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 Northern and Central Europe, Southern Europe, AMAP, and Non-Controlled Interests and Common Functions have developed over the last year. See pages 151 to 155 for commentary on the 2012 compared to the 2011 financial year.

Group[1]

	Northern and Central Europe £m	Southern Europe £m	AMAP £m	Non-Controlled Interests and Common Functions[2] £m	Eliminations £m	2013 £m	2012 £m	% change £	% change Organic
Revenue	20,099	10,522	13,466	481	(123)	44,445	46,417	(4.2)	(1.4)
Service revenue	18,768	9,635	12,345	315	(121)	40,942	42,885	(4.5)	(1.9)
EBITDA[3]	5,713	3,483	4,178	(99)	–	13,275	14,475	(8.3)	(3.1)
Adjusted operating profit	2,081	1,802	1,678	6,399	–	11,960	11,532	3.7	9.3
Adjustments for:									
Impairment loss						(7,700)	(4,050)		
Other income and expense[4]						468	3,705		
Operating profit						**4,728**	**11,187**		

Notes:
1 Current year results reflect average foreign exchange rates of £1:€1.23 and £1:US$1.58.
2 Common Functions primarily represent the results of the partner markets and the net result of unallocated central Group costs.
3 Operating expenses for the year ended 31 March 2013 included restructuring charges of £310 million (2012: £144 million).
4 Other income and expense for the year ended 31 March 2013 included a £473 million gain on acquisition of CWW. The year ended 31 March 2012 included 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.

Revenue

Group revenue fell by -4.2% to £44.4 billion, with service revenue of £40.9 billion, a decline of -1.9%* on an organic basis. Our performance reflected continued strong demand for data services and good growth in our major emerging markets, offset by regulatory changes, challenging macroeconomic conditions, particularly in Southern Europe, and continued competitive pressures.

In Northern and Central Europe service revenue declined by -0.2%* as growth in Germany and Turkey was offset by increased competition and some macroeconomic pressure in other markets.

In Southern Europe service revenue declined by -11.6%* reflecting severe macroeconomic weakness in our main markets, intense competition and MTR cuts.

In AMAP service revenue increased by 3.9%* with continued growth in all of our markets apart from Australia and New Zealand.

EBITDA and profit

Group EBITDA decreased by -8.3% to £13.3 billion, primarily driven by lower revenue and higher restructuring costs partially offset by operating cost efficiencies.

Adjusted operating profit grew by 3.7%, driven by 31.9% growth in our share of profits of VZW to £6.4 billion, partially offset by lower EBITDA.

Operating profit decreased by -57.7% to £4.7 billion, primarily due to the gains on the disposal of the Group's interests in SFR and Polkomtel in the prior year and the higher impairment charges in the current year, partially offset by the gain on acquisition of CWW of £0.5 billion.

An impairment loss of £7.7 billion was recorded in relation to Italy and Spain, primarily driven by adverse performance against previous plans and adverse movements in discount rates.

Northern and Central Europe

	Germany £m	UK £m	Other Northern and Central Europe £m	Eliminations £m	Northern and Central Europe £m	% change £m	% change Organic
Year ended 31 March 2013							
Revenue	7,857	5,150	7,181	(89)	20,099	2.7	–
Service revenue	7,275	4,809	6,773	(89)	18,768	2.8	(0.2)
EBITDA	2,735	1,209	1,769	–	5,713	(3.7)	(2.4)
Adjusted operating profit	1,305	294	482	–	2,081	(17.7)	(8.1)
EBITDA margin	34.8%	23.5%	24.6%		28.4%		
Year ended 31 March 2012							
Revenue	8,233	5,397	6,042	(97)	19,575	3.6	3.7
Service revenue	7,669	4,996	5,695	(95)	18,265	2.2	2.5
EBITDA	2,965	1,294	1,675	–	5,934	2.7	2.1
Adjusted operating profit	1,491	402	637	–	2,530	2.2	0.8
EBITDA margin	36.0%	24.0%	27.7%		30.3%		

Revenue increased by 2.7% including a -4.1 percentage point negative impact from foreign exchange rate movements and a 6.8 percentage point positive impact from M&A and other activity. On an organic basis service revenue declined by -0.2%*, driven by challenging macroeconomic conditions in some markets, increased competition and the impact of MTR cuts, partially offset by continued growth in data revenue. Organic growth in Germany and Turkey was more than offset by declines in all other markets.

