

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.