Vodacom at the current level of ownership but excludes Australia following the merger with Hutchison 3G Australia on 9 June 2009.
(5) Other income and expense for the year ended 31 March 2011 included £56 million representing the net loss on disposal of certain Alltel investments by Verizon Wireless. This is included within the line item "Share of results in associates" in the consolidated income statement.
(6) Non-operating income and expense for the year ended 31 March 2011 includes £3,019 million profit arising on the sale of the Group's 3.2% interest in China Mobile Limited. For further details see "Other significant transactions" on page 49.

Revenue

Group revenue increased by 3.2% to £45,884 million and Group service revenue increased by 2.4% to £42,738 million. On an organic basis Group service revenue increased by 2.1%[(*)], with a 0.8 percentage point improvement between the first and second half as both Europe and AMAP delivered improved organic service revenue trends.

In Europe service revenue fell by 0.4%[(*)] with a decline of 0.3%[(*)] in the second half of the year. Both the UK and Germany performed well delivering full year service revenue growth of 4.7%[(*)] and 0.8%[(*)] respectively. Spain continued to experience economic pressures which have intensified competition leading to a 6.9%[(*)] decline in service revenue. Service revenue also declined by 2.1%[(*)] in Italy driven by a challenging economic and competitive environment combined with the impact of termination rate cuts. Our improved commercial offers in Turkey have delivered service revenue growth of 28.9%[(*)], despite a 52% cut in termination rates which was effective from 1 April 2010. Challenging economic and competitive conditions continued in our other central European businesses where service revenue growth was also impacted by mobile termination rate cuts. European enterprise revenue increased by 0.5%[(*)] with improved roaming activity and important customer wins.

In AMAP service revenue grew by 9.5%[(*)]. Vodacom continued to perform well, with strong data revenue growth from mobile broadband offsetting weaker voice revenue which was impacted by two termination rate cuts during the year. In India service revenue increased by 16.2%[(*)], driven by an increase in the mobile customer base and a more stable pricing environment towards the end of the year. In Qatar the customer base reached 757,000 by the end of the year, with 45% of the population now actively using Vodafone services less than two years after launch. On an organic basis, service revenue in Egypt declined by 0.8%[(*)] where performance was impacted by the socio-political unrest during the fourth quarter.

EBITDA and profit

EBITDA decreased by 0.4% to £14,670 million with a 1.1 percentage point decline in both the reported and organic EBITDA margin.

In Europe EBITDA decreased by 3.7%[(*)], with a decline in EBITDA margin of 1.7 percentage points, primarily driven by a reduction in service revenue in most markets and higher investment in acquisition and retention costs, partially offset by operating cost efficiencies.

In AMAP EBITDA increased by 7.5%[(*)], driven primarily by growth in India, together with improvements in Vodacom, Ghana, New Zealand and Qatar, partially offset by a slight decline in Egypt. The EBITDA margin fell 0.6 percentage points[(*)], the two main factors behind the decline being higher recurring licence fee costs in India and the change in regional mix from the strong growth in India.

Adjusted operating profit grew by 3.1% as a result of an increase in the Group's share of results of Verizon Wireless partially offset by the decline in Group EBITDA. The Group's share of results in Verizon Wireless, the Group's associate in the United States, increased by 8.5%[(*)] primarily due to the expanding customer base, robust data revenue, efficiencies in operating expenses and lower acquisition costs partially offset by higher customer retention costs reflecting the increased demand for smartphones in the United States.

The Group recorded other net income of £5,342 million, primarily in relation to a £2.8 billion net gain on the sale of the Group's interests in China Mobile Limited, £1.8 billion on the settlement of a tax case and £0.5 billion from the disposal of investments in SoftBank Mobile Corp.

Operating profit decreased by 41.0% primarily due to higher impairment losses compared to the prior year. Impairment losses totalling £6,150 million were recorded relating to our businesses in Spain (£2,950 million), Italy (£1,050 million), Ireland (£1,000 million), Greece (£800 million) and Portugal (£350 million) primarily resulting from increased discount rates as a result of increases in government bond rates together with lower cash flows within business plans, reflecting weaker country-level macro economic environments. The impairment loss in the prior year was £2,100 million.

Profit for the year decreased by 8.7%.

Net investment income/(financing costs)

	2011 £m	2010 £m
Investment income	1,309	716
Financing costs	(429)	(1,512)
Net investment income/(financing costs)	**880**	**(796)**
Analysed as:		
Net financing costs before income from investments	(852)	(1,024)
Potential interest charges arising on settlement of outstanding tax issues(1)	(46)	(23)
Income from investments	83	145
Foreign exchange(2)	256	(1)
Equity put rights and similar arrangements(3)	95	(94)
Interest related to the settlement of tax cases(4)	872	201
Disposal of SoftBank financial instruments(5)	472	–
	880	**(796)**

Notes:
(1) Excluding interest credits related a tax case settlement.
(2) Comprises foreign exchange rate differences reflected in the income statement in relation to certain intercompany balances and the foreign exchange rate differences on financial instruments received as consideration on the disposal of Vodafone Japan to SoftBank in April 2006.
(3) Includes foreign exchange rate movements, accretion expense and fair value charges. Further details of these options are provided on page 51.
(4) The £872 million in the year ended 31 March 2011 relates to the settlement of a tax case and the £201 million in the year ended 31 March 2010 relates to the settlement of the German tax loss claim.
(5) See "Other significant transactions" on page 49.

Net financing costs before income from investments decreased from £1,024 million to £852 million primarily due to a reduction in net debt, partially offset by an increase in average interest rates for debt denominated in US dollars. At 31 March 2011 the provision for potential interest charges arising on settlement of outstanding tax issues was £398 million (31 March 2010: £1,312 million), with the reduction primarily reflecting the settlement of a tax case.

Taxation

The adjusted effective tax rate for the year ended 31 March 2011 was 24.5%. This is in line with the adjusted effective tax rate for the year ended 31 March 2010 of 24.0%. Tax on adjustments to derive adjusted profit before tax includes tax payable on the gain on the disposal of the Group's 3.2% interest in China Mobile Limited.

Income tax expense includes a credit of £929 million arising as a result of the settlement of a tax case in July 2010. For further details see note 4 to the consolidated financial statements in the half-year financial report for the six months ended 30 September 2010.

Earnings per share

Adjusted earnings per share increased by 4.0% to 16.75 pence for the year ended 31 March 2011 due to growth in adjusted earnings and a reduction in shares arising from the Group's share buyback programme. Basic earnings per share decreased to 15.2 pence primarily due to the £6,150 million of impairment charges partially offset by a gain on disposal of the Group's 3.2% interest in China Mobile Limited and the settlement of a tax case.

	2011 £m	2010 £m
Profit attributable to equity shareholders	**7,968**	**8,645**
Pre-tax adjustments:		
Impairment loss	6,150	2,100
Other income and expense(1)(4)	72	(114)
Non-operating income and expense(2)(4)	(3,022)	10
Investment income and financing costs(3)(4)	(1,695)	(106)
	1,505	**1,890**
Taxation	(697)	(2,064)
Adjusted profit attributable to equity shareholders	**8,776**	**8,471**
Weighted average number of shares outstanding		
Basic	52,408	52,595
Diluted	52,748	52,849

Notes:
(1) The year ended 31 March 2011 includes £56 million representing the net loss on disposal of certain Alltel investments by Verizon Wireless. This is included within the line item "Share of results in associates" in the consolidated income statement.
(2) The year ended 31 March 2011 includes £3,019 million representing the profit arising on the sale of the Group's 3.2% interest in China Mobile Limited.
(3) See notes 2, 3, 4 and 5 in "Net investment income/(financing costs)" above.
(4) These amounts comprise 'Other net income' of £5,342 million

Europe(1)

	Germany £m	Italy £m	Spain £m	UK £m	Other £m	Eliminations £m	Europe £m	% change £	% change Organic
Year ended 31 March 2011									
Revenue	7,900	5,722	5,133	5,271	8,253	(264)	32,015	(2.5)	0.6
Service revenue	7,471	5,432	4,735	4,931	7,787	(259)	30,097	(3.4)	(0.4)
EBITDA	2,952	2,643	1,562	1,233	2,433	–	10,823	(7.1)	(3.7)
Adjusted operating profit	1,548	1,903	915	348	1,012	–	5,726	(9.8)	(6.1)
EBITDA margin	37.4%	46.2%	30.4%	23.4%	29.5%		33.8%		
Year ended 31 March 2010									
Revenue	8,008	6,027	5,713	5,025	8,357	(297)	32,833		
Service revenue	7,722	5,780	5,298	4,711	7,943	(295)	31,159		
EBITDA	3,122	2,843	1,956	1,141	2,582	–	11,644		
Adjusted operating profit	1,695	2,107	1,310	155	1,084	–	6,351		
EBITDA margin	39.0%	47.2%	34.2%	22.7%	30.9%		35.5%		

Note:
(1) The Group revised its segment structure on 1 October 2010. See note 3 to the consolidated financial statements.

Operating results continued

Revenue declined by 2.5% reflecting a 3.2 percentage point impact from unfavourable foreign exchange rate movements. On an organic basis service revenue declined by 0.4%(*) reflecting reductions in most markets offset by growth in Germany, the UK, the Netherlands and Turkey. The decline was primarily driven by lower voice revenue resulting from continued market and regulatory pressure on pricing and the challenging economic climate, partially offset by growth in data and fixed line revenue.

EBITDA decreased by 7.1% including a 3.5 percentage point impact from unfavourable exchange rate movements. On an organic basis EBITDA decreased by 3.7%(*), with a 1.7 percentage point decline in EBITDA margin resulting from a reduction in service revenue in most markets and higher customer investment, partially offset by operating cost savings.

	Organic change %	M&A activity pps	Foreign exchange pps	Reported change %
Revenue – Europe	**0.6**	**0.1**	**(3.2)**	**(2.5)**
Service revenue				
Germany	0.8	–	(4.1)	(3.3)
Italy	(2.1)	–	(3.9)	(6.0)
Spain	(6.9)	–	(3.7)	(10.6)
UK	4.7	–	–	4.7
Other Europe	0.5	0.5	(3.0)	(2.0)
Europe	**(0.4)**	**0.1**	**(3.1)**	**(3.4)**
EBITDA				
Germany	(1.5)	–	(3.9)	(5.4)
Italy	(3.1)	–	(3.9)	(7.0)
Spain	(16.8)	–	(3.3)	(20.1)
UK	8.0	–	–	8.0
Other Europe	(2.4)	0.2	(3.6)	(5.8)
Europe	**(3.7)**	**0.1**	**(3.5)**	**(7.1)**
Adjusted operating profit				
Germany	(4.9)	–	(3.8)	(8.7)
Italy	(5.9)	–	(3.8)	(9.7)
Spain	(27.3)	–	(2.9)	(30.2)
UK	125.1	–	–	125.1
Other Europe	(2.0)	0.3	(4.9)	(6.6)
Europe	**(6.1)**	**0.1**	**(3.8)**	**(9.8)**

Germany

Service revenue increased by 0.8%(*) driven by strong data and messaging revenue growth. Data revenue grew by 27.9%(*) as a result of increased penetration of smartphones and Superflat Internet tariffs. Mobile revenue remained stable in the fourth quarter despite a termination rate cut effective from 1 December 2010. Enterprise revenue grew by 3.6%(*) driven by strong customer and data revenue growth.

