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.

2012 financial year compared to the 2011 financial year

Group[1]

	Europe £m	Africa, Middle East and Asia Pacific £m	Non-Controlled Interests and Common Functions[2] £m	Eliminations £m	2012 £m	2011 £m	% change £	% change Organic
Revenue	32,181	13,868	423	(55)	46,417	45,884	1.2	2.2
Service revenue	29,914	12,751	272	(52)	42,885	42,738	0.3	1.5
EBITDA	10,445	4,115	(85)	–	14,475	14,670	(1.3)	(0.6)
Adjusted operating profit	5,260	1,472	4,800	–	11,532	11,818	(2.4)	2.5
Adjustments for:								
Impairment loss					(4,050)	(6,150)		
Other income/(expense)[3]					3,705	(72)		
Operating profit					**11,187**	**5,596**		
Non-operating (expense)/income[4]					(162)	3,022		
Net (financing costs)/investment income					(1,476)	880		
Profit before taxation					**9,549**	**9,498**		
Income tax expense					(2,546)	(1,628)		
Profit for the financial year					**7,003**	**7,870**		

Notes:
1 Current year results reflect average foreign exchange rates of £1:€1.16 and £1:US$1.60.
2 Common Functions primarily represent the results of the partner markets and the net result of unallocated central Group costs.
3 Other income/(expense) for the year ended 31 March 2012 includes a £3,419 million gain on disposal of the Group's 44% interest in SFR and a £296 million gain on disposal of the Group's 24.4% interest in Polkomtel. 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.
4 Non-operating (expense)/income for the year ended 31 March 2011 included £3,019 million profit arising on the sale of the Group's 3.2% interest in China Mobile Limited.

Revenue

Group revenue was up 1.2% to £46.4 billion, with service revenue of £42.9 billion, an increase of 1.5%* on an organic basis. Our overall performance reflects continued strong demand for data services and further voice penetration growth in emerging markets, offset by regulatory changes, ongoing competitive pressures and challenging macroeconomic conditions in a number of our mature markets. As a result of the leap year, service revenue growth of 2.3%* in Q4 benefited from the additional day by around 1 percentage point.

AMAP service revenue was up by 8.0%*, with a strong performance in India, Qatar, Ghana and Vodacom and a return to growth in Egypt offset by a decline in Australia.

In Europe, service revenue was down by 1.1%* reflecting challenging macroeconomic conditions in Southern Europe partially offset by growth in Germany, the UK, the Netherlands and Turkey.

EBITDA and profit

Group EBITDA was down 1.3% to £14.5 billion, as revenue growth was offset by higher customer investment due to increased smartphone penetration.

Adjusted operating profit was down 2.4% to £11.5 billion, driven by a reduction in our share of profits from associates following the disposal of our 44% interest in SFR in June 2011. Our share of profits of Verizon Wireless grew by 9.3%* to £4.9 billion.

Operating profit increased by 100% to £11.2 billion, primarily due to the gain on disposal of the Group's 44% interest in SFR and 24.4% interest in Polkomtel, and lower impairment losses compared to the prior year.

An impairment loss of £4.0 billion was recorded in relation to Italy, Spain, Portugal and Greece, primarily driven by lower projected cash flows within business plans and an increase in discount rates, resulting from adverse changes in the economic environment.

Net (financing costs)/investment income

	2012 £m	2011 £m
Investment income	456	1,309
Financing costs	(1,932)	(429)
Net (financing costs)/investment income	**(1,476)**	**880**
Analysed as:		
Net financing costs before income from investments	(1,642)	(852)
Potential interest credit/(charges) arising on settlement of outstanding tax issues[1]	9	(46)
Income from investments	19	83
Foreign exchange[2]	138	256
Equity put rights and similar arrangements[3]	–	95
Interest related to the settlement of tax cases	–	872
Disposal of SoftBank Mobile Corp. Limited financial instruments	–	472
	(1,476)	**880**

Notes:
1 Excluding interest credits related to 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 The year ended 31 March 2011 included foreign exchange rate movements, accretion expense and fair value charges.

Net financing costs before income from investments increased from £852 million to £1,642 million, primarily due to the decision to increase the fixed rate debt mix, which is expected to result in lower interest in future periods, and the subsequent recognition of mark-to-market losses. Income from investments decreased by £64 million as a result of the disposal of the Group's 3.2% interest in China Mobile Limited and the Group's interests in SoftBank Mobile Corp. Limited during the 2011 financial year.

Taxation

	2012 £m	2011 £m
Income tax expense	2,546	1,628
Tax on adjustments to derive adjusted profit before tax	(242)	(232)
Tax benefit related to settlement of tax cases	–	929
Adjusted income tax expense	**2,304**	**2,325**
Share of associates' tax	302	519
Adjusted income tax expense for purposes of calculating adjusted tax rate	**2,606**	**2,844**
Profit before tax	9,549	9,498
Adjustments to derive adjusted profit before tax[1]	369	1,505
Adjusted profit before tax	**9,918**	**11,003**
Add: Share of associates' tax and non-controlling interest	382	604
Adjusted profit before tax for the purpose of calculating adjusted effective tax rate	**10,300**	**11,607**
Adjusted effective tax rate	**25.3%**	**24.5%**

Note:
1 See "Earnings per share".

The adjusted effective tax rate for the year ended 31 March 2012 was 25.3%. This is in line with our mid 20s adjusted effective tax rate guidance range.

The Group's share of associates' tax declined due to the absence of the tax related to SFR following the disposal of our 44% interest in June 2011.

Income tax expense has increased in the year ended 31 March 2012 largely due to the favourable impact of a tax settlement in the 2011 financial year.

Earnings per share

Adjusted earnings per share was 14.91 pence, a decline of 11.0% year-on-year, reflecting the loss of our 44% interest in SFR and Polkomtel's profits, the loss of interest income from investment disposals and mark-to-market items charged through finance costs, partially offset by a reduction in shares arising from the Group's share buyback programme. Basic earnings per share was 13.74 pence (2011: 15.20 pence), reflecting the profit on disposal of our 44% interest in SFR and 24.4% interest in Polkomtel and lower impairment charges compared to the prior financial year, all of which are excluded from adjusted earnings per share.

	2012 £m	2011 £m
Profit attributable to equity shareholders	**6,957**	**7,968**
Pre-tax adjustments:		
Impairment loss[1]	4,050	6,150
Other income and expense[1 2]	(3,705)	72
Non-operating income and expense[1 3]	162	(3,022)
Investment income and financing costs[4]	(138)	(1,695)
	369	**1,505**
Taxation[1]	242	(697)
Non-controlling interests	(18)	–
Adjusted profit attributable to equity shareholders	**7,550**	**8,776**
	Million	Million
Weighted average number of shares outstanding		
Basic	50,644	52,408
Diluted	50,958	52,748

Notes:
1 Taxation for the 2012 financial year includes a £206 million charge in respect of the disposal of the Group's 24.4% interest in Polkomtel. The 2011 financial year included £929 million credit in respect of a tax settlement and a £208 million charge in respect of the disposal of the Group's 3.2% interest in China Mobile Limited. The impairment charges of £4,050 million and £6,150 million in the 2012 and 2011 financial years respectively do not result in any tax consequences. The disposal of our 44% interest in SFR did not give rise to a tax charge.
2 Other income and expense for the 2012 financial year includes a £3,419 million gain on disposal of the Group's 44% interest in SFR and a £296 million gain on disposal of the Group's 24.4% interest in Polkomtel. The 2011 financial year 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.
3 Non-operating income and expense for the 2011 financial year includes £3,019 million profit arising on the sale of the Group's 3.2% interest in China Mobile Limited.
4 See notes 2 and 3 in "Net (financing costs)/investment income" on page 40.