EBITDA declined by -3.7%, including a -4.3 percentage point negative impact from foreign exchange rate movements and a 3.0 percentage point positive impact from M&A and other activity. On an organic basis EBITDA decreased by -2.4%*, resulting from a reduction in service revenue in most markets, the impact of restructuring costs, and higher customer investment due to the increased penetration of smartphones.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Northern and Central Europe	**–**	**6.8**	**(4.1)**	**2.7**
Service revenue				
Germany	0.5	(0.1)	(5.5)	(5.1)
UK	(4.0)	0.3	–	(3.7)
Other Northern and Central Europe	2.2	23.1	(6.4)	18.9
Northern and Central Europe	**(0.2)**	**7.1**	**(4.1)**	**2.8**
EBITDA				
Germany	(2.6)	0.2	(5.4)	(7.8)
UK	(6.9)	0.3	–	(6.6)
Other Northern and Central Europe	1.9	9.8	(6.1)	5.6
Northern and Central Europe	**(2.4)**	**3.0**	**(4.3)**	**(3.7)**
Adjusted operating profit				
Germany	(7.5)	0.3	(5.3)	(12.5)
UK	(27.7)	0.8	–	(26.9)
Other Northern and Central Europe	4.3	(23.9)	(4.7)	(24.3)
Northern and Central Europe	**(8.1)**	**(5.4)**	**(4.2)**	**(17.7)**

Note:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2011. Refer to "Organic growth" on page 188 for further detail.

Germany

Service revenue increased by 0.5%*, driven by a 1.3%* increase in mobile service revenue. Growth in enterprise and wholesale revenue, despite intense price competition, was offset by lower prepaid revenue. Data revenue increased by 13.6%* driven by higher penetration of smartphones and an increase in those sold with a data bundle. Vodafone Red, introduced in October 2012, performed in line with expectations and had a positive impact on customer perception. Enterprise revenue grew by 3.0%*, despite the competitive environment.

The roll out of LTE services continued and was available in 81 cities, with population coverage of 61% at 31 March 2013.

EBITDA declined by -2.6%*, with a -1.3* percentage point reduction in EBITDA margin, driven by higher customer and restructuring costs, partially offset by operating cost efficiencies and a one-off benefit from a legal settlement during Q2.

UK

Service revenue declined by -4.0%* driven by the impact of MTR cuts effective from April 2012, intense price competition and macroeconomic weakness, which led to lower out-of-bundle usage. Data revenue grew by 4.2%* driven by higher penetration of smartphones. Vodafone Red plans, launched in September 2012, performed well, with over one million customers at 31 March 2013.

Following the purchase of additional spectrum in February 2013, preparation for LTE roll-out is underway.

The network sharing joint venture between Telefónica UK and Vodafone UK, announced in June 2012, is now operational and the integration of the CWW enterprise businesses into Vodafone UK is proceeding successfully.

EBITDA declined by -6.9%*, with a -0.5* percentage point reduction in EBITDA margin, driven by higher retention activity and the impact of restructuring costs.

Other Northern and Central Europe[2]

Service revenue increased by 2.2%* as growth in Turkey more than offset declines in the rest of the Other Northern and Central Europe region. Service revenue in Turkey grew by 17.3%*, primarily driven by growth in the contract customer base and an increase in data revenue due to mobile internet and higher smartphone penetration. Revenue also benefited from enterprise growth and the success of commercial initiatives. In the Netherlands service revenue declined by -2.7%* due to more challenging macroeconomic conditions and lower out-of-bundle usage. CWW contributed £1,234 million of revenue since it was acquired on 27 July 2012.

EBITDA increased by 1.9%*, with a -0.3* percentage point reduction in the EBITDA margin, as margin improvement in Turkey, driven by the increase in scale and cost management, were partially offset by declines in most other markets primarily resulting from lower revenue. Turkey reported positive operating free cash flow for the first time this year.

Note:
2 The results of CWW are included within the reported results from the date of acquisition, however, they are excluded from the organic results. Refer to definitions of terms on page 188 for more details.