EBITDA declined by 1.5%(*), with a 1.6 percentage point reduction in the EBITDA margin. This decline was driven by increased customer acquisition and retention, contributed to by the launch of the iPhone in the third quarter, partially offset by operating cost efficiencies.

During the year we acquired LTE spectrum in Germany and launched LTE services towards the end of the year, initially targeting rural areas underserved by fixed broadband.

Italy

Service revenue declined by 2.1%(*) primarily driven by the challenging economic and competitive environment, the impact of termination rate cuts and customer tariff optimisation. The average contract customer base grew by 12.6% enabling the partial offset of these pressures. Data revenue growth remained strong at 21.5%(*) driven by the high level of customers migrating to smartphones and taking advantage of data plans. There was continued investment to improve quality and coverage of the network. Fixed line revenue continued to grow with the broadband customer base reaching 1.7 million at 31 March 2011 on a 100% basis.

EBITDA decreased by 3.1%(*), with a fall in the EBITDA margin of 1.0 percentage point, as a result of the decline in service revenue and higher investment in acquisition and retention costs partially offset by a reduction in operating expenses.

Spain

Service revenue declined by 6.9%(*) impacted by continued intense competition, general economic weakness and the penetration of lower priced tariffs into the customer base. New integrated plans were introduced in the third quarter in response to the demand for combined voice and data tariffs driven by the increase in smartphones. Data revenue grew by 14.8%(*) driven by mobile broadband and mobile internet. One-off items contributed to a 1.8 percentage point(*) improvement to service revenue growth for the fourth quarter.

EBITDA declined 16.8%(*), with a 3.8 percentage point fall in the EBITDA margin, due to lower service revenue and proportionately higher acquisition and retention costs, partially offset by a reduction in operating expenses.

UK

Service revenue increased by 4.7%(*) driven by data revenue growth due to increasing penetration of smartphones and mobile internet bundles and strong net contract customer additions, which more than offset continued competitive pressures and weaker prepaid revenue. The termination rate cuts announced in March 2011 are expected to have a significant negative impact on revenue growth during the 2012 financial year.

EBITDA increased by 8.0%(*) with the EBITDA margin increasing by 0.7 percentage points, reflecting higher service revenue partially offset by higher customer acquisition and retention costs.

Other Europe

Service revenue increased by 0.5%(*) with growth in Turkey and the Netherlands being partially offset by declines in other markets due to the challenging economic environment and intense competitive factors. In Turkey service revenue grew by 28.9%(*) driven by strong growth in both data and voice revenue, despite a 52% cut in termination rates effective from 1 April 2010. In Greece service revenue declined by 19.4%(*) with intense competition driving a reduction in prepaid revenue and economic factors leading to customer tariff optimisation.

EBITDA declined by 2.4%(*), with declines in all markets except Turkey and the Netherlands, due primarily to lower service revenue and higher acquisition and retention costs partially offset by operating cost efficiencies.

Africa, Middle East and Asia Pacific(1)

	India £m	Vodacom £m	Other £m	Eliminations £m	Africa, Middle East and Asia Pacific £m	% change £	% change Organic(2)
Year ended 31 March 2011							
Revenue	3,855	5,479	3,971	(1)	13,304	20.0	9.5
Service revenue	3,804	4,839	3,650	(1)	12,292	20.0	9.5
EBITDA	985	1,844	1,170	–	3,999	20.7	7.5
Adjusted operating profit	15	827	430	–	1,272	55.5	8.6
EBITDA margin	25.6%	33.7%	29.5%		30.1%		
Year ended 31 March 2010							
Revenue	3,114	4,450	3,526	(1)	11,089		
Service revenue	3,069	3,954	3,224	(1)	10,246		
EBITDA	807	1,528	977	–	3,312		
Adjusted operating (loss)/profit	(37)	520	335	–	818		
EBITDA margin	25.9%	34.3%	27.7%		29.9%		

Notes:
(1) The Group revised its segment structure on 1 October 2010. See note 3 to the consolidated financial statements.
(2) Organic growth includes Vodacom at the current level of ownership and excludes Australia following the merger with Hutchison 3G Australia on 9 June 2009.

Revenue grew by 20.0% with an 8.5 percentage point benefit from foreign exchange rate movements and the full year impact of the consolidation of Vodacom results from 18 May 2009 partially offset by the impact of the creation of the Vodafone Hutchison Australia ('VHA') joint venture on 9 June 2009. On an organic basis service revenue grew by 9.5%(*) despite the impact of MTR reductions and difficult economic environments. The growth was driven by a strong performance in India and continued growth from Vodacom and the rest of the region, other than Egypt where performance was impacted by the socio-political unrest during the fourth quarter.

EBITDA grew by 20.8% with foreign exchange rate movements contributing 8.0 percentage points of growth. On an organic basis EBITDA grew by 7.5%(*) driven primarily by growth in India, together with improvements in Vodacom, Ghana, Qatar and New Zealand, partially offset by a decline in Egypt following pricing pressure and socio-political unrest.

	Organic change %	M&A activity pps	Foreign exchange pps	Reported change %
Revenue – Africa, Middle East and Asia Pacific	**9.5**	**2.0**	**8.5**	**20.0**
Service revenue				
India	16.2	–	7.7	23.9
Vodacom	5.8	6.7	9.9	22.4
Other Africa, Middle East and Asia Pacific	7.2	(0.9)	6.9	13.2
Africa, Middle East and Asia Pacific	**9.5**	**2.2**	**8.3**	**20.0**
EBITDA				
India	15.1	–	7.0	22.1
Vodacom	4.9	4.9	10.9	20.7
Other Africa, Middle East and Asia Pacific	5.1	10.6	4.1	19.8
Africa, Middle East and Asia Pacific	**7.5**	**5.3**	**8.0**	**20.8**
Adjusted operating profit				
India	134.0	–	6.5	140.5
Vodacom	5.7	38.2	15.1	59.0
Other Africa, Middle East and Asia Pacific	2.2	29.2	(3.0)	28.4
Africa, Middle East and Asia Pacific	**8.6**	**39.9**	**7.0**	**55.5**

India

Service revenue grew by 16.2%(*) including a 1.7 percentage point(*) benefit from Indus Towers, the Group's network sharing joint venture. Growth was driven by a 39.0% increase in the average mobile customer base and stable usage per customer trends, partially offset by a fall in the effective rate per minute due to an increase in the penetration of lower priced tariffs into the customer base and strong competition in the market.

February 2011 saw the launch of commercial 3G services following the purchase of 3G spectrum in May 2010 and subsequent network build. By the end of the year 1.5 million customers had activated their 3G access.

EBITDA grew by 15.1%(*) driven by the increase in the customer base and economies of scale which absorbed pricing and cost pressures.

Vodacom

Service revenue grew by 5.8%(*) driven by South Africa where growth in data revenue of 35.9%(*)(1) offset a decline in voice revenue caused by termination rate cuts effective from 1 March 2010 and 1 March 2011.

In South Africa data revenue growth was driven by a 48.9%(*) increase in data usage due to strong growth in mobile connect cards and smartphones. In addition, successful commercial activity, particularly in off-peak periods, drove higher voice usage during the year which partially offset the impact of termination rate cuts. Net customer additions returned to pre-registration levels for the first time in the third quarter, with the trend continuing during the fourth quarter with net additions of 1.2 million.

In Vodacom's operations outside South Africa service revenue growth continued with strong performances from Tanzania and Mozambique. Trading conditions remain challenging in the Democratic Republic of Congo and the Gateway operations.

EBITDA grew by 4.9%(*) driven by the increase in service revenue, strong handset sales and lower interconnection costs, partially offset by higher operating expenses.

On 1 April 2011 Vodacom refreshed its branding to more closely align with that of the Group.

Note:
(1) Data revenue in South Africa grew by 41.8%(*). Excluding the impact of reclassifications between messaging and data revenue during the year, data revenue grew by 35.9%(*).

Operating results continued

Other Africa, Middle East and Asia Pacific

Service revenue grew by 7.2%[*] with growth across all markets except Egypt. In Qatar the customer base reached 757,000 by the end of the year, with 45% of the population now actively using Vodafone services. The decline in Egypt service revenue was driven by a combination of termination rate reductions, competitive pressure on pricing and socio-political unrest during the fourth quarter, offset in part by strong customer and data revenue growth during the year. In Ghana service revenue growth of 21.0%[*] was supported by competitive tariffs and improved brand awareness.

VHA integration remains on track and a number of important initiatives were completed during the financial year to begin realising the benefits of the merger. Contact centre operations were consolidated into two major centres in Hobart and Mumbai India, substantial progress was made in the consolidation of the retail footprint, and a major refit of retail stores is underway. VHA appointed new suppliers for network managed services, core, transmission and IT managed services.

EBITDA increased by 5.1%[*] driven by growth in Ghana, New Zealand and Qatar partially offset by a decline in Egypt resulting primarily from the lower effective price per minute but also impacted by the socio-political unrest during the fourth quarter.

Non-Controlled Interests and Common Functions

Verizon Wireless[(1)]

	2011 £m	2010 £m	£	% change Organic[(3)]
Revenue	18,711	17,222	8.6	6.0
Service revenue	17,238	15,898	8.4	5.8
EBITDA	7,313	6,689	9.3	6.7
Interest	(261)	(298)	(12.4)	
Tax[(2)]	(235)	(205)	14.6	
Share of result in Verizon Wireless	4,569	4,112	11.1	8.5

Notes:
(1) All amounts represent the Group's share unless otherwise stated.
(2) The Group's share of the tax attributable to Verizon Wireless relates only to the corporate entities held by the Verizon Wireless partnership and certain state taxes which are levied on the partnership. The tax attributable to the Group's share of the partnership's pre-tax profit is included within the Group tax charge.
(3) Organic growth rates include the impact of a non-cash revenue adjustment which was recorded by Verizon Wireless to defer previously recognised data revenue that will be earned and recognised in future periods. Excluding this the equivalent organic growth rates for service revenue, revenue, EBITDA and the Group's share of result in Verizon Wireless would have been 6.4%[*], 6.6%[*], 8.2%[*] and 10.8%[*] respectively.

In the United States Verizon Wireless reported 2.6 million net mobile customer additions bringing its closing mobile customer base to 88.4 million, a 3.1% increase. Customer growth improved in the fourth quarter of the year following the launch of the iPhone 4 on the Verizon Wireless network in February 2011.

Service revenue growth of 5.8%[*] was driven by the expanding customer base and robust data revenue primarily derived from growth in the penetration of smartphones.

The EBITDA margin remained strong despite the competitive challenges and economic environment. Efficiencies in operating expenses and lower customer acquisition costs resulting from lower volumes have been partly offset by a higher level of customer retention costs reflecting the increased demand for smartphones.

As part of the regulatory approval for the Alltel acquisition, Verizon Wireless was required to divest overlapping properties in 105 markets. On 26 April 2010 Verizon Wireless completed the sale of network and licence assets in 26 markets, encompassing 0.9 million customers, to Atlantic Tele-Network for US$0.2 billion. On 22 June 2010 Verizon Wireless completed the sale of network assets and mobile licences in the remaining 79 markets to AT&T Mobility for US$2.4 billion. As a result the Verizon Wireless customer base reduced by approximately 2.1 million net customers on a 100% basis, partially offset by certain adjustments in relation to the Alltel acquisition.