Europe

	Germany £m	Italy £m	Spain £m	UK £m	Other £m	Eliminations £m	Europe £m	% change £m	% change Organic
Year ended 31 March 2012									
Revenue	8,233	5,658	4,763	5,397	8,352	(222)	32,181	0.5	(0.1)
Service revenue	7,669	5,329	4,357	4,996	7,780	(217)	29,914	(0.6)	(1.1)
EBITDA	2,965	2,514	1,193	1,294	2,479	–	10,445	(3.5)	(4.5)
Adjusted operating profit	1,491	1,735	566	402	1,066	–	5,260	(8.1)	(9.6)
EBITDA margin	36.0%	44.4%	25.0%	24.0%	29.7%		32.5%		
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%		

Operating results (continued)

Revenue increased by 0.5% including a 0.5 percentage point impact from favourable foreign exchange rate movements. On an organic basis service revenue declined by 1.1%* primarily due to the impact of MTR cuts, competitive pricing pressures and continued economic weakness, partially offset by growth in data revenue. Growth in the UK, Germany, the Netherlands and Turkey was offset by declines in most other markets, in particular, Italy, Spain and Greece.

EBITDA declined by 3.5% including a 1.1 percentage point favourable impact from foreign exchange rate movements. On an organic basis EBITDA decreased by 4.5%*, resulting from higher customer investment due to the increased penetration of smartphones, and a reduction in service revenue in most markets, partially offset by direct cost efficiencies.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Europe	**(0.1)**	**0.1**	**0.5**	**0.5**
Service revenue				
Germany	1.2	(0.1)	1.6	2.7
Italy	(3.4)	–	1.5	(1.9)
Spain	(9.4)	(0.1)	1.5	(8.0)
UK	1.6	(0.3)	–	1.3
Other Europe	1.7	(0.2)	(1.6)	(0.1)
Europe	**(1.1)**	**–**	**0.5**	**(0.6)**
EBITDA				
Germany	(1.1)	–	1.5	0.4
Italy	(6.4)	–	1.5	(4.9)
Spain	(24.9)	(0.2)	1.5	(23.6)
UK	5.0	(0.1)	–	4.9
Other Europe	1.7	(0.1)	0.3	1.9
Europe	**(4.5)**	**(0.1)**	**1.1**	**(3.5)**
Adjusted operating profit				
Germany	(5.3)	0.1	1.5	(3.7)
Italy	(10.4)	–	1.6	(8.8)
Spain	(39.2)	(0.3)	1.4	(38.1)
UK	15.7	(0.2)	–	15.5
Other Europe	3.0	(0.6)	2.9	5.3
Europe	**(9.6)**	**(0.2)**	**1.7**	**(8.1)**

Note:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2012. Refer to "Organic growth" on page 171 for further detail.

Germany

Service revenue increased by 1.2%* as strong growth in data and enterprise revenue more than offset the impact of an MTR cut effective from 1 December 2010 and increasing competitive pressures. Data revenue grew by 21.3%* driven by a higher penetration of smartphones, an increase in those sold with a data bundle and the launch of prepaid integrated tariffs. Enterprise revenue grew by 5.6%* driven by significant customer wins and the success of converged service offerings. A number of innovative products were launched during the second half of the 2012 financial year, including OfficeNet, a cloud based solution.

The roll out of LTE has continued, following the launch of services in the prior financial year. Nearly 2,700 base stations had been upgraded to LTE at 31 March 2012, providing approximately 35% household coverage.

EBITDA declined by 1.1%* as the higher revenue was offset by restructuring costs and regulation changes.

Italy

Service revenue declined by 3.4%* as a result of weak economic conditions, intense competition and the impact of an MTR cut effective from 1 July 2011. Strong data revenue growth of 16.8%* was driven by mobile internet which benefited from a higher penetration of smartphones and an increase in those sold with a data bundle. From Q3, all new consumer contract customers are now on an integrated tariff. Enterprise revenue grew by 5.1%* with a strong contribution from Vodafone One Net, a converged fixed and mobile solution, and growth in the customer base. Fixed line growth benefited from strong customer additions although slowed in Q4 due to intense competition.

EBITDA decreased by 6.4%*, and EBITDA margin fell by 1.9* percentage points resulting from the decline in service revenue partially offset by operating cost efficiencies such as site sharing agreements and outsourcing of network maintenance to Ericsson.

Spain

Service revenue declined by 9.4%* impacted by intense competition, continuing economic weakness and high unemployment during the year, which have driven customers to reduce or optimise their spend on tariffs. Data revenue increased by 18.4%* benefiting from the penetration of integrated voice, SMS and data tariffs initially launched in October 2010. Improvements were seen in fixed line revenue which increased by 7.3%* resulting from a competitive proposition leading to good customer additions. Mobile customer net additions were strong as a result of our more competitive tariffs and a focus on improving the retention of higher-value customers.

EBITDA declined by 24.9%*, with a 5.5* percentage point fall in EBITDA margin, primarily due to lower revenue with sustained investment in acquisition and retention costs. This was partially offset by operating cost efficiencies.

UK

Service revenue increased by 1.6%* driven by an increase in data and consumer contract revenue supported by the success of integrated offerings. This was partially offset by the impact of an MTR cut effective from 1 April 2011 and lower consumer confidence leading to reduced out-of-bundle usage. Data revenue grew by 14.5%* due to higher penetration of smartphones and an increase in those sold with a data bundle.

EBITDA increased by 5.0%* and EBITDA margin improved by 0.6* percentage points, due to a number of cost saving initiatives, including acquisition and retention efficiencies.

Other Europe

Service revenue increased by 1.7%* as growth in Albania, Malta, the Netherlands and Turkey more than offset a decline in the rest of the region, particularly in Greece, Portugal and Ireland, which continued to be impacted by the challenging macroeconomic environment and competitive factors. Service revenue in Turkey grew by 25.1%* driven by strong growth in consumer contract and data revenue resulting from an expanding contract customer base and the launch of innovative propositions. In the Netherlands service revenue increased by 2.1%*, driven by an increase in the customer base, partially offset by MTR cuts, price competition and customers optimising tariffs.

EBITDA grew by 1.7%*, with strong growth in Turkey, driven by a combination of service revenue growth and cost efficiencies, partially offset by declines in the majority of the other markets.

Africa, Middle East and Asia Pacific

	India £m	Vodacom £m	Other Africa, Middle East and Asia Pacific £m	Eliminations £m	Africa, Middle East and Asia Pacific £m	% change £m	% change Organic
Year ended 31 March 2012							
Revenue	4,265	5,638	3,965	–	13,868	4.2	8.4
Service revenue	4,215	4,908	3,628	–	12,751	3.7	8.0
EBITDA	1,122	1,930	1,063	–	4,115	2.9	7.8
Adjusted operating profit	60	1,084	328	–	1,472	15.7	22.4
EBITDA margin	26.3%	34.2%	26.8%		29.7%		
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%		

Revenue grew by 4.2% after a 4.2 percentage point adverse impact from foreign exchange rate movements. On an organic basis service revenue grew by 8.0%* driven by customer and data growth, partially offset by the impact of MTR reductions. Growth was driven by strong performances in India, Vodacom, Ghana and Qatar and a return to growth in Egypt, offset by service revenue declines in Australia and New Zealand.