Operating results (continued)

Southern Europe

	Italy £m	Spain £m	Other Southern Europe £m	Eliminations £m	Southern Europe £m	% change £m	% change Organic
Year ended 31 March 2013							
Revenue	4,755	3,904	1,883	(20)	10,522	(16.0)	(10.8)
Service revenue	4,380	3,629	1,644	(18)	9,635	(16.7)	(11.6)
EBITDA	1,908	942	633	–	3,483	(21.5)	(16.4)
Adjusted operating profit	1,163	342	297	–	1,802	(32.3)	(27.5)
EBITDA margin	40.1%	24.1%	33.6%		33.1%		
Year ended 31 March 2012							
Revenue	5,658	4,763	2,128	(27)	12,522	(3.9)	(5.4)
Service revenue	5,329	4,357	1,904	(25)	11,565	(4.7)	(6.2)
EBITDA	2,514	1,193	731	–	4,438	(11.0)	(12.5)
Adjusted operating profit	1,735	566	359	–	2,660	(16.8)	(18.2)
EBITDA margin	44.4%	25.0%	34.4%		35.4%		

Revenue decreased by -16.0% including a -5.0 percentage point impact from adverse foreign exchange rate movements. On an organic basis service revenue declined by -11.6%*, driven by the impact of MTR cuts, severe macroeconomic weakness and intense competition, partially offset by growth in data revenue. Revenue declined in all of the major markets in the region.

EBITDA declined by -21.5%, including a -4.9 percentage point impact from adverse foreign exchange rate movements. On an organic basis EBITDA decreased by -16.4%*, resulting from a reduction in service revenue in most markets and the impact of restructuring costs, partially offset by a reduction in operating costs.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Southern Europe	**(10.8)**	**(0.2)**	**(5.0)**	**(16.0)**
Service revenue				
Italy	(12.8)	(0.1)	(4.9)	(17.8)
Spain	(11.5)	(0.2)	(5.0)	(16.7)
Other Southern Europe	(8.2)	(0.4)	(5.1)	(13.7)
Southern Europe	**(11.6)**	**(0.1)**	**(5.0)**	**(16.7)**
EBITDA				
Italy	(19.5)	–	(4.6)	(24.1)
Spain	(15.4)	(0.6)	(5.0)	(21.0)
Other Southern Europe	(7.1)	(0.4)	(5.9)	(13.4)
Southern Europe	**(16.4)**	**(0.2)**	**(4.9)**	**(21.5)**
Adjusted operating profit				
Italy	(28.7)	(0.1)	(4.2)	(33.0)
Spain	(34.3)	(0.9)	(4.4)	(39.6)
Other Southern Europe	(10.4)	(0.9)	(6.0)	(17.3)
Southern Europe	**(27.5)**	**(0.3)**	**(4.5)**	**(32.3)**

Note:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2011. Refer to "Organic growth" on page 188 for further detail.

Italy

Service revenue declined by -12.8%* driven by the severe macroeconomic weakness and intense competition, as well as the impact of MTR cuts starting from 1 July 2012. Data revenue increased by 4.4%* driven by mobile internet growth and the higher penetration of smartphones, which more than offset the decline in mobile broadband revenue. Vodafone Red plans, branded as "Vodafone Relax" in Italy, continued to perform well and now account for approximately 30% of the contract customer base at 31 March 2013. The majority of contract additions are Vodafone Relax tariffs. Fixed revenue declined by -6.8%* driven by intense competition and a reduction in the customer base due to the decision to stop consumer acquisitions in areas where margins are impacted by unfavourable regulated wholesale prices.

LTE commercial services were launched in October 2012 and were available in 21 cities at 31 March 2013.

EBITDA declined by -19.5%*, with a -4.3* percentage point fall in the EBITDA margin, driven by the decline in service revenue and an increase in commercial costs, partially offset by operating cost efficiencies such as site sharing agreements and the outsourcing of network maintenance.

Spain

Service revenue declined by -11.5%* driven by continued macroeconomic weakness, high unemployment leading to customers optimising their spend, and a lower customer base following our decision to remove handset subsidies for a period earlier in the year. Competition remains intense with the increased popularity of converged consumer offers in the market. Data revenue grew by 16.5%* driven by the higher penetration of smartphones and an increase in those sold with a data bundle. Vodafone Red, which was launched in Q3, continues to perform well. Fixed revenue declined by -2.9%*, primarily due to intense competition, although new converged fixed/mobile tariffs had a positive impact on fixed broadband customer additions during Q4.

In March 2013 Vodafone Spain signed an agreement with Orange to co-invest in a fibre network in Spain, with the intention to reach six million households and workplaces across 50 cities by September 2017. The combined capital expenditure is expected to reach €1 billion.

EBITDA declined by -15.4%*, with a -0.7* percentage point reduction in EBITDA margin, primarily driven by lower revenue and the impact of restructuring costs offset by commercial and operating cost efficiencies. The EBITDA margin stabilised in H2, benefiting from lower operating and commercial costs.

Other Southern Europe

Service revenue declined by -8.2%*, driven by declines in Greece and Portugal, which more than offset growth in Albania and Malta. Macroeconomic weakness and intense competition resulted in service revenue declines of -13.4%* and -8.2%* in Greece and Portugal, respectively. Greece and Portugal were also impacted by an MTR cut.