On 23 August 2010 Verizon Wireless acquired a spectrum licence, network assets and related customers in southwest Mississippi and in Louisiana, formerly owned by Centennial Communications Corporation, from AT&T Inc. for cash consideration of US$0.2 billion. This acquisition was made to enhance Verizon Wireless' network coverage in these two locations.

Verizon Wireless' net debt at 31 March 2011 totalled US$9.6 billion (31 March 2010: US$22.4 billion).

2010 financial year compared to the 2009 financial year

Group[1]

	Europe £m	Africa, Middle East and Asia Pacific £m	Non-Controlled Interests and Common Functions[2] £m	Eliminations £m	2010 £m	2009 £m	% change £	% change Organic[3]
Revenue	32,833	11,089	667	(117)	44,472	41,017	8.4	(2.3)
Service revenue	31,159	10,246	397	(83)	41,719	38,294	8.9	(1.6)
EBITDA	11,644	3,312	(221)	–	14,735	14,490	1.7	(7.4)
Adjusted operating profit	6,351	818	4,297	–	11,466	11,757	(2.5)	(7.0)
Adjustments for:								
Impairment losses					(2,100)	(5,900)		
Other income and expense					114	–		
Operating profit					**9,480**	**5,857**		
Non-operating income and expense					(10)	(44)		
Net financing costs					(796)	(1,624)		
Profit before taxation					**8,674**	**4,189**		
Income tax expense					(56)	(1,109)		
Profit for the financial year					**8,618**	**3,080**		

Notes:
(1) 2010 results reflect average exchange rates of £1:€1.13 and £1:US$1.60.
(2) Common Functions primarily represents the results of the partner markets and the net result of unallocated central Group costs and excludes income from intercompany royalty fees.
(3) Organic growth includes India and Vodacom (except the results of Gateway) at the current level of ownership but excludes Australia following the merger with Hutchison 3G Australia on 9 June 2009.

Revenue

Group revenue increased by 8.4% to £44,472 million, with favourable exchange rates contributing 5.7 percentage points of growth and merger and acquisition activity contributing 5.0 percentage points. During the year the Group acquired an additional 15% stake in Vodacom and fully consolidated its results from 18 May 2009.

Group service revenue increased by 8.9% to £41,719 million, while organic service revenue declined by 1.6%[*]. Service revenue was impacted by challenging economic conditions in Europe offset by growth in Africa, Middle East and Asia Pacific.

In Europe service revenue fell 3.8%[*], a 2.1 percentage point decline on the previous year reflecting challenging economic conditions in most markets, regulatory pressures on pricing, offset by growth in Italy, Turkey and the Netherlands. The decline was primarily driven by reduced voice revenue resulting from continued market and regulatory pressure on pricing and slower usage growth partially offset by growth in data and fixed line. Turkey returned to growth in the second half of the financial year with service revenue growing 31.3%[*] in the fourth quarter. Romania experienced intense competition throughout the year with service revenue declining 19.9%[*]. Mobile termination rate cuts in the region which became effective during the year, contributed 2.4 percentage points to the decline in service revenue. Data revenue grew by 17.7%[*] due to an increase in data plans sold with smartphones and good PC connectivity revenue across the region. Fixed line revenue increased by 7.5%[*] with the number of fixed broadband customers reaching 5.4 million at 31 March 2010, a net increase of 960,000 customers during the financial year.

In Africa, Middle East and Asia Pacific service revenue rose by 7.5%[*] due to strong growth in Vodacom and India. India's service revenue increased by 14.7%[*], 4.7 percentage points of which was delivered by the network sharing joint venture Indus Towers with the remainder being driven by a 46.7% increase in the mobile customer base offset in part by a decline in mobile voice pricing. In Egypt service revenue grew by 1.3%[*] and Qatar increased its mobile customer base to 465,000, following the launch of services in July.

Operating profit

EBITDA increased by 1.7% to £14,735 million, with favourable exchange rates contributing 5.8 percentage points and the impact of merger and acquisition activity, primarily the full consolidation of Vodacom, contributing 3.3 percentage points to EBITDA growth.

In Europe, EBITDA decreased by 8.9%[*], with a decline in the EBITDA margin of 1.5 percentage points, primarily driven by the downward revenue trend, reduced EBITDA margins across the majority of Europe, investment in Turkey to drive growth in the second half of the financial year and the growth of lower margin fixed line operations partially offset by operating and direct cost savings.

In Africa, Middle East and Asia Pacific EBITDA increased by 5.5%[*] due to strong revenue growth in Vodacom and India, combined with direct and customer cost savings partially offset by declines in other markets due to pricing and recessionary pressure and the start-up in Qatar.

Operating profit increased primarily due to changes in impairment losses. In the 2010 financial year, the Group recorded net impairment losses of £2,100 million. Vodafone India was impaired by £2,300 million primarily due to intense price competition following the entry of a number of new operators into the market. This was partially offset by a £200 million reversal in relation to Vodafone Turkey resulting primarily from movements in discount rates. In the prior year impairment losses of £5,900 million were recorded.

Adjusted operating profit decreased by 2.5%, or 7.0%[*] on an organic basis, with a 6.0 percentage point contribution from favourable exchange rates, whilst the impact of merger and acquisition activity reduced adjusted operating profit growth by 1.5 percentage points.

The share of results in Verizon Wireless, the Group's associate in the US, increased by 8.0%[*] primarily due to the expanding customer base, robust data revenue and operating expenses efficiencies partially offset by higher customer acquisition and retention costs.

Operating results continued

Net financing costs

	2010 £m	2009 £m
Investment income	716	795
Financing costs	(1,512)	(2,419)
Net financing costs	**(796)**	**(1,624)**
Analysed as:		
Net financing costs before dividends from investments	(1,024)	(1,480)
Potential interest charges arising on settlement of outstanding tax issues(1)	(23)	81
Dividends from investments	145	110
Foreign exchange(2)	(1)	235
Equity put rights and similar arrangements(3)	(94)	(570)
Interest on settlement of German tax claim(4)	201	–
	(796)	**(1,624)**

Notes:
(1) Excluding interest on settlement of German tax claim.
(2) Comprises foreign exchange differences reflected in the income statement in relation to certain intercompany balances and the foreign exchange differences on financial instruments received as consideration in the disposal of Vodafone Japan to SoftBank in April 2006.
(3) Primarily represents foreign exchange movements and accretion expense. Further details of these options are provided on page 51.
(4) See "Taxation" below for further details.

Net financing costs before dividends from investments decreased from £1,480 million to £1,024 million primarily due to the impact of significantly lower interest rates given our preference for floating rate borrowing, partially offset by the 13.4% increase in average net debt being offset by changes in the currency mix of debt. At 31 March 2010 the provision for potential interest charges arising on settlement of outstanding tax issues was £1,312 million (31 March 2009: £1,635 million).

Taxation

The effective tax rate was 0.6% (2009: 26.5%). This rate was lower than our weighted average statutory tax rate principally due to the impact of the agreement of the German write down losses (see note 6 to the consolidated financial statements) and also the ongoing benefits from our internal capital structure.

Income tax expense includes a credit of £2,103 million arising from the German tax authorities' decision that €15 billion of losses booked by a German subsidiary in 2001 are tax deductible. The credit includes benefits claimed in respect of prior years as well as the recognition of a deferred tax asset for the potential use of losses in future tax years.

Earnings per share

Adjusted earnings per share decreased by 6.2% to 16.11 pence for the year ended 31 March 2010 due the prior year tax benefit discussed above. Basic earnings per share increased to 16.44 pence primarily due to the impairment losses of £5,900 million in relation to Spain, Turkey and Ghana in the prior year compared to net impairment losses of £2,100 million in 2010 and the income tax credit arising from the German tax settlement discussed above.

	2010 £m	2009 £m
Profit attributable to equity shareholders	**8,645**	**3,078**
Pre-tax adjustments:		
Impairment losses, net	2,100	5,900
Other income and expense	(114)	–
Non-operating income and expense	10	44
Investment income and financing costs(1)	(106)	335
	1,890	**6,279**
Taxation	(2,064)	(300)
Adjusted profit attributable to equity shareholders	**8,471**	**9,057**
Weighted average number of shares outstanding	Million	Million
Basic	52,595	52,737
Diluted	52,849	52,969

Note:
(1) See notes 1 and 2 in "Net financing costs" to the left.

Europe

	Germany £m	Italy £m	Spain £m	UK £m	Other £m	Eliminations £m	Europe £m	% change £	% change Organic
Year ended 31 March 2010									
Revenue	8,008	6,027	5,713	5,025	8,357	(297)	32,833	0.2	(4.5)
Service revenue	7,722	5,780	5,298	4,711	7,943	(295)	31,159	0.9	(3.8)
EBITDA	3,122	2,843	1,956	1,141	2,582	–	11,644	(3.9)	(8.9)
Adjusted operating profit	1,695	2,107	1,310	155	1,084	–	6,351	(7.0)	(12.6)
EBITDA margin	39.0%	47.2%	34.2%	22.7%	30.9%		35.5%		
Year ended 31 March 2009									
Revenue	7,847	5,547	5,812	5,392	8,514	(343)	32,769		
Service revenue	7,535	5,347	5,356	4,912	8,070	(343)	30,877		
EBITDA	3,225	2,565	2,034	1,368	2,920	–	12,112		
Adjusted operating profit	1,835	1,839	1,421	328	1,406	–	6,829		
EBITDA margin	41.1%	46.2%	35.0%	25.4%	34.3%		37.0%		

Revenue increased by 0.2% benefiting from exchange rate movements. On an organic basis service revenue declined by 3.8%(*) reflecting reductions in most markets partially offset by growth in Italy, Turkey and the Netherlands. The decline was primarily driven by reduced voice revenue resulting from continued market and regulatory pressure on pricing and slower usage growth as a result of the challenging economic climate. This was partially offset by growth in data and fixed line revenue.

EBITDA decreased by 3.9% resulting from an organic decline partially offset by a positive contribution from foreign exchange rate movements. On an organic basis, EBITDA decreased by 8.9%(*) resulting from a decline in organic service revenue in most markets and increased customer investment partially offset by operating and direct cost savings. The EBITDA margin declined 1.5 percentage points.

	Organic change %	M&A activity pps	Foreign exchange pps	Reported change %
Revenue – Europe	**(4.5)**	**0.1**	**4.6**	**0.2**
Service revenue				
Germany	(3.5)	–	6.0	2.5
Italy	1.9	–	6.2	8.1
Spain	(7.0)	–	5.9	(1.1)
UK	(4.7)	0.6	–	(4.1)
Other	(6.0)	–	4.4	(1.6)
Europe	**(3.8)**	**0.1**	**4.6**	**0.9**
EBITDA				
Germany	(8.9)	–	5.7	(3.2)
Italy	4.3	–	6.5	10.8
Spain	(9.9)	–	6.1	(3.8)
UK	(17.7)	1.1	–	(16.6)
Other	(16.0)	–	4.4	(11.6)
Europe	**(8.9)**	**0.1**	**4.9**	**(3.9)**
Adjusted operating profit				
Germany	(13.2)	(0.1)	5.7	(7.6)
Italy	7.8	–	6.8	14.6
Spain	(13.8)	–	6.0	(7.8)
UK	(58.3)	5.6	–	(52.7)
Other	(27.7)	–	4.8	(22.9)
Europe	**(12.6)**	**0.1**	**5.5**	**(7.0)**

Germany

Service revenue declined by 3.5%(*) driven by a 5.0%(*) reduction in mobile revenue partly offset by a 1.3%(*) improvement in fixed line revenue. The mobile revenue decline was driven by a decrease in voice revenue impacted by a termination rate cut effective from April 2009, reduced roaming, competitive pressure and continued tariff optimisation by customers. The service revenue decline in the fourth quarter slowed to 1.6%(*) with mobile revenue declining 1.8%(*) driven by the acceleration in data growth and improved usage trends. Data revenue benefited from an increase in Superflat Internet tariff penetration to over 500,000 customers, a 46% increase in smartphones and an 85% increase in active Vodafone Mobile Connect cards compared with the previous year.