EBITDA grew by 2.9% after a 4.8 percentage point adverse impact from foreign exchange rate movements. On an organic basis, EBITDA grew by 7.8%* driven primarily by strong growth in India and Vodacom and improved contributions from Ghana and Qatar, offset in part by declines in Egypt and Australia.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Africa, Middle East and Asia Pacific	**8.4**	**–**	**(4.2)**	**4.2**
Service revenue				
India	19.5	(0.1)	(8.6)	10.8
Vodacom	7.1	–	(5.7)	1.4
Other Africa, Middle East and Asia Pacific	(1.8)	(0.1)	1.3	(0.6)
Africa, Middle East and Asia Pacific	**8.0**	**–**	**(4.3)**	**3.7**
EBITDA				
India	22.9	(0.2)	(8.8)	13.9
Vodacom	11.3	–	(6.6)	4.7
Other Africa, Middle East and Asia Pacific	(9.1)	(0.1)	0.1	(9.1)
Africa, Middle East and Asia Pacific	**7.8**	**(0.1)**	**(4.8)**	**2.9**
Adjusted operating profit				
India	389.3	(40.6)	(48.7)	300.0
Vodacom	41.1	–	(10.0)	31.1
Other Africa, Middle East and Asia Pacific	(22.4)	(0.2)	(1.1)	(23.7)
Africa, Middle East and Asia Pacific	**22.4**	**(0.3)**	**(6.4)**	**15.7**

India

Service revenue grew by 19.5%,* driven by an 11.8% increase in the customer base, strong growth in incoming and outgoing voice minutes and 51.3%* growth in data revenue. 3G services were available to Vodafone customers in 860 towns and cities across 20 circles at 31 March 2012. Growth also benefited from mobile operators starting to charge for SMS termination during the second quarter of the 2012 financial year. At 31 March 2012 the customer base had increased to 150.5 million, with data customers totalling 35.4 million, a year-on-year increase of 81.5%. This was driven by an increase in data enabled handsets and the impact of successful marketing campaigns. Whilst the market remains highly competitive, the effective rate per minute remained broadly stable during the year, with promotional offers offsetting headline price increases.

EBITDA grew by 22.9%* driven by the increase in revenue and economies of scale, partially offset by higher customer acquisition costs and increased interconnection costs. Full year EBITDA margin increased 0.8* percentage points to 26.3%, driven by cost efficiencies and scale benefits.

Vodacom

Service revenue grew by 7.1%,* driven by service revenue growth in South Africa of 4.4%*, where strong net customer additions and growth in data revenue was partially offset by the impact of MTR cuts (effective 1 March 2011 and 1 March 2012). Despite competitive pricing pressures, data revenue in South Africa grew by 24.3%,* driven by higher smartphone penetration and data bundles leading to a 35.4% increase in active data customers to 12.2 million at 31 March 2012.

Vodacom's mobile operations outside South Africa delivered strong service revenue growth of 31.9%*[2], driven by customer net additions and the simplification of tariff structures in Mozambique and Tanzania. M-Pesa, our mobile phone based money transfer service, continues to perform well in Tanzania with over 3.1 million active users.

EBITDA increased by 11.3%* driven by robust service revenue growth and continued focus on operating cost efficiencies.

Notes:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2012. Refer to "Organic growth" on page 171 for further detail.
2 Excludes Gateway and Vodacom Business Africa.

Operating results (continued)

Other Africa, Middle East and Asia Pacific

Organic service revenue, which now includes Australia, declined by 1.8%* with both New Zealand and Australia being impacted by MTR cuts effective from 6 May 2011 and 1 January 2012, respectively. In Australia, despite improvements in network and customer operations performance, service revenue declined by 8.8%* driven by the competitive market and weakness in brand perception following the network and customer service issues experienced from late 2010 to early 2011 and further accelerated by MTR cuts. On 22 March 2012, Vodafone Hutchison Australia appointed Bill Morrow as its new CEO. In Egypt service revenue was suppressed by the challenging economic and political environment, however, organic growth of 1.4%* was achieved as a result of an increased customer base and strong data usage. In Qatar an increase in the customer base delivered service revenue growth of 27.1%*, despite a competitive pricing environment. Service revenue in Ghana grew by 29.2%* through strong gains in customer market share.

EBITDA margin declined 2.2* percentage points, driven by the service revenue decline in Australia and the challenging economic and competitive environment in Egypt, partially offset by growth in Qatar and Ghana.

Safaricom, Vodafone's associate in Kenya, grew service revenue by 13.6%*, driven by increases in customer base, voice usage and M-Pesa activity. EBITDA margin improved in the second half of the 2012 financial year through a tariff increase in October, operating cost efficiencies and a strengthening of the local currency to take the margin for the 2012 financial year to 35.0%.

Non-Controlled Interests

Verizon Wireless[1 2 3]

	2012 £m	2011 £m	% change £	% change Organic
Service revenue	18,039	17,238	4.6	7.3
Revenue	20,187	18,711	7.9	10.6
EBITDA	7,689	7,313	5.1	7.9
Interest	(212)	(261)	(18.8)	
Tax[2]	(287)	(235)	22.1	
Group's share of result in Verizon Wireless	4,867	4,569	6.5	9.3

In the United States Verizon Wireless reported 4.6 million net mobile customer additions bringing its closing mobile customer base to 93.0 million, up 5.2%.

Service revenue growth of 7.3%* continues to be driven by the expanding customer base and robust growth in data ARPU driven by increased penetration of smartphones.

EBITDA margin remained strong despite the competitive challenges and macroeconomic environment. Efficiencies in operating expenses and 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.

Verizon Wireless' net debt at 31 March 2012 totalled US$6.4 billion[4] (31 March 2011: net debt US$9.8 billion[4]), after paying a dividend to its shareholders of US$10 billion on 31 January 2012.

Notes:
1 All amounts represent the Group's share based on its 45% equity interest, 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 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 6.8%*, 10.1%*, 6.7%* and 7.5%* respectively.
4 Net debt excludes pending credit card receipts. Comparatives are presented on a comparable basis.

2011 financial year compared to the 2010 financial year

Group[1]

	Europe £m	Africa, Middle East and Asia Pacific £m	Non-Controlled Interests and Common Functions[2] £m	Eliminations £m	2011 £m	2010 £m	% change £	% change Organic[3]
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)/expense[4]					(72)	114		
Operating profit					**5,596**	**9,480**		
Non-operating income/(expense)[5]					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 2011 results reflect average exchange rates of £1:€1.18 and £1:US$1.56.
2 Common Functions primarily represent the results of the partner markets and the net result of unallocated central Group costs.
3 Organic growth includes Vodacom at the 2011 level of ownership but excludes Australia following the merger with Hutchison 3G Australia on 9 June 2009.
4 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.
5 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.

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 of the 2011 financial year 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 2011 financial 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 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 MTR cuts. Our improved commercial offers in Turkey delivered service revenue growth of 28.9%*, despite a 52% cut in MTRs 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 MTR 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 MTR 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 2011 financial year. In Qatar the customer base reached 757,000 by 31 March 2011, with 45% of the population 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 of the 2011 financial year.

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 interest in China Mobile Limited, £1.8 billion on the settlement of a tax case and £0.5 billion from the disposal of investment in SoftBank Mobile Corp. Limited.

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 macroeconomic environments. The impairment loss in the 2010 financial year was £2,100 million.

Profit for the year decreased by 8.7%.

Operating results (continued)

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 Mobile Corp. Limited financial instruments	472	–
	880	**(796)**

Notes:
1 Excluding interest credits related to 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.
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.

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. In addition, £138 million of interest was capitalised compared to £1 million in the prior year. 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

	2011 £m	2010 £m
Income tax expense	1,628	56
Tax on adjustments to derive adjusted profit before tax	(232)	(39)
Tax benefit related to settlement of tax cases[1]	929	2,103
Adjusted income tax expense	**2,325**	**2,120**
Share of associates' tax	519	572
Adjusted income tax expense for purposes of calculating adjusted tax rate	**2,844**	**2,692**
Profit before tax	9,498	8,674
Adjustments to derive adjusted profit before tax[2]	1,505	1,890
Adjusted profit before tax	**11,003**	**10,564**
Add: Share of associates' tax and non-controlling interest	604	652
Adjusted profit before tax for the purpose of calculating adjusted effective tax rate	**11,607**	**11,216**
Adjusted effective tax rate	**24.5%**	**24.0%**

Notes:
1 The £929 million in the year ended 31 March 2011 relates to the settlement of a tax case and the £2,103 million in the year ended 31 March 2010 relates to the settlement of the German tax loss claim.
2 See "Earnings per share".