EBITDA declined by -7.1%*, with a -0.4* percentage point reduction in EBITDA margin, primarily driven by lower service revenue, partially offset by operating cost efficiencies.

Africa, Middle East and Asia Pacific

	India £m	Vodacom £m	Other AMAP £m	Eliminations £m	AMAP £m	% change £m	% change Organic
Year ended 31 March 2013							
Revenue	4,324	5,206	3,937	(1)	13,466	(2.9)	4.3
Service revenue	4,292	4,420	3,634	(1)	12,345	(3.2)	3.9
EBITDA	1,240	1,891	1,047	–	4,178	1.5	10.3
Adjusted operating profit	221	1,196	261	–	1,678	14.0	26.7
EBITDA margin	28.7%	36.3%	26.6%		31.0%		
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%		

Revenue declined by -2.9% including a -8.2 percentage point adverse impact from foreign exchange rate movements, particularly the Indian rupee and the South African rand. On an organic basis service revenue grew by 3.9%* driven by customer and data revenue growth, partially offset by the impact of MTR reductions, competitive and regulatory pressures, and a general weakening in macroeconomic conditions. Growth was led by robust performances in India, Vodacom, Egypt, Ghana and Qatar, offset by service revenue declines in Australia and New Zealand.

EBITDA increased by 1.5% after a -9.4 percentage point adverse impact from foreign exchange rate movements. On an organic basis, EBITDA grew by 10.3%* driven primarily by strong growth in India, Vodacom and Egypt as well as improved contributions from Ghana and Qatar, offset in part by declines in Australia and New Zealand.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – AMAP	**4.3**	**1.0**	**(8.2)**	**(2.9)**
Service revenue				
India	10.7	3.8	(12.7)	1.8
Vodacom	3.0	(3.2)	(9.7)	(9.9)
Other AMAP	(2.1)	3.8	(1.5)	0.2
AMAP	**3.9**	**1.1**	**(8.2)**	**(3.2)**
EBITDA				
India	24.0	(0.1)	(13.4)	10.5
Vodacom	10.3	–	(12.3)	(2.0)
Other AMAP	(2.6)	2.0	(0.9)	(1.5)
AMAP	**10.3**	**0.6**	**(9.4)**	**1.5**
Adjusted operating profit				
India	291.1	(3.4)	(19.4)	268.3
Vodacom	24.8	0.3	(14.8)	10.3
Other AMAP	(12.5)	(9.2)	1.3	(20.4)
AMAP	**26.7**	**(2.1)**	**(10.6)**	**14.0**

Note:
1 "Other activity" includes the impact of M&A activity, the revision to intra-group roaming charges from 1 October 2011 and the impact of Indus Towers revising its accounting for energy cost recharges. Refer to "Organic growth" on page 188 for further detail.

India

Service revenue grew by 10.7%* driven by strong growth in mobile voice minutes and data revenue, partially offset by the impact of regulatory changes. Average customer growth slowed in Q4, as Q3 regulatory changes affecting subscriber verification continued to impact gross additions, however customer acquisition costs remained low.

For the year as a whole, growth was negatively impacted by the introduction of new consumer protection regulations on the charging of access fees and the marketing of integrated tariffs and value-added services. However, in Q4 the customer base returned to growth and usage increased. Data revenue grew by 19.8%* driven by increased data customers and higher smartphone penetration. At 31 March 2013 active data customers totalled 37.3 million including approximately 3.3 million 3G data customers.

There was a lower rate of growth at Indus Towers, our network infrastructure joint venture, with a slow down in tenancies from smaller entrants, some operators exiting sites following licence cancellations and a change in the pricing structure for some existing customers in the first half of the year.

EBITDA grew by 24.0%*, with a 3.3* percentage point increase in EBITDA margin, driven by the higher revenue, operating cost efficiencies and the impact of lower customer acquisition costs, partially offset by inflationary pressure.

Vodacom

Service revenue grew by 3.0%* mainly driven by growth in Tanzania, the Democratic Republic of Congo ('DRC') and Mozambique. In South Africa, service revenue decreased by -0.3%*, with the growth in data revenue and the success of new prepaid offers being more than offset by MTR reductions, macroeconomic weakness leading to customer spend optimisation with lower out-of-bundle usage, and a weaker performance from independent service providers. Data revenue in South Africa grew by 16.1%*, with higher smartphone penetration and data bundles offsetting continued pricing pressure. Vodafone Smart and Vodafone Red, our new range of integrated contract price plans, were introduced in South Africa during March 2013.