Fixed line revenue growth of 1.3%(*) was supported by a 0.4 million increase in fixed broadband customers to 3.5 million at 31 March 2010 and a 0.2 million increase in wholesale fixed broadband customers to 0.4 million at 31 March 2010.

EBITDA declined by 8.9%(*) driven by lower service revenue and investment in customer acquisition and retention offset in part by lower interconnect costs and a reduction of operating expenses principally from fixed and mobile integration synergies.

Italy

Service revenue growth was 1.9%(*) with strong growth in data revenue, driven by higher penetration of PC connectivity devices and mobile internet services, and fixed revenue. The continued success of dual branding led to a closing fixed broadband customer base of 1.3 million on a 100% basis. Increased regulatory, economic and competitive pressures led to the fall in voice revenue partially mitigated through initiatives to stimulate customer spending and the continued growth in high value contract customers. Mobile contract customer additions were strong both in consumer and enterprise segments and the closing contract customer base was up by 14.5%.

EBITDA increased by 4.3%(*) and EBITDA margin increased by 1.0 percentage point as a result of increased revenue, continued operational efficiencies and cost control.

Spain

Full year service revenue declined by 7.0%(*) primarily due to a decline in voice revenue which was driven by continued intense competition and economic weakness, including high unemployment, termination rate cuts effective from April and October 2009 and increased involuntary churn. In the fourth quarter the service revenue decline improved to 6.2%(*) as voice usage increased due to further penetration of our flat rate tariffs and fixed line revenue continued to grow with 0.6 million fixed broadband customers by the end of the financial year.

EBITDA declined 9.9%(*) and the EBITDA margin decreased by 0.8 percentage points as the decline in service revenue, the increase in commercial costs and the dilutive effect of lower margin fixed line services more than offset the reduction in overhead costs.

UK

Service revenue declined by 4.7%(*) with lower voice revenue primarily due to a mobile termination rate reduction effective from July 2009, continued intense competition and economic pressures resulting in customers optimising bundle usage and lower roaming revenue. These were partially offset by higher messaging revenue, strong growth in data revenue driven by the success of mobile internet bundles and higher wholesale revenue derived from existing MVNO agreements. The decline in the fourth quarter slowed to 2.6%(*) driven by higher data growth and the impact of mobile customer additions achieved through the launch of new products and expanded indirect distribution channels.

The 17.7%(*) decline in EBITDA was primarily due to lower service revenue and increased customer investment partially offset by cost efficiency initiatives, including streamlined processes, outsourcing and reductions in publicity and consultancy.

Operating results continued

Other Europe

Service revenue decreased by 6.0%(*) with declines in all countries except the Netherlands and Turkey, which returned to growth in the second half of the year, as all markets were impacted by the economic downturn. In the Netherlands service revenue increased 3.0%(*) benefiting from strong growth in visitor revenue. Service revenue in Turkey increased by 31.3%(*) in the fourth quarter driven by an improving trend in outgoing mobile revenue. The quality and mix of customers continued to improve, with Vodafone remaining the market leader in mobile number portability in Turkey. In Romania service revenue declined by 19.9%(*) due to intense competition throughout the year, mobile termination rate cuts and the continued impact on ARPU resulting from local currency devaluation against the euro, as tariffs are quoted in euros while household incomes are earned in local currency. In the Czech Republic and Hungary the decline in service revenue was driven by mobile termination rate cuts which became effective during the year, impacting incoming mobile voice revenue and challenging economic conditions. Vodafone launched its 3G network services in the Czech Republic during the fourth quarter. Service revenue in Greece declined by 14.5%(*) primarily due to a mobile termination rate cut effective from January 2009, tariff changes and a particularly tough economic and competitive climate. Service revenue in Ireland declined due to a combination of recessionary and competitive factors. In Portugal there was a termination rate reduction effective from April 2009 which contributed to a fall in service revenue of 4.9%(*).

EBITDA declined by 16.0%(*) mainly due to a reduction in service revenue coupled with turnaround investment in Turkey. The significant service revenue growth in the second half of the financial year in Turkey was driven by investment and improvement in many areas of the business. These led to higher operating costs which, when coupled with increased interconnect costs arising from the introduction of new "any network" tariffs plans, resulted in negative EBITDA for the financial year. In Romania EBITDA decreased by 26.5%(*) due to the revenue decline but this was partially offset by strong cost reduction initiatives in all areas. The EBITDA margin fell by 3.4 percentage points with declines in all markets except the Netherlands, Portugal, Czech Republic and Hungary. The decline in service revenue was partially offset by lower customer costs and a reduction in operating expenses.

Africa, Middle East and Asia Pacific

	India £m	Vodacom £m	Other £m	Eliminations £m	Africa, Middle East and Asia Pacific £m	% change £	% change Organic[1]
Year ended 31 March 2010							
Revenue	3,114	4,450	3,526	(1)	11,089	43.6	6.1
Service revenue	3,069	3,954	3,224	(1)	10,246	44.2	7.5
EBITDA	807	1,528	977	–	3,312	38.3	5.5
Adjusted operating profit	(37)	520	335	–	818	(11.4)	(0.3)
EBITDA margin	25.9%	34.3%	27.7%		29.9%		
Year ended 31 March 2009							
Revenue	2,689	1,778	3,258	(2)	7,723		
Service revenue	2,604	1,548	2,953	(2)	7,103		
EBITDA	717	606	1,072	–	2,395		
Adjusted operating profit	(30)	373	580	–	923		
EBITDA margin	26.7%	34.1%	32.9%		31.0%		

Note:
(1) Organic growth includes Vodacom (except the results of Gateway) at the current level of ownership and includes India but excludes Australia following the merger with Hutchison 3G Australia on 9 June 2009.

Revenue increased by 43.6% benefiting from the treatment of Vodacom as a subsidiary and the full consolidation of its results from 18 May 2009 combined with a significant benefit from foreign exchange rate movements, offset in part by the impact of the creation of a joint venture in June 2009 between Vodafone Australia and Hutchison 3G Australia. On an organic basis service revenue increased by 7.5%(*) reflecting a 51% increase in the mobile customer base and continued strong data revenue growth partially offset by a decline in mobile voice pricing. India contributed around 64% of the region's organic service revenue growth.

EBITDA increased by 38.3%, also benefiting from the full consolidation of Vodacom and positive foreign exchange rate movements, offset in part by the creation of the joint venture in Australia. On an organic basis EBITDA increased by 5.5%(*) with EBITDA margin decreasing due to turnaround investment in Ghana, the competitive pricing environment in India and the impact of launching services in Qatar.

	Organic change %	M&A activity pps	Foreign exchange pps	Reported change %
Revenue – Africa, Middle East and Asia Pacific	**6.1**	**25.2**	**12.3**	**43.6**
Service revenue				
India	14.7	–	3.2	17.9
Vodacom	4.6	112.0	38.8	155.4
Other	2.9	(3.3)	9.6	9.2
Africa, Middle East and Asia Pacific	**7.5**	**24.9**	**11.8**	**44.2**
EBITDA				
India	9.2	–	3.4	12.6
Vodacom	10.4	101.8	39.9	152.1
Other	(4.8)	(11.6)	7.5	(8.9)
Africa, Middle East and Asia Pacific	**5.5**	**20.5**	**12.3**	**38.3**
Adjusted operating profit				
India	30.7	–	(7.4)	23.3
Vodacom	12.5	3.1	23.8	39.4
Other	(19.7)	(27.6)	5.1	(42.2)
Africa, Middle East and Asia Pacific	**(0.3)**	**(22.3)**	**11.2**	**(11.4)**

India

Service revenue grew by 14.7%(*) for the year, with fourth quarter growth of 6.5%(*) including a 0.3 percentage point(*) benefit from Indus Towers. The contribution to India's revenue growth from Indus Towers for the fourth quarter was lower than in the third quarter as the fourth quarter represented the first anniversary of significant revenue being earned from the network sharing joint venture. Mobile service revenue growth was driven by the increase in the customer base, with record net additions for the quarter of 9.5 million, partially offset by ongoing competitive pressure on mobile voice pricing. Customer penetration in the Indian mobile market reached an estimated 50% at 31 March 2010 representing an increase of 16.0 percentage points compared to 31 March 2009.

EBITDA grew by 9.2%(*) driven by the increased customer base and the 37.6% increase in total mobile minute usage during the year, with costs decreasing as a percentage of service revenue despite the pressure on pricing. Network expansion continued with the addition of 9,000 base stations by Indus Towers and an additional 16,000 by Vodafone Essar.

Vodacom

Service revenue grew by 4.6%(*) driven by a robust performance in South Africa offset by revenue declines in Tanzania and the Democratic Republic of Congo. Data revenue increased by 32.9%(*) driven by increased penetration of mobile broadband and higher mobile internet usage. The introduction of prepaid customer registration in South Africa negatively impacted customer growth in the year and mobile termination rate reductions are expected to reduce growth in the 2011 financial year, with the first reduction taking effect from 1 March 2010.

EBITDA increased by 10.4%(*) driven by the increase in service revenue and lower direct costs and regulatory fees in South Africa.

Other Africa, Middle East and Asia Pacific

Service revenue increased by 2.9%(*) driven by the performance of Egypt and Qatar. In Egypt service revenue grew by 1.3%(*) as pressure on voice pricing and a 1.0% impact of retrospective mobile termination rate reductions introduced in the fourth quarter was offset by 31% growth in the average customer base and 64.2%(*) growth in data and fixed line revenue, with data driven by increased penetration of mobile internet devices. Having launched services in July 2009, Qatar increased its mobile customer base to 465,000 customers at 31 March 2010, representing 28% of the total population.

EBITDA declined 4.8%(*) with a 5.2% decline in EBITDA margin due to pricing, recessionary pressures and the impact of start-up costs in Qatar offset in part by efficiency savings.

On 9 June 2009 Vodafone Australia successfully completed its merger with Hutchison 3G Australia to form a 50:50 joint venture, Vodafone Hutchison Australia Pty Limited. Since the merger the joint venture has performed well delivering 8% pro-forma service revenue growth in the fourth quarter and cost synergies to date of £65 million, in line with management's expectations.