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.

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[1]	6,150	2,100
Other income and expense[2]	72	(114)
Non-operating income and expense[3]	(3,022)	10
Investment income and financing costs[4]	(1,695)	(106)
	1,505	**1,890**
Taxation[1]	(697)	(2,064)
Adjusted profit attributable to equity shareholders	**8,776**	**8,471**
	Million	Million
Weighted average number of shares outstanding		
Basic	52,408	52,595
Diluted	52,748	52,849

Notes:
1 Taxation for the 2011 financial year included £929 million credit in respect of a tax settlement and a £208 million charge in respect of the disposal of the Group's interest in China Mobile Limited. The 2010 financial year included £2,103 million arising from the German tax authorities' decision that €15 billion of losses booked by a German subsidiary in 2001 were tax deductible. The impairment charges of £6,150 million and £2,100 million in the 2011 and 2010 financial years respectively did not result in any tax consequences.
2 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.
3 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.
4 See notes 2, 3, and 4 in "Net investment income/(financing costs)".

Europe

	Germany £m	Italy £m	Spain £m	UK £m	Other £m	Eliminations £m	Europe £m	% change £m	% 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%		

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 of the 2011 financial year despite an MTR 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 2011 financial 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 MTR 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 of the 2011 financial year.

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 MTR cuts announced in March 2011 were expected to have a significant negative impact on revenue growth during the 2012 financial year.

Operating results (continued)

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 MTRs 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

	India £m	Vodacom £m	Other £m	Eliminations £m	Africa, Middle East and Asia Pacific £m	% change £m	% change Organic[1]
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%		

Note:
1 Organic growth includes Vodacom at the 2011 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 of the 2011 financial year.

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 31 March 2011 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 MTR 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 2011 financial year which partially offset the impact of MTR cuts. Net customer additions returned to pre-registration levels for the first time in the third quarter of the 2011 financial year, with the trend continuing during the fourth quarter of the 2011 financial year 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.

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 31 March 2011, with 45% of the population actively using Vodafone services. The decline in Egypt service revenue was driven by a combination of MTR reductions, competitive pressure on pricing and socio-political unrest during the fourth quarter of the 2011 financial year, 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 remained on track and a number of important initiatives were completed during the 2011 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 was 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 of the 2011 financial year.

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%*.

Non-Controlled Interests

Verizon Wireless[2,3,4]

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

In the United States Verizon Wireless reported 2.6 million net mobile customer additions bringing its mobile customer base to 88.4 million at 31 March 2011, a 3.1% increase. Customer growth improved in the fourth quarter of the 2011 financial 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 were 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$9.8 billion[5] (31 March 2010: US$22.6 billion[5]).

Notes:
2 All amounts represent the Group's share based on its 45% equity interest, unless otherwise stated.
3 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.
4 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.
5 Net debt excludes pending credit card receipts. Comparatives are presented on a comparable basis.

Guidance

Performance against 2012 financial year guidance

Based on guidance foreign exchange rates, our adjusted operating profit for the 2012 financial year was £11.8 billion, at the top end of the £11.0 billion to £11.8 billion range set in May 2011. On the same basis, our free cash flow was £6.2 billion, in the middle of the £6.0 billion to £6.5 billion range.

2013 financial year guidance

	Adjusted operating profit £bn	Free cash flow £bn
2012 reported performance	11.5	6.1
SFR/Polkomtel contribution and restructuring cost	–	(0.2)
Foreign exchange[1]	(0.4)	(0.3)
2012 financial rebased reported	11.1	5.6
2013 financial year guidance	11.1 – 11.9	5.3 – 5.8

Note:
1 Impact of rebasing the 2012 reported performance using the 2013 financial year guidance foreign exchange rates of £1:€1.23 and £1:$US1.62.

Guidance for the 2013 financial year is based on our current assessment of the global macroeconomic outlook and assumes foreign exchange rates of £1:€1.23 and £1: US$1.62. In addition, we will no longer receive a dividend from SFR after the sale of our stake during the 2012 financial year. We have restated the 2012 financial year adjusted operating profit and free cash flow for both these changes in the table above.

Therefore, on an underlying basis, we expect growth in adjusted operating profit, and stability in free cash flow, compared with the 2012 financial year.

Adjusted operating profit is expected to be in the range of £11.1 billion to £11.9 billion and free cash flow in the range of £5.3 billion to £5.8 billion, excluding any income dividends received from Verizon Wireless.

We expect the Group EBITDA margin decline to continue its improving trend, supported by continued strong growth and operating leverage in our AMAP region, and improving control of commercial costs in Europe. We expect capital expenditure to remain broadly steady on a constant currency basis.

In November 2010 we gave annual guidance ranges for organic service revenue growth and free cash flow which were based on the prevailing macroeconomic environment, regulatory framework and foreign exchange rates. Given larger MTR reductions than previously envisaged, we now expect organic service revenue growth in the 2013 financial year to be slightly below our previous medium term guidance range. We will provide an update on revenue prospects for the 2014 financial year when we publish our results for the year ending 31 March 2013. We expect the Group EBITDA margin to stabilise by March 2014.

Our medium term free cash flow guidance is £5.5 billion to £6.5 billion per annum to March 2014. This was based on the prevailing foreign exchange rates in November 2010, including an exchange rate of £1: €1.15. Based on the £1: €1.23 foreign exchange rate used for the 2013 financial guidance, the equivalent range is £5.2 billion to £6.2 billion. This cash generation underpins the three year 7% per annum dividend per share growth target issued in May 2010. We continue to expect that total ordinary dividends per share will be no less than 10.18 pence for the 2013 financial year.

Assumptions

Guidance for the 2013 financial year and the medium term is based on our current assessment of the global macroeconomic outlook and assumes foreign exchange rates of £1:€1.23 and £1:US$1.62. It excludes the impact of licence and spectrum purchases, income dividends from Verizon Wireless, material one-off tax-related payments, restructuring costs and any fundamental structural change to the eurozone. It also 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 eurozone, we have assumed that the euro to sterling exchange rate remains within 5% of the above guidance foreign exchange rate.

Actual foreign exchange rates may vary from the foreign exchange rate assumptions used. A 1% change in the euro to sterling exchange rate would impact adjusted operating profit by £40 million and free cash flow by approximately £30 million and a 1% change in the dollar to sterling exchange rate would impact adjusted operating profit by approximately £50 million.

Principal risk factors and uncertainties

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

Risk: We have ventures in both emerging and mature markets, spanning a broad geographical area including Europe, Africa, Middle East, Asia Pacific and the United States. We need to comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of our telecommunications networks and services. Pressure on political and regulatory institutions both to deliver direct consumer benefit and protect consumers interests, particularly in recessionary periods, can lead to adverse impacts on our business. Financial pressures on smaller competitors can drive them to call for regulators to protect them. Increased financial pressures on governments may lead them to target foreign investors for further taxes or licence fees.

Mitigation: We monitor political developments in our existing and potential markets closely, identifying risks in our current and proposed commercial propositions. Regular reports are made to our Executive Committee on current political and regulatory risks. These risks are considered in our business planning process, including the importance of competitive commercial pricing and appropriate product strategies. Authoritative and timely intervention is made at both national and international level in respect of legislative, fiscal and regulatory proposals which we feel are not in the interests of the Group. We have regular dialogue with trade groups that represent network operators and other industry bodies to understand underlying political pressures.

2. We could suffer loss of consumer confidence and/or legal action due to a failure to protect our customer information.

Risk: Mobile networks carry and store large volumes of confidential personal and business voice traffic and data. We host increasing quantities and types of customer data in both enterprise and consumer segments. We need to ensure our service environments are sufficiently secure to protect us from loss or corruption of customer information. Failure to adequately protect customer information could have a material adverse effect on our reputation and may lead to legal action against the Group.