On 10 October 2012, Vodacom announced the commercial launch of South Africa's first LTE network, with 601 LTE sites operational at 31 March 2013.

Vodacom's mobile operations outside South Africa delivered strong service revenue growth of 23.3%*, excluding Vodacom Business Africa, driven by a larger customer base and increasing data take-up. M-Pesa continues to perform well in Tanzania, with approximately 4.9 million active users, and was launched in DRC in November 2012. During the year Vodacom DRC became the first operator to launch 3G services in the DRC.

Operating results (continued)

EBITDA grew by 10.3%*, with a 1.6* percentage point increase in EBITDA margin, primarily driven by revenue growth in Vodacom's mobile operations outside South Africa and savings in network costs in South Africa following investment in single RAN and transmission equipment.

Other AMAP

Organic service revenue decreased by -2.1%* with growth in Egypt, Ghana and Qatar more than offset by revenue declines in Australia and New Zealand. Australia continued to experience steep revenue declines on the back of ongoing service perception issues and a declining customer base. There has been a strong focus on network improvement and arresting the weakness in brand perception. In Egypt the launch of value management initiatives, take-up of data services and the increase in international incoming call volumes and rates drove service revenue growth of 3.7%*, despite competitive pressures and the uncertain political environment. Data revenue continued to show strong growth of 29.6%* and fixed line revenue grew by 29.0%*. In Qatar service revenue grew by 29.8%*, driven by the growth in the customer base, which is now over one million, supported by successful new propositions. In Ghana, continued strong growth in the customer base and the success of integrated tariffs led to service revenue growth of 24.2%*.

EBITDA declined by -2.6%*, with EBITDA margin remaining stable, with the impact of service revenue declines in Australia and New Zealand offsetting growth in Egypt, Qatar and Ghana.

Non-Controlled Interests

Verizon Wireless[1 2 3]

	2013 £m	2012 £m	% change £	% change Organic
Service revenue	19,697	18,039	9.2	8.1
Revenue	21,972	20,187	8.8	7.8
EBITDA	8,831	7,689	14.9	13.6
Interest	(25)	(212)	(88.2)	
Tax[2]	13	(287)	(104.5)	
Group's share of result in VZW	6,422	4,867	31.9	30.5

In the US VZW reported 5.9 million net mobile retail connection additions in the year, bringing its closing mobile retail connection base to 98.9 million, up 6.4%.

Service revenue growth of 8.1%* continued to be driven by the expanding number of accounts and ARPA[4] growth from increased smartphone penetration and a higher number of connections per account.

EBITDA margin improved, with efficiencies in operating expenses and direct costs partially offset by higher acquisition and retention costs reflecting the increased new connections and demand for smartphones.

VZW's net debt at 31 March 2013 totalled US$6.2 billion[5] (2012: US$6.4 billion[5]). During the year VZW paid a US$8.5 billion income dividend to its shareholders and completed the acquisition of spectrum licences for US$3.7 billion (net).

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 VZW relates only to the corporate entities held by the VZW partnership and certain US 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 The definition of "connections" reported by VZW is the same as "customers" as reported by Vodafone.
4 Average monthly revenue per account.
5 Net debt excludes pending credit card receipts.

References to "Q2" are to the quarter ended 30 September 2012, references to the "Q3" or "previous quarter" are to the quarter ended 31 December 2013, and references to "Q4" and "fourth quarter" are to the quarter ended 31 March 2013 unless otherwise stated. References to the "first half of the year" are to the six months ended 30 September 2012 and references to "H2" or the "second half of the year" are to the six months ended 31 March 2013 unless otherwise stated. References to the "year" or "financial year" are to the financial year ended 31 March 2013, references to the "prior financial year" are to the financial year ended 31 March 2012, and references to the "new financial year" and "coming year" are to the financial year ended 31 March 2014 unless otherwise stated. References to the"2012 financial year", "2013 financial year", the "2014 financial year", the "2015 financial year", and the "2016 financial year" are to the financial years ended/ending 31 March 2012, 2013, 2014, 2015 and 2016, respectively.

Guidance

Please see page 179 for "Use of non-GAAP financial information", page 187 for "Definition of terms" and page 185 for "Forward-looking statements".

Performance against 2013 financial year guidance

Based on guidance foreign exchange rates[1], and excluding M&A and restructuring costs, our adjusted operating profit for the 2013 financial year was £12.3 billion, above the £11.1 billion to £11.9 billion range set in May 2012.