Non-Controlled Interests and Common Functions

Verizon Wireless(1)

	2010 £m	2009 £m	% change £	% change Organic
Revenue	17,222	14,085	22.3	5.0
Service revenue	15,898	12,862	23.6	6.3
EBITDA	6,689	5,543	20.7	4.4
Interest	(298)	(217)	37.3	
Tax(2)	(205)	(198)	3.5	
Non-controlling interests	(80)	(78)	2.6	
Discontinued operations	93	57	63.2	
Group's share of result in Verizon Wireless	4,112	3,542	16.1	8.0

Notes:
(1) All amounts represent the Group's share unless otherwise stated.
(2) The Group's share of the tax attributable to Verizon Wireless relates only to the corporate entities held by the Verizon Wireless partnership and certain state taxes which are levied on the partnership. The tax attributable to the Group's share of the partnership's pre-tax profit is included within the Group tax charge.

In the United States Verizon Wireless reported 3.4(3) million net mobile customer additions bringing its closing mobile customer base to 85.7(3) million, up 4.3%(3). Customer growth reflected recent market trends towards the prepaid segment alongside market leading customer churn.

Service revenue growth of 6.3%(*) was driven by the expanding customer base and robust data revenue derived from growth in multimedia handsets and smartphones.

The EBITDA margin remained strong despite the tougher competitive and economic environment. Efficiencies in operating expenses have been partly offset by a higher level of customer acquisition and retention costs, particularly for high-end devices including smartphones.

The integration of the recently acquired Alltel business is going according to plan. Store rebranding is complete and network conversions are well underway and on track. As part of the regulatory approval for the Alltel acquisition, Verizon Wireless is required to divest overlapping properties in 105 markets. On 26 April 2010 Verizon Wireless completed the sale of network and licence assets in 26 markets, corresponding to 0.9 million customers, to Atlantic Tele-Network for US$0.2 billion. Verizon Wireless has agreed to sell the network assets and mobile licences in the remaining 79 markets, corresponding to approximately 1.5 million customers, to AT&T for US$2.4 billion. This transaction remains subject to receipt of regulatory approval and is expected to complete by 30 June 2010.

Other Non-Controlled Interests

The share of profit in SFR increased reflecting the foreign exchange benefits upon translation of the results into sterling.

Note:
(3) Customers have been restated to reflect retail customers only, as reported externally by Verizon Wireless.

Guidance

2012 financial year and medium-term guidance

	2011 actual performance £bn	2012 guidance £bn
Adjusted operating profit	11.8	11.0 – 11.8
Free cash flow	7.0	6.0 – 6.5

2012 financial year
Adjusted operating profit is expected to be in the range of £11.0 billion to £11.8 billion, reflecting the loss of our £0.5 billion share of profits from SFR as a result of the disposal of our 44% stake.

Free cash flow is expected to be in the range of £6.0 billion to £6.5 billion, reflecting continued strong cash generation offset by the £0.3 billion reduction in dividends from China Mobile Limited and SFR in the 2012 financial year, and the more limited working capital improvements available going forward. Capital expenditure is expected to be at a similar level to last year on a constant currency basis.

Medium-term guidance
The execution of the updated strategy is targeted to achieve annual growth in organic service revenue of between 1% and 4% in the period to 31 March 2014. We expect that the Group EBITDA margin will stabilise by the end of this period.

As a result of the loss of £0.5 billion of cash dividends from our disposals of stakes in China Mobile Limited and SFR, we expect that annual free cash flow generation will now be in the £5.5 billion to £6.5 billion range in the period to March 2014, underpinning the three year 7% per annum dividend per share growth target issued in May 2010. We continue to expect that total dividends per share will be no less than 10.18 pence for the 2013 financial year.

The free cash flow target range excludes any incremental benefit that we derive from our strategy to generate liquidity or incremental cash flow from non-controlled interests of the Group such as Verizon Wireless and Polkomtel.

Assumptions
Guidance for the 2012 financial year and the medium-term is based on our current assessment of the global economic outlook and assumes foreign exchange rates of £1:€1.15 and £1:US$1.60. It excludes the impact of licence and spectrum purchases, material one-off tax related payments and restructuring costs and assumes no material change to the current structure of the Group.

With respect to the 7% per annum dividend per share growth target, as the Group's free cash flow is predominantly generated by companies operating within the euro currency zone, we have assumed that the euro to sterling exchange rate remains within 10% of the above guidance exchange rate.

Actual exchange rates may vary from the exchange rate assumptions used. A 1% change in the euro to sterling exchange rate would impact adjusted operating profit and free cash flow by approximately £50 million and a 1% change in the dollar to sterling exchange rate would impact adjusted operating profit by approximately £50 million.

2011 financial year

	Adjusted operating profit £bn	Free cash flow £bn
Guidance – May 2010(1)	11.2 – 12.0	> 6.5
Guidance – November 2010(1)	11.8 – 12.2	> 6.5
2011 performance on guidance basis(3)	12.2	7.2
Foreign exchange(1)	(0.3)	(0.2)
Verizon Wireless(2)	(0.1)	–
2011 reported performance(3)	11.8	7.0

Notes:
(1) The Group's guidance reflected assumptions for average exchange rates for the 2011 financial year of approximately £1:€1.15 and £1:US$1.50. Actual exchange rates were £1:€1.18 and £1:US$1.56.
(2) The Group's guidance did not include the impact of the revenue recognition and Alltel related adjustments in Verizon Wireless.
(3) After Verizon iPhone launch costs.

Principal risk factors and uncertainties

The following discussion of principal risk factors and uncertainties identifies the most significant risks that may adversely affect our business, operations, liquidity, financial position or future performance. Additional risks not presently known to us, or that we currently deem less material, may also impact our business. This section should be read in conjunction with the "Forward-looking statements" on page 148 of this document.

Adverse macroeconomic conditions in the markets in which we operate could impact our results of operations.

Adverse macroeconomic conditions and deterioration in the global economic environment, such as further economic slowdown in the markets in which we operate, may lead to a reduction in the level of demand from our customers for existing and new products and services. In difficult economic conditions, consumers may seek to reduce discretionary spending by reducing their use of our products and services, including data services, or by switching to lower-cost alternatives offered by our competitors. Similarly, under these conditions the enterprise customers that we serve may delay purchasing decisions, delay full implementation of service offerings or reduce their use of our services. In addition, adverse economic conditions may lead to an increased number of our consumer and enterprise customers that are unable to pay for existing or additional services. If these events were to occur it could have a material adverse effect on our results of operations.

The continued volatility of worldwide financial markets may have a negative impact on our access to finance.

Our key sources of liquidity in the foreseeable future are likely to be cash generated from operations and borrowings through long-term and short-term issuances in the capital markets as well as committed bank facilities. Due to volatility experienced in capital and credit markets around the world, new issuances of debt securities may experience decreased demand. Adverse changes in credit markets or our credit ratings could increase the cost of borrowing and banks may be unwilling to renew credit facilities on existing terms. Any of these factors could have a negative impact on our access to finance.

Regulatory decisions and changes in the regulatory environment could adversely affect our business.

As we have ventures in a large number of geographic areas, we must comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of our telecommunications networks and services. In particular, there are agencies which regulate and supervise the allocation of frequency spectrum and which monitor and enforce regulation and competition laws which apply to the mobile telecommunications industry. Decisions by regulators regarding the granting, amendment or renewal of licences, to us or to third parties, could adversely affect our future operations in these geographic areas. In addition, other changes in the regulatory environment concerning the use of mobile phones may lead to a reduction in the usage of mobile phones or otherwise adversely affect us. Additionally, decisions by regulators and new legislation, such as those relating to international roaming charges and call termination rates, could affect the pricing for, or adversely affect the revenue from, the services we offer. Further details on the regulatory framework in certain countries and regions in which we operate, and on regulatory proceedings, can be found in "Regulation" on page 140.

Increased competition may reduce our market share and revenue.

We face intensifying competition and our ability to compete effectively will depend on, among other things, our network quality, capacity and coverage, pricing of services and equipment, quality of customer service, development of new and enhanced products and services in response to customer demands and changing technology, reach and quality of sales and distribution channels and capital resources. Competition could lead to a reduction in the rate at which we add new customers, a decrease in the size of our market share and a decline in our ARPU as customers choose to receive telecommunications services or other competing services from other providers. Examples include but are not limited to competition from internet based services and MVNOs.

The focus of competition in many of our markets continues to shift from customer acquisition to customer retention as the market for mobile telecommunications has become increasingly penetrated. Customer deactivations are measured by our churn rate. There can be no assurance that we will not experience increases in churn rates, particularly as competition intensifies. An increase in churn rates could adversely affect profitability because we would experience lower revenue and additional selling costs to replace customers or recapture lost revenue.

Increased competition has also led to declines in the prices we charge for our mobile services and is expected to lead to further price declines in the future. Competition could also lead to an increase in the level at which we must provide subsidies for handsets. Additionally, we could face increased competition should there be an award of additional licences in jurisdictions in which a member of our Group already has a licence.

Delays in the development of handsets and network compatibility and components may hinder the deployment of new technologies.

Our operations depend in part upon the successful deployment of continuously evolving telecommunications technologies. We use technologies from a number of vendors and make significant capital expenditure in connection with the deployment of such technologies. There can be no assurance that common standards and specifications will be achieved, that there will be inter-operability across Group and other networks, that technologies will be developed according to anticipated schedules, that they will perform according to expectations or that they will achieve commercial acceptance. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet our expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditure by us or a reduction in our profitability.

We may experience a decline in revenue or profitability notwithstanding our efforts to increase revenue from the introduction of new services.

As part of our strategy we will continue to offer new services to our existing customers and seek to increase non-voice service revenue as a percentage of total service revenue. However, we may not be able to introduce these new services commercially or may experience significant delays due to problems such as the availability of new mobile devices, higher than anticipated prices of new devices or availability of new content services. In addition, even if these services are introduced in accordance with expected time schedules, there is no assurance that revenue from such services will increase ARPU or maintain profit margins.

Expected benefits from our cost reduction initiatives may not be realised.

We have entered into several cost reduction initiatives principally relating to network sharing, the outsourcing of IT application, development and maintenance, data centre consolidation, supply chain management and a business transformation programme to implement a single, integrated operating model using one enterprise resource planning ('ERP') system. However, there is no assurance that the full extent of the anticipated benefits will be realised in the timeline envisaged.

Principal risk factors and uncertainties continued

Changes in assumptions underlying the carrying value of certain Group assets could result in impairment.

We complete a review of the carrying value of Group assets annually, or more frequently where the circumstances require, to assess whether those carrying values can be supported by the net present value of future cash flows derived from such assets. This review examines the continued appropriateness of the assumptions in respect of highly uncertain matters upon which the valuations supporting carrying values of certain Group assets are based. This includes an assessment of discount rates and long-term growth rates, future technological developments, and timing and quantum of future capital expenditure as well as several factors which may affect revenue and profitability identified within the other risk factors in this section such as intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services. Discount rates are in part derived from yields on government bonds, the level of which may change substantially period to period and which may be affected by political, economic and legal developments which are beyond our control. Due to our substantial carrying value of goodwill under International Financial Reporting Standards, the revision of any of these assumptions to reflect current or anticipated changes in operations or the financial condition of the Group could lead to an impairment in the carrying value of certain Group assets. While impairment does not impact reported cash flows, it does result in a non-cash charge in the consolidated income statement and thus no assurance can be given that any future impairments would not affect our reported distributable reserves and therefore our ability to make distributions to our shareholders or repurchase our shares. See "Critical accounting estimates" on page 77 and note 10 to the consolidated financial statements.

Our emerging market footprint may present exposure to unpredictable economic, political, regulatory, tax and legal risks.