Mitigation: Both the hardware and software applications which hold or transmit confidential personal and business voice and data traffic include security features. Security related reviews are conducted according to our policies and security standards. Security governance and compliance is managed and monitored through software tools that are deployed to all local markets and selected partner markets. Our data centres are managed to international information security standards. Third party data security reviews are conducted jointly with our technology security and corporate security functions.

3. Our business could be adversely affected by a failure or significant interruption to telecommunications networks.

Risk: We are dependent on the continued operation of telecommunications networks. As the importance of mobile communication in everyday life, as well as during times of crisis, increases, organisations and individuals look to us to maintain service. Major failures in the network may result in service being interrupted resulting in serious damage to our reputation and consequential customer and revenue loss.

Mitigation: Specific back-up and resilience requirements are built into our networks. We monitor our ability to replace strategic equipment quickly in event of failure, and for high risk components, we maintain dedicated back-up equipment ready for use. Dedicated access network equipment is installed on trucks ready to be moved on site if required. Network contingency plans are linked with our overall business continuity and crisis management plans. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually.

4. Technological advances in handsets and use of alternative communication services may result in less demand for our traditional service offerings.

Risk: Strategic handset and technology suppliers are developing mobile content and services. Advancements in smartphone branding and technology places more focus on devices rather than the underlying services provided by mobile operators. The development of applications which make use of the internet as a substitute for some of our more traditional services, such as messaging and voice, could erode revenue. Reduced demand for our core services of voice, messaging and data and the development of services by handset suppliers could significantly impact our future profitability.

Mitigation: We have developed strategies which strengthen our relationships with customers, including the development of our own branded products, offering a broad selection of handsets and devices from a variety of manufacturers and providing our own alternatives to our more traditional services. We have accelerated the introduction of integrated voice, messaging and data tariffs to minimise customers reducing their out-of-bundle usage through substitution.

5. Increased competition may reduce our market share and profitability.

Risk: We face intensifying competition; in particular competing with established competitors in mature markets and competing with new entrants in emerging markets, where all operators are looking to secure a share of the potential customer base. 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 average revenue per customer, as customers may choose to receive telecommunications services or other competing services from alternate providers. Competition can also lead to an increase in customer acquisition and retention costs. The focus of competition in many of our markets has shifted from acquiring new customers to retaining existing customers, as the market for mobile telecommunications has become increasingly mature.

Mitigation: We will continue to promote our differentiated propositions by focusing on our points of strength such as network quality, capacity and coverage, quality of customer service and the value of our products and services. We are enhancing distribution channels to get closer to customers and using targeted promotions where appropriate to attract and retain specific customers. We closely monitor and model competitor behaviour, network builds and product offerings to understand future intentions to be able to react in a timely manner.

6. 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.

Risk: Concerns have been expressed that the electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks. We are not aware that such health risks have been substantiated, however, in the event of a major scientific finding supporting this view this might result in prohibitive legislation being introduced by governments (or the European Union), a major reduction in mobile phone usage (especially by children), a requirement to move base station sites, significant difficulty renewing or acquiring site leases and/or major litigation. An inadequate response to electromagnetic fields ('EMF') issues may result in loss of confidence in the industry and Vodafone.

Mitigation: We have a global health and safety policy that includes standards for radio frequency fields that are mandated in all our operating companies. We have a Group EMF board that manages potential risks through cross sector initiatives and who oversee a coordinated global programme to address and reduce public concern. We have close engagement with EU institutions, in coordination with an international policy team in Brussels, to ensure early warning and advocacy related to possible precautionary legislation. We are engaged with relevant bodies to ensure that the scientific research agenda set by the World Health Organization is fully funded and executed as fast as reasonably possible.

Principal risk factors and uncertainties (continued)

7. One or more countries may exit the eurozone.

Risk: In light of recent economic conditions in Europe, there is a possibility of one or more countries exiting the eurozone, causing currency devaluation in those countries and possibly leading to a reduction in our revenue and impairment of our financial and non-financial assets. This may also lead to adverse economic impacts elsewhere.

Mitigation: We are closely monitoring the eurozone situation. Executive Committee briefings have been provided with specific actions identified to reduce the impact of the risk. We have developed a detailed business continuity plan in the event of a country leaving the eurozone, which could lead to a banking system freeze and a need to transition to a "cash based" operating system for a number of months.

Given the significance of the Group's operations in Europe it was felt appropriate to outline in more detail the risks, and the action taken to reduce these risks, in the annual report, as set out on page 53.

8. We may be unable to obtain additional/renew sufficient spectrum with an adequate return.

Risk: The spectrum we use for the delivery of our services is regulated in each of our markets. The regulators supervise the allocation of frequency spectrum and 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, including the implementation of unsustainable cost and revenue models, could adversely affect our future operations in these geographic areas. Our mobile data strategy and roll out of 4G/LTE services is dependent upon us being able to renew and obtain additional spectrum licences.

Mitigation: Local executives and regulatory staff manage negotiations with local regulators on renewal of spectrum licences. In the event of a failure to renew, we could migrate traffic onto other frequencies. To date, all licences have been renewed but it is possible that political or competitor influences may create significant complications or uncertainty in some markets.

9. We may not satisfactorily resolve major tax disputes.

Risk: We operate in many jurisdictions around the world and from time to time have disputes on the amount of tax due. In particular, in spite of a recent positive India Supreme Court decision relating to an ongoing tax case in India, as set out on pages 138 and 139, the Indian government is proposing retroactive tax legislation which would in effect overturn the court's decision.

Such or similar types of action in other jurisdictions may expose us to significant additional tax liabilities which would affect the results of the business.

Mitigation: We maintain constructive but robust engagement with the tax authorities and relevant government representatives, as well as active engagement with a wide range of international companies and business organisations with similar issues. Where appropriate we engage advisors and legal counsel to obtain opinions on tax legislation and principles.

10. A malicious attack on our network may be successful and disrupt our services or compromise our data.

Risk: There is a risk that an attack by a malicious individual or group could be successful on our networks. This could lead to a loss of confidential customer data or availability of critical systems. Our network is also susceptible to interruption due to a physical attack and theft of our network components as the value and market for network components increases (for example copper, batteries, generators and fuel).

Mitigation: Our critical infrastructure has been designed to prevent unauthorised access and reduce the likelihood and impact of a successful attack. Business continuity and disaster recovery plans are in place to cover residual risk that cannot be mitigated. We also manage the risk using our global security operations centre that provides 24/7 monitoring of our network in many countries.

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

Risk: Due to the substantial carrying value of goodwill under International Financial Reporting Standards ('IFRS'), revisions to the assumptions used in assessing its recoverability, including discount rates, estimated future cash flows or anticipated changes in operations, could lead to the impairment 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 dividend distributions to our shareholders or repurchase our shares.

Mitigation: We review the carrying value of the Group's goodwill at least annually, or more frequently where the circumstances require, to assess whether carrying values can be supported by the net present value of future cash flows derived from such assets. This review considers the continued appropriateness of the assumptions used in assessing for impairment, including an assessment of discount rates and long-term growth rates, future technological developments, and the timing and quantum of future capital expenditure. Other factors which may affect revenue and profitability (for example intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services) are also considered. 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. Further details are provided in "Critical accounting estimates" on page 91.

Eurozone risk

Country and currency risk

Recent conditions in the eurozone have resulted in a higher risk of disruption and business risk from high currency volatility and/or the potential of an exit of one or more countries from the euro.

As part of our response to these conditions we have reviewed our existing processes and policies, and in places, evolved them with the aim of both minimising the Group's economic exposure and to preserve our ability to operate in a range of potential conditions that may exist in the event of one or more of these future events.

Our ability to manage these risks needs to take appropriate account of our needs to deliver a high quality service to our customers, meet licence obligations and the significant capital investments we may have made and may need to continue to make in the markets most impacted.

Currency related risks

While our share price is denominated in sterling, the majority of our financial results are generated in other currencies. As a result the Group's operating profit is sensitive to either a relative strengthening or weakening of the major currencies in which it transacts.