On the same basis our free cash flow was £5.8 billion, at the top of the range of £5.3 billion to £5.8 billion.

2014 financial year guidance[2]

	Adjusted operating profit £bn	Free cash flow £bn
2014 financial year guidance	12.0–12.8	Around 7.0

We expect adjusted operating profit to be in the range of £12.0 billion to £12.8 billion. We expect free cash flow to be around £7.0 billion, including the £2.1 billion VZW dividend due in June 2013. We expect capex to remain broadly steady on a constant currency basis.

We expect the Group EBITDA margin, excluding M&A and restructuring costs, to decline slightly year-on-year, reflecting the ongoing weak macroeconomic environment in Europe.

Dividend policy

After over 22% growth in the ordinary dividend per share over the last three years, the Board is focused on continuing to balance the long-term needs of the business with ongoing shareholder remuneration, and going forward aims at least to maintain the ordinary dividend per share at current levels.

Assumptions

We have based guidance for the 2014 financial year on our current assessment of the global macroeconomic outlook and assume foreign exchange rates of £1:€1.17 and £1:US$1.52. It excludes the impact of licences and spectrum purchases, additional income dividends from VZW, 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.

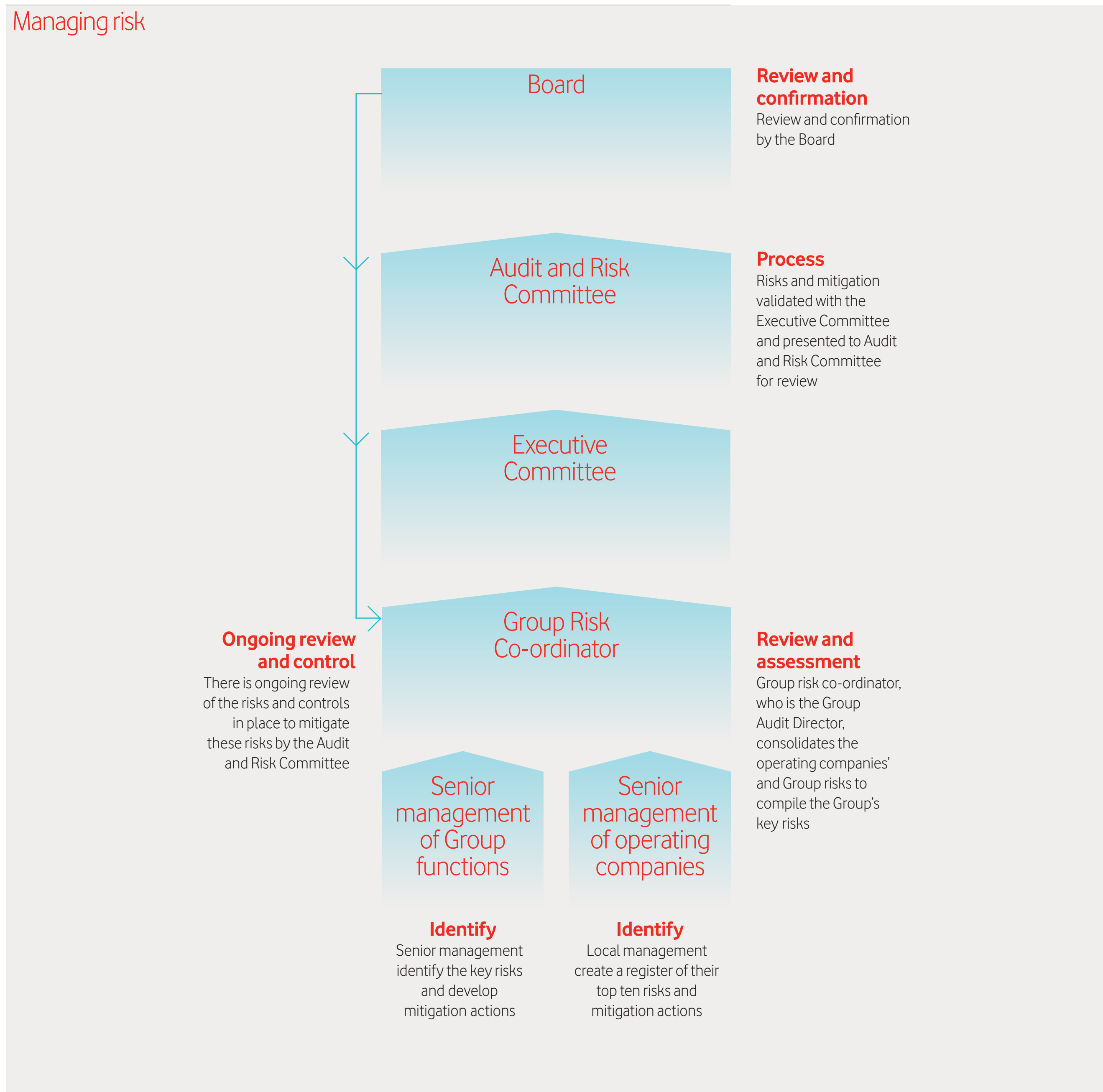
Actual foreign exchange rates may vary from the foreign exchange rate assumptions used. A 1% change in the euro to sterling exchange rate would impact adjusted operating profit by £30 million and free cash flow by approximately £20 million. A 1% change in the dollar to sterling exchange rate would impact adjusted operating profit by approximately £70 million.