Political, regulatory, economic and legal systems in emerging markets may be less predictable than in countries with more stable institutional structures. Since we operate in and are exposed to emerging markets, the value of our investments in these markets may be adversely affected by political, regulatory, economic, tax and legal developments which are beyond our control and anticipated benefits resulting from acquisitions and other investments we have made in these markets may not be achieved in the time expected or at all. For further information on legal and tax proceedings see note 28.

We participate in joint ventures which expose us to operational and financial risk.

We participate in a number of joint ventures, some of which we do not control. Whether or not we hold majority interests or maintain operational control in our joint ventures, our partners may have economic or business interests or goals that are inconsistent with ours, exercise their rights in a way that prohibits us from acting in a manner which we would like or they may be unable or unwilling to fulfil their obligations under the joint venture or other agreements. In particular, some of our interests in mobile licences are held through entities in which we are a significant but not a controlling owner. Under the governing documents for some of these partnerships and corporations, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions require the consent of our partners. In others these matters may be approved without our consent. We may enter into similar arrangements as we participate in ventures formed to pursue additional opportunities. Although we have not been materially constrained by our participation in joint ventures to date, no assurance can be given that the actions or decisions of our joint venture partners will not affect our ventures in a way that hinders our corporate objectives or reduces any anticipated cost savings or revenue enhancement resulting from these ventures.

Expected benefits from investment in networks, licences and new technology may not be realised.

We have made substantial investments in the acquisition of licences and in our mobile networks, including the roll out of 3G networks. We expect to continue to make significant investments in our mobile networks due to increased usage and the need to offer new services and greater functionality afforded by new or evolving telecommunications technologies. Accordingly, the rate of our capital expenditures in future years could remain high or exceed that which we have experienced to date. There can be no assurance that the introduction of new services will proceed according to anticipated schedules or that the level of demand for new services will justify the cost of setting up and providing new services. Failure or a delay in the completion of networks and the launch of new services, or increases in the associated costs, could have a material adverse effect on our operations.

Our business may be impaired by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment.

Concerns have been expressed that the electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels and may interfere with the operation of electronic equipment. In the event of national governments responding to public concern with the imposition of more stringent exposure limits, our costs may be increased. In addition, as described under the heading "Legal proceedings" in note 28 to the consolidated financial statements, several mobile industry participants including Verizon Wireless and ourselves have had lawsuits filed against us alleging various health consequences as a result of mobile phone usage including brain cancer. While we are not aware that such health risks have been substantiated, there can be no assurance that the actual or perceived risks associated with radio wave transmission will not impair our ability to retain customers and attract new customers, reduce mobile telecommunications usage or result in further litigation. In such event, because of our strategic focus on mobile telecommunications, our business and results of operations may be more adversely affected than those of other companies in the telecommunications sector.

Our business would be adversely affected by the non-supply of equipment and support services by a major supplier.

Companies within the Group source network infrastructure and other equipment, as well as network-related and other significant support services, from third party suppliers. The withdrawal or removal from the market of one or more of these major third party suppliers could adversely affect our operations and could require us to make additional capital or operational expenditures.

Our business could be adversely affected by disruptions to our telecommunications networks.

We are dependent on the secure operation of our telecommunications networks and attacks on critical infrastructure, or disruption of our networks caused by other factors beyond our control, pose an increasing threat. As the importance of mobile communication in everyday life, as well as during times of crisis, increases and the volume of personal and business data being communicated and stored by network operators grows, organisations and individuals look to us to maintain service and protect sensitive information. Any significant interruption in our service or in our ability to protect sensitive information, whether caused by acts of terrorism, industrial action, natural disasters, political unrest or otherwise, could have a material adverse effect on our revenue and our reputation.

Financial position and resources

Consolidated statement of financial position

	2011 £m	2010 £m
Non-current assets		
Intangible assets	68,558	74,258
Property, plant and equipment	20,181	20,642
Investments in associates	38,105	36,377
Other non-current assets	7,373	11,489
	134,217	**142,766**
Current assets	17,003	14,219
Total assets	**151,220**	**156,985**
Total equity shareholders' funds	87,555	90,381
Total non-controlling interests	6	429
Total equity	**87,561**	**90,810**
Liabilities		
Borrowings		
Long-term	28,375	28,632
Short-term	9,906	11,163
Taxation liabilities		
Deferred tax liabilities	6,486	7,377
Current taxation liabilities	2,262	2,874
Other non-current liabilities	1,373	1,550
Other current liabilities	15,257	14,579
Total liabilities	**63,659**	**66,175**
Total equity and liabilities	**151,220**	**156,985**

Assets

Intangible assets

At 31 March 2011 our intangible assets were £68.6 billion (2010: £74.3 billion) with goodwill comprising the largest element at £45.2 billion (2010: £51.8 billion). The decrease primarily resulted from impairment losses of £6.2 billion, amortisation of £3.5 billion and unfavourable foreign exchange rate movements of £0.9 billion partially offset by £4.7 billion of additions. Refer to note 10 to the consolidated financial statements for further information on the impairment charge.

Property, plant and equipment

Property, plant and equipment decreased from £20.6 billion at 31 March 2010 to £20.2 billion at 31 March 2011 predominantly as a result of £4.7 billion of additions offset by £4.4 billion of depreciation charges and unfavourable foreign exchange rate movements of £0.6 billion.

Investments in associates

Investments in associates increased from £36.4 billion at 31 March 2010 to £38.1 billion at 31 March 2011 primarily due to our share of the results of associates, after deductions of interest, tax and non-controlling interest, which contributed £5.1 billion to the increase, mainly arising from our investment in Verizon Wireless, partially offset by £1.4 billion of dividends received and unfavourable foreign exchange movements of £1.9 billion.

Other non-current assets

Other non-current assets decreased to £7.4 billion at 31 March 2011 (2010: £11.5 billion) mainly due to other investments which totalled £1.4 billion at 31 March 2011 compared to £7.6 billion at 31 March 2010. The decrease was primarily as a result of the disposal of our 3.2% interest in China Mobile Limited and our interests in SoftBank investments.

Current assets

Current assets increased to £17.0 billion at 31 March 2011 from £14.2 billion at 31 March 2010 due to an increase in cash and short-term investments resulting from the disposal of our interests in SoftBank and the element of the proceeds from the disposal of our 3.2% interest in China Mobile Limited not utilised for the share buyback programme.

Total equity and liabilities

Total equity shareholders' funds

Total equity shareholders' funds decreased from £90.4 billion at 31 March 2010 to £87.6 billion at 31 March 2011. The profit for the year of £8.0 billion was more than offset by equity dividends of £4.5 billion, an other comprehensive loss of £4.5 billion and the share buyback of £2.1 billion.

Borrowings

Long-term borrowings and short-term borrowings decreased to £38.3 billion at 31 March 2011 from £39.8 billion at 31 March 2010 mainly as a result of foreign exchange rate movements and bond repayments during the year.

Taxation liabilities

Current tax liabilities decreased from £2.9 billion at 31 March 2010 to £2.3 billion at 31 March 2011 mainly as a result of lower outstanding tax liabilities in the US as a result of accelerated tax depreciation and the resolution of long-standing tax disputes.

Other current liabilities

Other current liabilities increased from £14.6 billion at 31 March 2010 to £15.3 billion at 31 March 2011. Trade payables at 31 March 2011 were equivalent to 37 days (2010: 31 days) outstanding, calculated by reference to the amount owed to suppliers as a proportion of the amounts invoiced by suppliers during the year. It is our policy to agree terms of transactions, including payment terms, with suppliers and it is our normal practice that payment is made accordingly.

Contractual obligations and contingencies

A summary of our principal contractual financial obligations is shown below. Further details on the items included can be found in the notes to the consolidated financial statements. Details of the Group's contingent liabilities are included in note 28 to the consolidated financial statements.

	Payments due by period £m				
Contractual obligations(1)	Total	<1 year	1-3 years	3-5 years	>5 years
Borrowings(2)	45,226	10,864	8,727	10,093	15,542
Operating lease commitments(3)	6,513	1,225	1,704	1,240	2,344
Capital commitments(3)(4)	2,124	1,885	228	11	–
Purchase commitments(5)	5,937	3,619	1,835	142	341
Total contractual cash obligations(1)	**59,800**	**17,593**	**12,494**	**11,486**	**18,227**

Notes:
(1) The above table of contractual obligations includes commitments in respect of options over interests in Group businesses held by non-controlling shareholders (see "Option agreements and similar arrangements") and obligations to pay dividends to non-controlling shareholders (see "Dividends from associates and to non-controlling shareholders"). The table excludes current and deferred tax liabilities and obligations under post employment benefit schemes, details of which are provided in notes 6 and 23 to the consolidated financial statements respectively. The table also excludes the contractual obligations of associates.
(2) See note 22 to the consolidated financial statements.
(3) See note 27 to the consolidated financial statements.
(4) Primarily related to network infrastructure.
(5) In addition to the purchase commitments disclosed above, Vodafone Netherlands has announced its intention to acquire BelCompany BV, one of the largest telecom retailers in the Netherlands, from the Macintosh Retail Group for €120 million. The transaction is subject to regulatory and other approvals.

Equity dividends

The table below sets out the amounts of interim, final and total cash dividends paid or, in the case of the final dividend for the 2011 financial year, proposed, in respect of each financial year.

	Pence per ordinary share		
Year ended 31 March	Interim	Final	Total
2007	2.35	4.41	6.76
2008	2.49	5.02	7.51
2009	2.57	5.20	7.77
2010	2.66	5.65	8.31
2011	2.85	6.05(1)	8.90

Note:
(1) The final dividend for the year ended 31 March 2011 was proposed on 17 May 2011 and is payable on 5 August 2011 to holders on record as of 3 June 2011. For american depositary share ('ADS') holders the dividend will be payable in US dollars under the terms of the ADS depositary agreement. Dividend payments on ordinary shares will be paid by direct credit into a nominated bank or building society account or, alternatively, into the Company's dividend reinvestment plan. The Company no longer pays dividends in respect of ordinary shares by cheque.

Financial position and resources continued

We provide returns to shareholders through dividends and have historically paid dividends semi-annually, with a regular interim dividend in respect of the first six months of the financial year payable in February and a final dividend payable in August. The directors expect that we will continue to pay dividends semi-annually.

In November 2010 the directors announced an interim dividend of 2.85 pence per share representing a 7.1% increase over last year's interim dividend. The directors are proposing a final dividend of 6.05 pence per share representing a 7.1% increase over last year's final dividend. Total dividends for the year increased by 7.1% to 8.90 pence per share.

In May 2010 the directors issued a dividend per share growth target of at least 7% per annum for each of the financial years in the period ending 31 March 2013, assuming no material adverse foreign exchange rate movements. We expect that total dividends per share will therefore be no less than 10.18p for the 2013 financial year. See page 44 for the assumptions underlying this expectation.

Liquidity and capital resources

The major sources of Group liquidity for the 2011 and 2010 financial years were cash generated from operations, dividends from associates and borrowings through short-term and long-term issuances in the capital markets. We do not use non-consolidated special purpose entities as a source of liquidity or for other financing purposes.

Our key sources of liquidity for the foreseeable future are likely to be cash generated from operations and borrowings through long-term and short-term issuances in the capital markets as well as committed bank facilities.