The "Operating results" section of the annual report on pages 40 to 49 sets out a discussion and analysis of the relative contributions of the Group's Europe and AMAP regions and the major geographical markets in each, to the Group's service revenue and EBITDA performance. Our markets in Italy, Ireland, Greece, Portugal and Spain have been most directly impacted by the current market conditions and in order of contribution, represent 17% (Italy), 8% (Spain), 3% (Portugal) and 3% (Ireland and Greece combined) of the Group's EBITDA. An average 3% decline in the sterling equivalent of these combined geographical markets due to currency revaluation would reduce Group EBITDA by £0.1 billion. The Group's foreign currency earnings are diversified through its 45% equity interest in Verizon Wireless, which operates in the United States and generates its earnings in US dollars. Verizon Wireless, which is equity accounted, contributed 42% of the Group's adjusted operating profit for the year ended 31 March 2012.

The Group employs a number of mechanisms to manage elements of exchange rate risk at a transaction, translation and economic level. At the transaction level our policies require foreign exchange risks on transactions denominated in other currencies above certain de minimis levels to be hedged. Further, since the Company's sterling share price represents the value of its future multi-currency cash flows, principally in euro, US dollars and sterling, we aim to align the currency of our debt and interest charges in proportion to our expected future principal multi-currency cash flows, thereby providing an economic hedge in terms of reduced volatility in the sterling equivalent value of the Group and a partial hedge against income statement translation exposure, as interest costs will be denominated in foreign currencies.

In the event of a country's exit from the eurozone, this may necessitate changes in one or more of our entities' functional currency and potentially higher volatility of those entities' trading results when translated into sterling, potentially adding further currency risk.

A summary of this sensitivity of our operating results and our foreign exchange risk management policies is set out within "Financial risk management – Market risk – Foreign exchange management" within note 21 to the consolidated financial statements.

Operational planning

We have worked to develop operational plans to use as a basis for continuity planning across the Group in the event of significant exchange rate volatility and/or the withdrawal of one, or a small number of countries, from the euro. We have categorised "at risk" countries into three categories based on risk profile and identified three broad areas of operational risks for the Group where work has been focused, being:

Financial/investment risk: Our activities are focused on counterparty risk management and in particular the protection and availability of cash deposits and investments. Exposures in relation to liquid Group investments have been reviewed and actions have been taken to reduce counterparty limits with certain financial institutions and to convert a significant proportion of euro denominated holdings and deposits into sterling and US dollar investments. Existing Group policy requires cash sweep arrangements, to ensure no operating company has more than €5 million on deposit on any one day. Further, the Group has had in place for a number of years collateral support agreements with a significant number of its counterparties to pass collateral to the Group under certain circumstances. The Group has a net £980 million of collateral assets in its statement of financial position at 31 March 2012. Further information is provided within "Financial risk management – Credit risk" within note 21 to the consolidated financial statements.

Trading risks: We have investigated the structure of existing procurement contracts and we have started the process of amending certain contractual clauses to place the Group in a better position in the event of the exit of a country from the eurozone.

Business continuity risks: We have identified a number of key business continuity priorities which are focused on planning to allow migration to a more cash-based business model in the event banking systems are frozen, developing dual currency capability in contract customer billing systems or ensuring the ability to move these contract customers to prepaid methods of billing, and the consequential impacts to tariff structures. We have also put in place contingency plans with key suppliers that would assist us to continue to support our network infrastructure, retail operations and employees.

The Group continues to maintain appropriate levels of cash and short-term investments in many currencies and, with a carefully controlled group of counterparties, to minimise the risks to the ongoing access to that liquidity and therefore to the ability of the Group to settle debts as they become due. Further information is provided within "Financial risk management – Liquidity risk" within note 21 to the consolidated financial statements.

Risk of change in carrying amount of assets and liabilities

The main potential short-term financial statement impact of the current economic uncertainties is the potential impairment of non-financial and financial assets.

The Group has significant amounts of goodwill, other intangible assets and plant, property and equipment allocated to, or held by, companies operating in the eurozone. We have performed impairment testing for each country in Europe as at 31 March 2012 and identified aggregate impairment charges of £4.0 billion in relation to Vodafone Italy, Spain, Greece and Portugal. Further detail on this exercise together with the sensitivity of the results of this assessment to reasonably possible adverse assumptions is set out in note 10 to the consolidated financial statements.

Our operating companies in Italy, Ireland, Greece, Portugal and Spain have billed and unbilled trade receivables totalling £2.0 billion. IFRS contains specific requirements for impairment assessments of financial assets. We have a range of credit exposures and provisions for doubtful debts that are generally made by reference to consistently applied methodologies overlaid with judgements determined on a case-by-case basis reflecting the specific facts and circumstances of the receivable. Detailed disclosures made in relation to provisions against loans and receivables as well as disclosures about any loans and receivables that are past due at the end of the period, concentrations of risk and credit risk more generally as set out in "Financial risk management – Credit risk" within note 21 to the consolidated financial statements.

Financial position and resources

Consolidated statement of financial position

	2012 £m	2011 £m
Non-current assets		
Intangible assets	59,514	68,558
Property, plant and equipment	18,655	20,181
Investments in associates	35,108	38,105
Other non-current assets	6,274	7,373
	119,551	**134,217**
Current assets	20,025	17,003
Total assets	**139,576**	**151,220**
Total equity shareholders' funds	76,935	87,555
Total non-controlling interests	1,267	6
Total equity	**78,202**	**87,561**
Liabilities		
Borrowings		
Long-term	28,362	28,375
Short-term	6,258	9,906
Taxation liabilities		
Deferred tax liabilities	6,597	6,486
Current taxation liabilities	2,148	2,262
Other non-current liabilities	2,140	1,373
Other current liabilities	15,869	15,257
Total liabilities	**61,374**	**63,659**
Total equity and liabilities	**139,576**	**151,220**

Assets

Intangible assets
At 31 March 2012 our intangible assets were £59.5 billion (2011: £68.6 billion) with goodwill comprising the largest element at £38.4 billion (2011: £45.2 billion). The decrease primarily resulted from impairment losses of £3.9 billion, amortisation of £3.5 billion and unfavourable foreign exchange rate movements of £4.2 billion partially offset by £2.9 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 to £18.7 billion at 31 March 2012 from £20.2 billion at 31 March 2011 predominantly as a result of £4.4 billion of depreciation charges and unfavourable foreign exchange rate movements of £1.3 billion partially offset by £4.7 billion of additions.

Investments in associates
Investments in associates decreased to £35.1 billion at 31 March 2012 from £38.1 billion at 31 March 2011 primarily due to a reduction of £4.0 billion in relation to the sale of our 44% interest in SFR and £4.0 billion of dividends received partially offset by our share of the results of associates, after deductions of interest, tax and non-controlling interest, which contributed £5.0 billion, mainly arising from our investment in Verizon Wireless.

Other non-current assets
Other non-current assets decreased to £6.3 billion at 31 March 2012 (2011: £7.4 billion) mainly due to other investments which totalled £0.8 billion at 31 March 2012 compared to £1.4 billion at 31 March 2011.

Current assets
Current assets increased to £20.0 billion at 31 March 2012 from £17.0 billion at 31 March 2011 due to an increase in cash and short-term investments resulting from the element of the proceeds from the disposal of our 44% interest in SFR not yet utilised for the share buyback programme, and an increase in other receivables due to the second tranche of the proceeds from the sale of our interest in SoftBank Mobile Corp. Limited which was received in April 2012.

Total equity and liabilities

Total equity
Total equity decreased to £78.2 billion at 31 March 2012 from £87.6 billion at 31 March 2011. The profit for the year of £7.0 billion was more than offset by equity dividends of £6.7 billion, other comprehensive loss of £4.7 billion, share buyback of £4.7 billion and £1.9 billion in relation to the acquisition of non-controlling interests, primarily in India. Total non-controlling interests have increased by £1.3 billion primarily as a result of the exercise of put options over non-controlling interests during the year.