Notes:
1 Guidance foreign exchange rates for the year ended 31 March 2013 were £1:€1.23 and £1:US$1.62.
2 For consistency with the basis of presentation of joint ventures in previous years, guidance does not take into account the impact on the Group's financial results of adopting IFRS 11, Joint Arrangements, for the year ending 31 March 2014.

Principal risk factors and uncertainties

Identifying and managing our risks

We have a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the ever changing environments in which we operate.



The Group's key risks are outlined below:

1. Our business could be adversely affected by a failure or significant interruption to our telecommunications networks or IT systems.

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

There is a risk that an attack on our infrastructure by a malicious individual or group could be successful and impact the 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: 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 network equipment is installed on trucks ready to be moved on site if required.

Our critical infrastructure has been enhanced to prevent unauthorised access and reduce the likelihood and impact of a successful attack. Network contingency plans are linked with our business continuity and disaster recovery plans which are in place to cover the residual risks that cannot be mitigated. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually.

We also manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 monitoring of our network in many countries.

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 protect adequately 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. Increased competition may reduce our market share and profitability.

Risk: We face intensifying competition 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, if customers 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.

4. 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 US. 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.

5. Our existing service offerings could become disadvantaged as compared to those offered by converged competitors or other technology providers.

Risk: In a number of markets we face competition from providers who have the ability to sell converged services (combinations of fixed line, broadband, public Wi-Fi, TV and mobile) on their existing infrastructure which we cannot either replicate or provide at a similar price point. Additionally, the combination of services may allow competitors to subsidise the mobile component of their offering. This could lead to an erosion of our customer base and reduce the demand for our core services and impact our future profitability.

Advances in smartphone technology places more focus on applications, operating systems, and 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 application developers, operating system providers, and handset suppliers could significantly impact our future profitability.

Mitigation: In some markets we are already providing fixed-line telecommunication services (voice and broadband). In other existing markets we actively look for opportunities to provide services beyond mobile through acquisition, partnerships, or joint ventures.

We have also developed strategies which strengthen our relationships with customers by accelerating the introduction of integrated voice, messaging and data tariffs to avoid customers reducing their out-of-bundle usage through substitution.

Principal risk factors and uncertainties (continued)

6. Severely deteriorating economic conditions could impact one or more of our markets.
Risk: Economic conditions in many of the markets where we operate, especially in Europe, continue to deteriorate or stagnate. These conditions, combined with the impact of austerity measures, result in lower levels of disposable income and may result in significantly lower revenue as customers give up their mobile devices or move to cheaper tariffs.

There is also a possibility of one or more countries exiting the eurozone, causing currency devaluation in certain countries and possibly leading to a reduction in our revenue and impairment of our financial and non-financial assets. This may also lead to further 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.

See page 49 for further details on the potential impact for Vodafone of a market leaving the eurozone.

7. Our business may be impacted 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 which oversees a coordinated global programme to address and reduce public concern. We have close engagement with European Union 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.

8. Failure to deliver enterprise service offerings may adversely affect our business.
Risk: By expanding our enterprise service offerings through the growth of Vodafone Global Enterprise, the acquisitions of CWW and TelstraClear, and the establishment of cloud, hosting and international carrier services, the Group increasingly provides fixed and mobile communication services to organisations that may provide vital national services. These organisations rely on our networks and systems 24 hours a day, 365 days a year to deliver their products and services to their customers. A failure to build and maintain our infrastructure to the required levels of resilience for enterprise customers and to deliver to our contracted service level agreements may result in a costly business impact and cause serious damage to our reputation.