Our liquidity and working capital may be affected by a material decrease in cash flow due to factors such as reduced operating cash flow resulting from further possible business disposals, increased competition, litigation, timing of tax payments and the resolution of outstanding tax issues, regulatory rulings, delays in the development of new services and networks, licence and spectrum payments, inability to receive expected revenue from the introduction of new services, reduced dividends from associates and investments or increased dividend payments to non-controlling shareholders. Please see the section titled "Principal risk factors and uncertainties" on pages 45 and 46.

We are also party to a number of agreements that may result in a cash outflow in future periods. These agreements are discussed further in "Option agreements and similar arrangements" at the end of this section.

Wherever possible, surplus funds in the Group (except in Albania, Egypt, India and Vodacom) are transferred to the centralised treasury department through repayment of borrowings, deposits, investments, share purchases and dividends. These are then loaned internally or contributed as equity to fund our operations, used to retire external debt, invested externally or used to pay dividends.

Cash flows

Free cash flow decreased by 2.7% to £7,049 million primarily due to higher taxation payments and dividends to non-controlling shareholders in subsidiaries partially offset by improved cash generated from operations and lower payments for capital expenditure.

Cash generated by operations increased by 0.4% to £15,392 million primarily driven by foreign exchange rate movements and working capital improvements. Cash capital expenditure decreased by £328 million primarily due to lower expenditure in India. We invested £2,982 million in licences and spectrum including £1,725 million in India and £1,210 million in Germany.

Payments for taxation increased by 14.3% to £2,597 million primarily due to the absence of the one-time benefit of additional tax deductions which were available in Italy in the previous year.

Dividends received from associates and investments were stable at £1,509 million.

Net interest payments decreased by 5.5% to £1,328 million primarily due to lower average net debt.

	2011 £m	2010 £m	%
Cash generated by operations	15,392	15,337	0.4
Cash capital expenditure(1)	(5,658)	(5,986)	
Disposal of intangible assets and property, plant and equipment	51	48	
Operating free cash flow	**9,785**	**9,399**	**4.1**
Taxation	(2,597)	(2,273)	
Dividends received from associates and investments(2)	1,509	1,577	
Dividends paid to non-controlling shareholders in subsidiaries	(320)	(56)	
Interest received and paid	(1,328)	(1,406)	
Free cash flow	**7,049**	**7,241**	**(2.7)**
Other amounts(3)	45	–	
Licence and spectrum payments	(2,982)	(989)	
Acquisitions and disposals(4)	(183)	(2,683)	
Contributions from non-controlling shareholders in subsidiaries(5)	–	613	
Equity dividends paid	(4,468)	(4,139)	
Purchase of treasury shares	(2,087)	–	
Foreign exchange	834	1,038	
Other(6)	5,250	(174)	
Net debt decrease	**3,458**	**907**	
Opening net debt	(33,316)	(34,223)	
Closing net debt	**(29,858)**	**(33,316)**	**(10.4)**

Notes:
(1) Cash paid for purchase of property, plant and equipment and intangible assets, other than licence and spectrum payments.
(2) Year ended 31 March 2011 includes £373 million (2010:£389 million) from our interest in SFR and £1,024 million (2010: £1,034 million) from our interest in Verizon Wireless.
(3) Comprises items in respect of: the UK CFC settlement (£800 million), tax relating to the disposal of China Mobile Limited (£208 million), the SoftBank disposal (£1,409 million) and the court deposit made in respect of the India tax case (£356 million). The latter is included within the line item "Purchase of interests in subsidiaries and joint ventures, net of cash acquired" in the consolidated statement of cash flows.
(4) Year ended 31 March 2011 includes net cash and cash equivalents paid of £183 million (2010: £1,777 million) and assumed debt of £nil (2010: £906 million).
(5) Year ended 31 March 2010 includes £613 million in relation to Qatar.
(6) Year ended 31 March 2011 includes £4,264 million in relation to the disposal of our 3.2% interest in China Mobile Limited.

Dividends from associates and to non-controlling shareholders

Dividends from our associates are generally paid at the discretion of the board of directors or shareholders of the individual operating and holding companies and we have no rights to receive dividends except where specified within certain of the Group's shareholders' agreements such as with SFR, our associate in France. Similarly, we do not have existing obligations under shareholders' agreements to pay dividends to non-controlling interest partners of our subsidiaries or joint ventures, except as specified below.

Included in the dividends received from associates and investments is an amount of £1,024 million (2010: £1,034 million) received from Verizon Wireless. Until April 2005 Verizon Wireless' distributions were determined by the terms of the partnership agreement distribution policy and comprised income distributions and tax distributions. Since April 2005 only tax distributions have been issued. Following the announcement of Verizon Wireless' acquisition of Alltel, certain additional tax distributions were agreed in addition to the tax distributions required by the partnership agreement. Taken together with recent revisions to the tax distribution provisions in the partnership agreement, current projections forecast that tax distributions will cover the US tax liabilities arising from our partnership interest in Verizon Wireless.

Under the terms of the partnership agreement the Verizon Wireless board has no obligation to effect additional distributions above the level of the tax distributions. However, the Verizon Wireless board has agreed that it will review distributions from Verizon Wireless on a regular basis. When considering whether distributions will be made each year, the Verizon Wireless board will take into account its debt position, the relationship between debt levels and maturities, and overall market conditions in the context of the five year business plan. It is expected that Verizon Wireless' free cash flow will be deployed in servicing and reducing debt in the near term.

During the year ended 31 March 2011 cash dividends totalling £373 million (2010: £389 million) were received from SFR. Following SFR's purchase of Neuf Cegetel it was agreed that SFR would partially fund debt repayments by a reduction in dividends between 2009 and 2011 inclusive. In April 2011 we announced an agreement to dispose of our 44% interest in SFR. We will also receive a final dividend from SFR of €200 million (£176 million) on completion of the transaction. Future cash flows will be reduced by the loss of dividends from SFR.

Verizon Communications Inc. has an indirect 23.1% shareholding in Vodafone Italy and under the shareholders' agreement the shareholders have agreed to take steps to cause Vodafone Italy to pay dividends at least annually, provided that such dividends will not impair the financial condition or prospects of Vodafone Italy including, without limitation, its credit standing. During the 2011 financial year Vodafone Italy paid dividends net of withholding tax totalling €325 million to Verizon Communications Inc.

Given Vodacom's strong financial position and cash flow generation, the Vodacom board has decided to increase its dividend payout ratio from 40% to approximately 60% of headline earnings for the year ended March 2011.

Acquisitions

We invested £183 million (2010: £1,777 million), net of cash and cash equivalents acquired, in acquisition activities during the year.

Other significant transactions

On 10 September 2010 we sold our entire 3.2% interest in China Mobile Limited for a total consideration of £4.3 billion before tax and transaction costs. Future cash flows will be reduced by the loss of dividends from China Mobile Limited.

On 9 November 2010 we agreed to sell to SoftBank Corp. of Japan our interests which were originally received as part of the proceeds from the sale of Vodafone Japan in 2006, for a total consideration of ¥412.5 billion (£3.1 billion). ¥212.5 billion (£1.6 billion) of the consideration was received in December 2010 and ¥200 billion (£1.5 billion) is expected to be received in April 2012.

On 30 March 2011 the Essar Group exercised its underwritten put option over 22.0% of Vodafone Essar Limited ('VEL') following which, on 31 March 2011, we exercised our call option over the remaining 11.0% of VEL owned by the Essar Group. The consideration due under these two options is US$5 billion (£3.1 billion). The Group does not believe that there is any legal requirement to withhold tax in respect of these transactions but as discussed in detail under 'Legal proceedings' on page 122, if the Authority for Advanced Rulings directs tax to be withheld, this amount is anticipated to be approximately an additional US$1 billion.

On 3 April 2011 we announced an agreement to sell our entire 44% interest in SFR to Vivendi for a cash consideration of €7.75 billion (£6.8 billion). Subject to customary competition authority and regulatory approvals, the transaction is expected to complete during the second calendar quarter of 2011.

Treasury shares

The Companies Act 2006 permits companies to purchase their own shares out of distributable reserves and to hold shares in treasury. While held in treasury, no voting rights or pre-emption rights accrue and no dividends are paid in respect of treasury shares. Treasury shares may be sold for cash, transferred (in certain circumstances) for the purposes of an employee share scheme or cancelled. If treasury shares are sold, such sales are deemed to be a new issue of shares and will accordingly count towards the 5% of share capital which the Company is permitted to issue on a non pre-emptive basis in any one year as approved by its shareholders at the AGM. The proceeds of any sale of treasury shares up to the amount of the original purchase price, calculated on a weighted average price method, is attributed to distributable profits which would not occur in the case of the sale of non-treasury shares. Any excess above the original purchase price must be transferred to the share premium account.

Following the disposal of our 3.2% interest in China Mobile Limited on 10 September 2010, we initiated a £2.8 billion share buyback programme under the authority granted by our shareholders at the 2010 AGM. In addition to ordinary market purchases, the Group placed irrevocable purchase instructions with a number of banks to enable the banks to buy back shares on our behalf when we may otherwise have been prohibited from buying in the market. Details of the shares purchased to date, including those purchased under irrevocable instructions, are shown below:

Date of share purchase	Number of shares purchased[1] '000	Average price paid per share inclusive of transaction costs Pence	Total number of shares purchased under share repurchase programme[2] '000	Maximum value of shares that may yet be purchased under the programme[3] £m
September 2010	115,400	161.78	115,400	2,613
October 2010	187,500	165.50	302,900	2,303
November 2010	209,400	170.21	512,300	1,947
December 2010	162,900	167.44	675,200	1,674
January 2011	177,090	176.67	852,290	1,361
February 2011	134,700	179.23	986,990	1,120
March 2011	250,900	177.26	1,237,890	675
April 2011	135,100	176.81	1,372,990	436
May 2011	127,000	170.14	1,499,990	268
Total	**1,499,990[4]**	**172.01**	**1,499,990**	**220**

Notes:
(1) The nominal value of shares purchased is 11 $^{3}/_{7}$ US cents each.
(2) No shares were purchased outside the publicly announced share buyback programme.
(3) In accordance with shareholder authority granted at the 2010 AGM.
(4) The total number of shares purchased represents 2.9% of our issued share capital at 16 May 2011.

The aggregate amount of consideration paid by the Company for the shares at 16 May 2011 was £2,580 million.

Following the announcement of the agreement to dispose of our 44% interest in SFR on 3 April 2011, we also announced that we will return £4 billion of the net proceeds to shareholders by way of a share buyback programme. This programme will commence following completion of the existing £2.8 billion programme.

Shares purchased are held in treasury in accordance with sections 724 to 732 of the Companies Act 2006 and are cancelled in accordance with the Association of British Insurers guidelines. The movement in treasury shares during the year is shown below:

	Number Million	£m
1 April 2010	5,146	7,810
Reissue of shares	(150)	(232)
Purchase of shares	1,238	2,125
Cancelled shares	(1,000)	(1,532)
31 March 2011	**5,234**	**8,171**

Funding

We have maintained a robust liquidity position throughout the year thereby enabling us to service shareholder returns, debt and expansion through capital investment. This position has been achieved through continued delivery of strong operating cash flows, the impact of the working capital reduction programme, issuances of short-term and long-term debt, and non-recourse borrowing assumed in respect of the emerging market businesses. It has not been necessary for us to draw down on our syndicated committed bank facilities during the year.