Borrowings
Long-term borrowings and short-term borrowings decreased to £34.6 billion at 31 March 2012 from £38.3 billion at 31 March 2011 mainly as a result of foreign exchange rate movements, bond repayments during the year and settlement of certain put options held by the Essar Group.

Taxation liabilities
Current tax liabilities decreased to £2.1 billion at 31 March 2012 from £2.3 billion at 31 March 2011 mainly as a result of the resolution and payment of longstanding tax disputes.

Other current liabilities
Other current liabilities increased to £15.9 billion at 31 March 2012 from £15.3 billion at 31 March 2011. Trade payables at 31 March 2012 were equivalent to 43 days (2011: 37 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 29 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]	42,079	6,266	11,419	10,400	13,994
Operating lease commitments[3]	6,141	1,110	1,633	1,152	2,246
Capital commitments[3 4]	2,018	1,798	195	25	–
Purchase commitments	5,138	3,237	1,081	446	374
Total	**55,376**	**12,411**	**14,328**	**12,023**	**16,614**

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 28 to the consolidated financial statements.
4 Primarily related to network infrastructure.

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 2012 financial year, proposed, in respect of each financial year.

	Pence per ordinary share		
Year ended 31 March	Interim	Final	Total
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	8.90
2012	7.05[1]	6.47[2]	13.52

Notes:
1 Includes the 4.0 pence special dividend paid in February 2012.
2 The final dividend for the year ended 31 March 2012 was proposed on 22 May 2012 and is payable on 1 August 2012 to holders on record as of 8 June 2012. 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.

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 2011 the directors announced an interim dividend of 3.05 pence per share representing a 7.0% increase over last year's interim dividend. In addition a special, second interim, dividend of 4.0 pence per share was paid in February 2012 following the receipt of a US$4.5 billion (£2.9 billion) income dividend from Verizon Wireless. The directors are proposing a final dividend of 6.47 pence per share. Total dividends, excluding special dividends, for the year increased by 7.0% to 9.52 pence per share.

In May 2010 the directors issued a dividend per share growth target, excluding special dividends, 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 ordinary dividends per share will therefore be no less than 10.18 pence for the 2013 financial year. See page 50 for the assumptions underlying this expectation.

Liquidity and capital resources

The major sources of Group liquidity for the 2012 and 2011 financial years were cash generated from operations, dividends from associates, disposal of investments 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 51 to 53.

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, Qatar 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 fund shareholder returns.

Cash flows

Cash generated by operations decreased by 3.7% to £14.8 billion primarily driven by working capital movements and lower EBITDA.

Free cash flow decreased by 13.4% to £6.1 billion primarily due to increased cash capital expenditure, working capital movements and lower dividends from associates[1], offset by lower payments for taxation.

Cash capital expenditure increased by £0.8 billion, driven by a reduction in working capital creditors and increased investment, particularly in Vodacom and Germany.

Payments for taxation decreased by 24.2% to £2.0 billion primarily due to accelerated tax depreciation in the United States and the timing of tax payments in Italy.

Dividends received from associates and investments[1] decreased by £0.3 billion due to the loss of dividends resulting from the disposal of the Group's interest in SFR and China Mobile Limited. Net interest payments were stable at £1.3 billion.

	2012 £m	2011 £m	%
EBITDA	14,475	14,670	(1.3)
Working capital	206	566	
Other	143	156	
Cash generated by operations	**14,824**	**15,392**	**(3.7)**
Cash capital expenditure[2]	(6,423)	(5,658)	
Capital expenditure	(6,365)	(6,219)	
Working capital movement in respect of capital expenditure	(58)	561	
Disposal of property, plant and equipment	117	51	
Operating free cash flow	**8,518**	**9,785**	**(12.9)**
Taxation	(1,969)	(2,597)	
Dividends received from associates and investments[1]	1,171	1,509	
Dividends paid to non-controlling shareholders in subsidiaries	(304)	(320)	
Interest received and paid	(1,311)	(1,328)	
Free cash flow	**6,105**	**7,049**	**(13.4)**
Tax settlement[3]	(100)	(800)	
Licence and spectrum payments	(1,429)	(2,982)	
Acquisitions and disposals[4]	4,872	(183)	
Equity dividends paid	(6,643)	(4,468)	
Purchase of treasury shares	(3,583)	(2,087)	
Foreign exchange	1,283	709	
Income dividend from Verizon Wireless	2,855	–	
Disposal of the Group's 3.2% interest in China Mobile Limited	–	4,269	
Disposal of the Group's SoftBank Mobile Corp. Limited interests	–	1,409	
Other[5]	2,073	542	
Net debt decrease	**5,433**	**3,458**	
Opening net debt	(29,858)	(33,316)	
Closing net debt	**(24,425)**	**(29,858)**	**(18.2)**

Notes:
1 Dividends received from associates and investments for the year ended 31 March 2012 includes £965 million (2011: £1,024 million) tax distribution from our 45% interest in Verizon Wireless and a final dividend of £178 million (2011: £383 million) from SFR prior to the completion of the disposal of our 44% interest. It does not include the £2,855 million income dividend from Verizon Wireless received in January 2012.
2 Cash capital expenditure comprises the purchase of property, plant and equipment and intangible assets, other than licence and spectrum payments, during the year.
3 Related to a tax settlement in the year ended 31 March 2011.
4 Acquisitions and disposals for the year ended 31 March 2012 primarily includes £6,805 million proceeds from the sale of the Group's 44% interest in SFR, £784 million proceeds from the sale of the Group's 24.4% interest in Polkomtel and £2,592 million payment in relation to the purchase of non-controlling interests in Vodafone India Limited.
5 Other for the year ended 31 March 2012 primarily includes £2,301 million movement in the written put options in relation to India and the return of a court deposit made in respect of the India tax case (£310 million). Other for the year ended 31 March 2011 primarily includes £356 million in relation to a court deposit made in respect of the India tax case.

Financial position and resources (continued)

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. 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.

During the year we received distributions totalling £3.8 billion from Verizon Wireless, which included a one-off US$4.5 billion (£2.9 billion) income dividend received in January 2012 and a tax distribution amount of £965 million (2011: £1,024 million) which is included in dividends received from associates and investments as shown on page 55. 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, with the exception of the one-off income dividend received in January 2012. 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. Current projections forecast that tax distributions will cover the United States 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.

In June 2011 we sold our entire 44% interest in SFR and received a final dividend from SFR of €200 million (£178 million) (2011: dividend received of £373 million). 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 2012 financial year Vodafone Italy paid dividends net of withholding tax totalling €289 million (2011: €325 million) to Verizon Communications Inc.

Acquisitions and disposals

We received a net £4,872 million (2011: invested £183 million), net of cash and cash equivalents disposed and acquired, from acquisition and disposal activities during the year.

On 16 June 2011 we sold our entire 44% interest in SFR to Vivendi for a cash consideration of €7.75 billion (£6.8 billion) before tax and transaction costs and received a final dividend from SFR of €200 million (£178 million). Vodafone and SFR also entered into a partner market agreement which will maintain their commercial cooperation.

On 1 July 2011 we acquired an additional 22% stake in Vodafone India Limited ('VIL') from the Essar Group for a cash consideration of US$4.2 billion (£2.6 billion) including withholding tax.

On 9 November 2011 we sold our entire 24.4% interest in Polkomtel in Poland for cash consideration of approximately €918 million (£784 million) before tax and transaction costs.

On 23 April 2012 we announced a recommended cash offer to acquire the entire issued ordinary share capital of Cable & Wireless Worldwide plc, at a value of approximately £1,045 million. For further details refer to note 33 to the consolidated financial statements.

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 which was completed in June 2011. Under this programme the Group purchased a total of 1,631,662,645 shares at an average price per share, including transaction costs, of 171.60 pence.