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. Network contingency plans are linked with our business continuity and disaster recovery plans which are in place to cover the residual risks that cannot be mitigated. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually. We also manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 monitoring of our network in many countries.

9. We depend on a number of key suppliers to operate our business.
Risk: We depend on a limited number of suppliers for strategically important network and IT infrastructure and associated support services to operate and upgrade our networks and provide key services to our customers. Our operations could be adversely impacted by the failure of a key supplier who could no longer support our existing infrastructure, by a key supplier commercially exploiting their position in a product area following the corporate failures of/the withdrawal from a specific market by competitors, or by major suppliers significantly increasing prices on long-term programmes where the cost or technical feasibility of switching supplier becomes a significant barrier.

Mitigation: We periodically review the performance of key suppliers, both operationally and financially, across individual markets and from a Group perspective. Other processes are in place to regularly identify and manage "suppliers at risk." Most supplier categories have business continuity plans in place in the event of single supplier failure.

10. 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 the positive India Supreme Court decision relating to an ongoing tax case in India, the Indian government has introduced retrospective tax legislation which would in effect overturn the court's decision and has raised challenges around the pricing of capital transactions. Such or similar types of action in other jurisdictions, including changes in local or international tax rules or new challenges by tax authorities, may expose us to significant additional tax liabilities which would affect the results of the business.

Mitigation: We maintain constructive 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.

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, 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 property, plant and equipment, goodwill and other intangible assets 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 amount 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 87.

Eurozone

The Group continues to face currency, operational and financial risks as a result from the challenging economic conditions in the eurozone and the potential exit of one or more countries from the euro. We continue to keep our policies and procedures under review to endeavour to minimise 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 we transact.

The "Operating results" section of the annual report on pages 40 to 44 sets out a discussion and analysis of the relative contributions from each of our three regions and the major geographical markets within each, to the Group's service revenue and EBITDA performance. Our markets in Greece, Ireland, Italy, Portugal and Spain continue to be the most directly impacted by the current market conditions and in order of contribution represent 14% (Italy), 7% (Spain), 3% (Portugal) and 3% (Ireland and Greece combined) of the Group's EBITDA for the year ended 31 March 2013. An average 3% decline in the sterling equivalent of these combined geographical markets due to currency revaluation would reduce the Group's EBITDA by approximately £0.1 billion. Our foreign currency earnings are diversified through our 45% equity interest in VZW, which operates in the US and generates its earnings in US dollars. VZW, which is equity accounted, contributed 54% of the Group's adjusted operating profit for the year ended 31 March 2013.

We employ 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 A6 to the consolidated financial statements.

Operational risk

The significant areas of operational risk for the Group are investment risk, particularly in relation to the management of the counterparties holding our cash and liquid investments; trading risks primarily in relation to procurement and related contractual matters; and business continuity risks focused on cash management in the event of disruption to banking systems.

Financial/investment risk: We remain focused on counterparty risk management and in particular the protection and availability of cash deposits and investments. We carefully manage counterparty limits with financial institutions holding the Group's liquid investments and maintain a significant proportion of liquid investments in sterling and US dollar denominated holdings. Our policies require cash sweep arrangements, to ensure no operating company has more than €5 million on deposit on any one day. Further, we have had collateral support agreements in place for a number of years, with a significant number of counterparties, to pass collateral to the Group under certain circumstances. We have a net £1,151 million of collateral assets in our statement of financial position at 31 March 2013. See "Financial risk management – Credit risk" in note A6 to the consolidated financial statements for further information.

Trading risks: We continue to monitor and assess the structure of certain procurement contracts to place the Group in a better position in the event of the exit of a country from the eurozone.

Business continuity risks: Key business continuity priorities are focused on planning to facilitate 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 also have in place contingency plans with key suppliers that would assist us to continue to support our network infrastructure, retail operations and employees.

We continue to maintain appropriate levels of cash and short-term investments in many currencies, with a carefully controlled group of counterparties, to minimise the risks to the ongoing access to that liquidity and therefore our ability to settle debts as they become due. See "Financial risk management – Liquidity risk" in note A6 to the consolidated financial statements for more information.

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.

We have 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 2013 and identified aggregate impairment charges of £7.7 billion in relation to Vodafone Italy and Spain. See note 12 to the consolidated financial statements for further detail on this exercise, together with the sensitivity of the results to reasonably possible adverse assumptions.

Our operating companies in Italy, Ireland, Greece, Portugal and Spain have billed and unbilled trade receivables totalling £1.9 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. See "Financial risk management – Credit risk" in note A6 to the consolidated financial statements for detailed disclosures on 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.