Financial position and resources continued

Net debt

Our consolidated net debt position at 31 March was as follows:

	2011 £m	2010 £m
Cash and cash equivalents[1]	**6,252**	**4,423**
Short-term borrowings:		
Bonds	(2,470)	(1,174)
Commercial paper[2]	(1,660)	(2,563)
Put options over non-controlling interests	(3,113)	(3,274)
Bank loans	(2,070)	(3,460)
Other short-term borrowings[1]	(593)	(692)
	(9,906)	**(11,163)**
Long-term borrowings:		
Put options over non-controlling interests	(78)	(131)
Bonds, loans and other long-term borrowings	(28,297)	(28,501)
	(28,375)	**(28,632)**
Other financial instruments[3]	2,171	2,056
Net debt	**(29,858)**	**(33,316)**

Notes:
(1) At 31 March 2011 the amount includes £531 million (2010: £604 million) in relation to cash received under collateral support agreements.
(2) At 31 March 2011 US$551 million was drawn under the US commercial paper programme and €1,490 million was drawn under the euro commercial paper programme.
(3) Comprises i) mark-to-market adjustments on derivative financial instruments which are included as a component of trade and other receivables (2011: £2,045 million; 2010: £2,128 million) and trade and other payables (2011: £548 million; 2010: £460 million) and ii) short-term investments in index linked government bonds and collateral support agreements included as a component of other investments (2011: £674 million; 2010: £388 million). These government bonds have less than six years to maturity, can be readily converted into cash via the repurchase market and are held on an effective floating rate basis.

At 31 March 2011 we had £6,252 million of cash and cash equivalents which are held in accordance with our treasury policy.

We hold cash and liquid investments in accordance with the counterparty and settlement risk limits of the Board approved treasury policy. The main forms of liquid investments at 31 March 2011 were money market funds, UK index linked government bonds and bank deposits.

Net debt decreased by £3,458 million to £29,858 million primarily due to the sale of our interests in SoftBank and the element of the proceeds from the sale of our 3.2% interest in China Mobile Limited which was not committed to the share buyback programme. The £7,049 million free cash flow generated during the year was primarily used to fund £4,468 million of dividend payments to shareholders as well as spectrum purchases in Germany and India. Net debt represented 32.8% of our market capitalisation at 31 March 2011 compared with 41.6% at 31 March 2010. Average net debt at month end accounting dates over the 12 month period ended 31 March 2011 was £31.4 billion and ranged between £28.4 billion and £34.9 billion during the year.

The cash received from collateral support agreements mainly reflects the value of our interest rate swap portfolio which is substantially net present value positive. See note 21 to the consolidated financial statements for further details on these agreements.

Commercial paper programmes

We currently have US and euro commercial paper programmes of US$15 billion and £5 billion respectively which are available to be used to meet short-term liquidity requirements. At 31 March 2011 an amount external to the Group of €1,490 million (£1,317 million) was drawn under the euro commercial paper programme and US$551 million (£343 million) was drawn down under the US commercial paper programme, with such funds being provided by counterparties external to the Group. At 31 March 2010 US$245 million (£161 million) was drawn under the US commercial paper programme and €2,491 million (£2,219 million), £161 million and US$33 million (£22 million) was drawn under the euro commercial paper programme. The commercial paper facilities were supported by US$4.2 billion (£2.6 billion) and €4.2 billion (£3.7 billion) of syndicated committed bank facilities (see "Committed facilities"), which mature on 9 March 2016 and 1 July 2015 respectively. No amounts had been drawn under either bank facility.

Bonds

We have a €30 billion euro medium-term note programme and a US shelf programme which are used to meet medium to long-term funding requirements. At 31 March 2011 the total amounts in issue under these programmes split by currency were US$14.3 billion, £2.6 billion, €10.6 billion and £0.2 billion sterling equivalent of other currencies.

In the year ended 31 March 2011 bonds with a nominal value equivalent of £0.7 billion at the relevant 31 March 2011 foreign exchange rates were issued under the US shelf and the euro medium-term note programme. The bonds issued during the year were:

Date of bond issue	Maturity of bond	Nominal amount Million	Sterling equivalent Million
August 2010	August 2011	US$100	64
March 2011	March 2016	US$600	374
March 2011	March 2021	US$500	311

At 31 March 2011 we had bonds outstanding with a nominal value of £20,987 million (2010: £21,963 million).

Committed facilities

The following table summarises the committed bank facilities available to us at 31 March 2011.

Committed bank facilities	Amounts drawn
1 July 2010 €4.2 billion syndicated revolving credit facility, maturing 1 July 2015	No drawings have been made against this facility. The facility supports our commercial paper programmes and may be used for general corporate purposes including acquisitions.
9 March 2011 US$4.2 billion syndicated revolving credit facility, maturing 9 March 2016	No drawings have been made against this facility. The facility supports our commercial paper programmes and may be used for general corporate purposes including acquisitions.
16 November 2006 €0.4 billion loan facility, maturing 14 February 2014	This facility was drawn down in full on 14 February 2007. The facility is available for financing capital expenditure in our Turkish operating company.
28 July 2008 €0.4 billion loan facility, maturing 12 August 2015	This facility was drawn down in full on 12 August 2008. The facility is available for financing the roll-out of converged fixed mobile broadband telecommunications network in Italy.
15 September 2009 €0.4 billion loan facility, maturing 30 July 2017	This facility was drawn down in full on 30 July 2010. The facility is available for financing capital expenditure in our German operations.
29 September 2009 US$0.7 billion export credit agency loan facility, final maturity date 19 September 2018	An initial drawing was made of US$120 million on 3 November 2010. The facility is available for financing eligible Swedish goods and services.

Under the terms and conditions of the €4.2 billion and US$4.2 billion syndicated committed bank facilities lenders have the right, but not the obligation, to cancel their commitments and have outstanding advances repaid no sooner than 30 days after notification of a change of control. This is in addition to the rights of lenders to cancel their commitment if we commit an event of default; however, it should be noted that a material adverse change clause does not apply.

The facility agreements provide for certain structural changes that do not affect the obligations to be specifically excluded from the definition of a change of control.

The terms and conditions of the €0.4 billion loan facility maturing on 14 February 2014 are similar to those of the €4.2 billion and US$4.2 billion syndicated committed bank facilities with the addition that, should our Turkish operating company spend less than the equivalent of €0.8 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

The terms and conditions of the €0.4 billion loan facility maturing 12 August 2015 are similar to those of the €4.2 billion and US$4.2 billion syndicated committed bank facilities with the addition that, should our Italian operating company spend less than the equivalent of €1.5 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 18% of the capital expenditure.

The loan facility agreed on 15 September 2009 provides €0.4 billion of seven year term finance for the Group's virtual digital subscriber line ('VDSL') project in Germany. The terms and conditions are similar to those of the €4.2 billion and US$4.2 billion syndicated committed bank facilities with the addition that should the Group's German operating company spend less than the equivalent of €0.8 billion on VDSL related capital expenditure, the Group will be required to repay the drawn amount of the facility that exceeds 50% of the VDSL capital expenditure.

The Group entered into an export credit agency loan agreement on 29 September 2009 for US$0.7 billion. The terms and conditions of the facility are similar to those of the €4.2 billion and US$4.2 billion syndicated committed bank facilities with the addition that the Company is permitted to draw down under the facility based on the eligible spend with Ericsson up until the final drawdown date of 30 June 2011. Quarterly repayments of any drawn balance commenced on 30 June 2010 with a final maturity date of 19 September 2018.

Furthermore, certain of our subsidiaries are funded by external facilities which are non-recourse to any member of the Group other than the borrower due to the level of country risk involved. These facilities may only be used to fund their operations. At 31 March 2011 Vodafone Essar had facilities of INR 281 billion (£3.9 billion) of which INR 262 billion (£3.7 billion) is drawn. Vodafone Egypt has a partly drawn EGP 1.2 billion (£121 million) syndicated bank facility of EGP 4.0 billion (£418 million) that matures in March 2014. Vodacom had fully drawn facilities of ZAR 8.1 billion (£741 million), US$120 million (£73 million) and TZS 87 billion (£36 million), Vodafone Americas has a US$1.4 billion (£871 million) US private placement with a maturity of 17 August 2015 and Ghana had a fully drawn facility of US$75 million (£47 million) with a final maturity of 15 March 2018.

In aggregate we have committed facilities of approximately £15,703 million, of which £7,247 million was undrawn and £8,456 million was drawn at 31 March 2011.

We believe that we have sufficient funding for our expected working capital requirements for at least the next 12 months. Further details regarding the maturity, currency and interest rates of the Group's gross borrowings at 31 March 2011 are included in note 22 to the consolidated financial statements.

Financial assets and liabilities

Analyses of financial assets and liabilities including the maturity profile of debt, currency and interest rate structure are included in notes 18 and 22 to the consolidated financial statements. Details of our treasury management and policies are included within note 21 to the consolidated financial statements.

Option agreements and similar arrangements

Potential cash outflows

In respect of our interest in the Verizon Wireless partnership, an option granted to Price Communications, Inc. by Verizon Communications Inc. was exercised on 15 August 2006. Under the option agreement Price Communications, Inc. exchanged its preferred limited partnership interest in Verizon Wireless of the East LP for 29.5 million shares of common stock in Verizon Communications Inc. Verizon Communications Inc. has the right, but not the obligation, to contribute the preferred interest to the Verizon Wireless partnership diluting our interest. However, we also have the right to contribute further capital to the Verizon Wireless partnership in order to maintain our percentage partnership interest. Such amount, if contributed, would be US$0.8 billion.

Our aggregate direct and indirect interest in Vodafone Essar Limited ('VEL'), our Indian operating company, is 59.9% at 31 March 2011. We have call options to acquire shareholdings in companies which indirectly own a further 7.1% interest in VEL. The shareholders of these companies also have put options which, if exercised, would require us to purchase the remaining shares in the respective company. If these options were exercised, which can only be done in accordance with Indian law prevailing at the time of exercise, we would have a direct and indirect interest of 67.0% in VEL. On 30 March 2011 the Essar Group exercised its underwritten put option over 22.0% of VEL following which, on 31 March 2011, we exercised our call option over the remaining 11.0% of VEL owned by the Essar Group. The consideration due under these two options is US$5 billion (£3.1 billion). The Group does not believe that there is any legal requirement to withhold tax in respect of these transactions but as discussed on page 122, if the Authority for Advanced Rulings directs tax to be withheld, this amount is anticipated to be approximately an additional US$1 billion.

Off-balance sheet arrangements

On 7 January 2011 State Bank of India provided a guarantee on our behalf of INR 85 billion (£1.2 billion) to the Supreme Court of India in relation to the ongoing litigation in respect of the purchase of Vodafone Essar Limited as disclosed on page 122. We have counter indemnified State Bank of India for any amounts payable under this guarantee.

Other than this guarantee we do not have any material off-balance sheet arrangements as defined in item 5.E.2. of the SEC's Form 20-F. Please refer to notes 27 and 28 to the consolidated financial statements for a discussion of our commitments and contingent liabilities.

Quantitative and qualitative disclosures about market risk

A discussion of our financial risk management objectives and policies and the exposure of the Group to liquidity, market and credit risk is included within note 21 to the consolidated financial statements.