Following the disposal of our entire 44% interest in SFR to Vivendi on 16 June 2011, we initiated a £4.0 billion share buyback programme. 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
June 2011	95,908	164.15	95,908	3,843
July 2011	178,643	163.77	274,551	3,550
August 2011	196,798	165.14	471,349	3,225
September 2011	199,672	162.77	671,021	2,900
October 2011	173,100	172.69	844,121	2,601
November 2011	201,279	174.42	1,045,400	2,250
December 2011	125,000	175.60	1,170,400	2,030
January 2012	158,400	177.22	1,328,800	1,750
February 2012	181,200	174.42	1,510,000	1,434
March 2012	197,700	171.37	1,707,700	1,095
April 2012	149,800	172.63	1,857,500	836
May 2012	117,000	170.86	1,974,500	636
Total	**1,974,500[4]**	**170.35**	**1,974,500**	**636**

Notes:
1 The nominal value of shares purchased is 11³⁄₇ US cents each.
2 No shares were purchased outside the publicly announced share buyback programme.
3 In accordance with shareholder authority granted at the 2011 AGM.
4 The total number of shares purchased represents 4.0% of our issued share capital at 21 May 2012.

The aggregate amount of consideration paid by the Company for the shares at 21 May 2012 was £3,364 million.

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 2011	5,234	8,171
Reissue of shares	(166)	(277)
Purchase of shares	2,101	4,671
Cancelled shares	(3,000)	(4,724)
31 March 2012	**4,169**	**7,841**

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, cash receipts from investment disposals, 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.

Net debt

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

	2012 £m	2011 £m
Cash and cash equivalents	**7,138**	**6,252**
Short-term borrowings:		
Bonds	(1,289)	(2,470)
Commercial paper[1]	(2,272)	(1,660)
Put options over non-controlling interests	–	(3,113)
Bank loans	(1,635)	(2,070)
Other short-term borrowings[2]	(1,062)	(593)
	(6,258)	**(9,906)**
Long-term borrowings:		
Put options over non-controlling interests	(840)	(78)
Bonds, loans and other long-term borrowings	(27,522)	(28,297)
	(28,362)	**(28,375)**
Other financial instruments[3]	3,057	2,171
Net debt	**(24,425)**	**(29,858)**

Notes:
1 At 31 March 2012 US$1,689 million was drawn under the US commercial paper programme, and €1,226 million and US$309 million were drawn under the euro commercial paper programme.
2 At 31 March 2012 the amount includes £980 million (2011: £531 million) in relation to cash received under collateral support agreements.
3 Comprises i) mark-to-market adjustments on derivative financial instruments which are included as a component of trade and other receivables (2012: £2,959 million; 2011: £2,045 million) and trade and other payables (2012: £889 million; 2011: £548 million) and ii) short-term investments primarily in index linked government bonds included as a component of other investments (2012: £987 million; 2011: £674 million).

At 31 March 2012 we had £7,138 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 investment at 31 March 2012 were money market funds, UK index linked government bonds and bank deposits.

Net debt decreased by £5.4 billion to £24.4 billion primarily due to cash generated by operations, the proceeds from the sale of the Group's 44% interest in SFR and 24.4% interest in Polkomtel, and the £2.9 billion income dividend from Verizon Wireless, partially offset by share buybacks and dividend payments to equity holders.

Net debt represented 28.6% of our market capitalisation at 31 March 2012 compared to 32.8% at 31 March 2011. Average net debt at month end accounting dates over the 12 month period ended 31 March 2012 was £25.6 billion and ranged between £22.3 billion and £29.6 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 2012 amounts external to the Group of €1,226 million (£1,022 million) and US$309 million (£193 million) were drawn under the euro commercial paper programme and US$1,689 million (£1,056 million) was drawn down under the US commercial paper programme, with such funds being provided by counterparties external to the Group. At 31 March 2011 €1,490 million (£1,317 million) was drawn under the euro commercial paper programme and US$551 million (£343 million) was drawn under the US commercial paper programme. The commercial paper facilities were supported by US$4.2 billion (£2.7 billion) and €4.2 billion (£3.5 billion) of syndicated committed bank facilities (see "Committed facilities"). 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 2012 the total amounts in issue under these programmes split by currency were US$13.3 billion, £2.5 billion, €8.9 billion and £0.2 billion sterling equivalent of other currencies.

In the year ended 31 March 2012 bonds with a nominal value equivalent of £0.7 billion at the relevant 31 March 2012 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
22 August 2011	22 August 2012	US$100	65
20 March 2012	20 March 2017	US$1,000	625

On 11 July 2011 we also raised US$850 million (£543 million) through a US private placement with a maturity of 11 July 2016.

At 31 March 2012 we had bonds outstanding with a nominal value of £18,333 million (2011: £20,987 million).

Financial position and resources (continued)

Committed facilities

The following table summarises the committed bank facilities available to us at 31 March 2012.

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, US$4.1 billion of this facility has been extended by one year, maturing 9 March 2017	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.
28 July 2008	
€0.4 billion loan facility, maturing 12 August 2015	This facility was drawn down in full on 12 August 2008.
15 September 2009	
€0.4 billion loan facility, maturing 30 July 2017	This facility was drawn down in full on 30 July 2010.
29 September 2009	
US$0.7 billion export credit agency loan facility, final maturity date 19 September 2018	This facility is fully drawn down and is amortising.
8 December 2011	
€0.4 billion loan facility, maturing on the seven year anniversary of the first drawing	This facility is undrawn and has an availability period of 18 months. The facility is available for financing a project to increase the service availability of the UMTS (3G) mobile network in Italy.
20 December 2011	
€0.3 billion loan facility, maturing on the seven year anniversary of the first drawing	This facility is undrawn and has an availability period of nine months. The facility is available for financing a project to upgrade and expand the mobile telecommunications networks in Turkey and Romania.

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, we 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 was 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 the drawn balance commenced on 30 June 2010 with a final maturity date of 19 September 2018.

The terms and conditions of the €0.4 billion loan facility agreed on 8 December 2011 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 €1.3 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 €0.3 billion loan facility agreed on 20 December 2011 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 and Romanian operating companies spend less than the equivalent of €1.3 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

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 2012 Vodafone India had facilities of INR 396 billion (£4.9 billion) of which INR 340 billion (£4.2 billion) is drawn. Vodafone Egypt has partly drawn EGP 1.2 billion (£126 million) from a syndicated bank facility of EGP 4.0 billion (£414 million) that matures in March 2014. Vodacom had fully drawn facilities of ZAR 11.2 billion (£912 million), US$94 million (£59 million) and TZS 115 billion (£45 million). Vodafone Americas has a US$1.4 billion (£875 million) US private placement with a maturity of 17 August 2015 as well as a US$850 million (£532 million) US private placement with a maturity of 11 July 2016. Ghana had a facility of US$240 million (£150 million) of which US$203 million (£127 million) was drawn with a final maturity of 15 March 2018.

In aggregate we have committed facilities of approximately £17,304 million, of which £7,865 million was undrawn and £9,439 million was drawn at 31 March 2012.

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 2012 are included in note 22 to the consolidated financial statements.

Financial assets and liabilities

Analysis 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.

In respect of our interest in Vodafone India Limited ('VIL'), Piramal Healthcare ('Piramal') acquired approximately 11% shareholding in VIL from Essar during the 2012 financial year. The agreements contemplate various exit mechanisms for Piramal including participating in an initial public offering by VIL or, if such initial public offering has not completed by 18 August 2013 or 8 February 2014 respectively or Piramal chooses not to participate in such initial public offering, Piramal selling its shareholding to the Vodafone Group in two tranches of 5.485% for an aggregate price of between approximately INR 70 billion (£0.8 billion) and INR 83 billion (£1.0 billion).

Off-balance sheet arrangements

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 28 and 29 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.