

Chief Financial Officer's review

Our financial performance was mixed

Our financial performance reflects continued strong growth in our emerging markets, partly offsetting competitive, regulatory and macroeconomic pressures in Europe. While we have seen declines in our revenue and EBITDA, we have met our financial guidance and increased the dividend per share.

Overall performance

The Group's emerging markets businesses have delivered strong organic growth this year, combining good local execution on marketing and distribution with leading network quality. In particular, data usage in emerging markets is really taking off, providing further growth potential for the Group. This has however been offset by significant ongoing pressures in our European operations, from a combination of a weak macroeconomic environment, regulatory headwinds, and stiff competition. We experienced revenue declines in all of our major European markets, and related pressure on margins, despite continuing measures to control costs.

Group revenue for the year fell 3.5%* to £43.6 billion, with Group organic service revenue down 4.3%*. Our AMAP region service revenue continued to perform strongly, growing 6.1%*, driven by our major emerging markets (India +13.0%*, Vodacom +4.1%*, Turkey +7.9%*). The Group EBITDA¹ margin fell 1.3* percentage points on an organic basis, as the impact of steep revenue declines in Europe offset improving margins in AMAP, notably in India and Australia. Group EBITDA¹ fell 7.4%* to £12.8 billion.

Group adjusted operating profit¹ fell 9.4%* year-on-year to £7.9 billion largely reflecting the decline in EBITDA¹, and includes a £3.2 billion profit contribution from Verizon Wireless to 2 September 2013. Adjusted operating profit on a pro forma guidance basis was £4.9 billion².

Verizon Wireless

The profit contribution of Verizon Wireless is reported in our 2014 financial year results for five months to 2 September 2013, the date we announced its sale. Our share of Verizon Wireless' profits for this five month period amounted to £3.2 billion. The sale of the US group, whose principal asset was Verizon Wireless, led to a pre-tax gain on disposal of £45.0 billion.



Impairment losses

We recorded impairment charges of £6.6 billion relating to our businesses in Germany, Spain, Portugal, Czech Republic and Romania. These were driven by lower projected cash flows within business plans, resulting from the tougher macroeconomic environment and heavy price competition.

Financing costs and taxation

On a statutory basis, net financing costs have decreased 6.4% primarily due to the recognition of mark-to-market gains, offset by a £99 million loss (2013: £nil) on the redemption of US\$5.65 billion bonds as part of the restructuring of the Group's financing arrangements following the disposal of Verizon Wireless and lower interest income on settlement of tax issues.

The adjusted effective tax rate for the year ended 31 March 2014 was 27.3%, in line with our expectation for the year. Our adjusted effective tax rate does not include the impact of the recognition of an additional deferred tax asset in respect of the Group's historic tax losses in Germany (£1,916 million) and Luxembourg (£17,402 million), and the estimated US tax liability (£2,210 million) relating to the rationalisation and reorganisation of our non-US assets prior to the disposal of our interest in Verizon Wireless.

Adjusted earnings per share

Adjusted earnings per share¹ fell 12.8% to 17.54 pence, driven by lower adjusted operating profit, offset by a lower share count arising from the Group's share buyback programme. The Board is recommending a final dividend per share of 7.47 pence, to give total ordinary dividends per share for the year of 11.0 pence, up 8% year-on-year.

Free cash flow

Free cash flow was £4.4 billion, down 21.5% from the prior year. On a pro forma guidance basis, free cash flow was £4.8 billion², within our guidance range of £4.5 billion to £5.0 billion for the year. The year-on-year decline reflects the relative strength of sterling against the South African rand and Indian rupee over the course of the year, partly offset by movements in the euro, as well as tough trading conditions. In addition to the free cash flow reported above, we received an income dividend of £2.1 billion from Verizon Wireless.

Capital expenditure

Capital expenditure increased 13.3% to £7.1 billion, with the growth driven by the inclusion of CWW for 12 months, the inclusion of KDG from October 2013, the commencement of our fibre roll-out in Spain, and initial Project Spring investments in Germany and India. In addition, we acquired and renewed spectrum for £2.2 billion in India, Romania, New Zealand and the Czech Republic, with a cash cost of £0.9 billion during the year.

Group^{1,2,3}

	Management basis ¹						Statutory basis ¹	
	Europe £m	AMAP £m	Non-Controlled Interests and Common Functions ⁴ £m	Eliminations £m	2014 £m	2013 £m	2014 £m	2013 £m
Revenue	27,997	14,971	686	(38)	43,616	44,445	38,346	38,041
Service revenue	25,977	13,087	502	(37)	39,529	40,495	35,190	34,999
Other revenue	2,020	1,884	184	(1)	4,087	3,950	3,156	3,042
EBITDA ²	8,175	4,680	(24)	–	12,831	13,566	11,084	11,466
Adjusted operating profit²	2,688	2,092	3,094	–	7,874	12,577	4,310	5,590
Adjustments for:								
Impairment losses							(6,600)	(7,700)
Restructuring costs and other one-off items							(355)	(311)
Amortisation of acquired customer bases and brand intangible assets							(551)	(249)
Other income and expense							(717)	468
Operating loss							(3,913)	(2,202)
Non-operating income and expense							(149)	10
Net financing costs							(1,208)	(1,291)
Income tax credit/(expense)							16,582	(476)
Profit/(loss) for the financial year from continuing operations							11,312	(3,959)
Profit for the financial year from discontinued operations							48,108	4,616
Profit for the financial year							59,420	657

Notes:

- 1 Management basis amounts and growth rates are calculated consistent with how the business is managed and operated, and include the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis, including the profit contribution from Verizon Wireless to 2 September 2013. Statutory basis includes the results of the Group's joint ventures using the equity accounting basis rather than on a proportionate consolidation basis, with the profit contribution from Verizon Wireless being classified within discontinued operations. See "Non-GAAP information" on page 201 for details.
- 2 All amounts are presented on the Group's revised segment basis. EBITDA and adjusted operating profit have been restated to exclude restructuring costs. Adjusted operating profit has also been redefined to exclude amortisation of customer base and brand intangible assets. See page 201 for "Non-GAAP financial information".
- 3 2014 results reflect average foreign exchange rates of £1:€1.19 and £1:US\$1.59 (2013: £1:€1.23 and £1:US\$1.58).
- 4 Common Functions primarily represent the results of the partner markets and the net result of unallocated central Group costs.

Net debt

Net debt on a statutory basis decreased £11.7 billion to £13.7 billion as proceeds from the disposal of our US group, whose principal asset was its 45% stake in Verizon Wireless, positive free cash flow and favourable foreign exchange movements more than offset the acquisition of Kabel Deutschland, licences and spectrum payments and equity shareholder returns including equity dividends, the special distribution and share buybacks. In Q4, we paid £2.4 billion in relation to the expected tax liability for the Verizon Wireless transaction, of which US\$3.3 billion (£2.0 billion) was paid to Verizon. We now expect this liability to total US\$3.6 billion (£2.2 billion).

Performance against 2014 financial year guidance²

On 2 September 2013 we issued pro forma guidance for the 2014 financial year, which excluded VZW and included 100% of Vodafone Italy, both for the whole year. This pro forma guidance included Vodafone's remaining joint ventures (Australia, Fiji and Indus Towers), on an equity accounting basis, consistent with IFRS requirements.

Based on guidance foreign exchange rates, our pro forma adjusted operating profit for the 2014 financial year was £4.9 billion², in line with the around £5.0 billion range set in September 2013. On the same basis our pro forma free cash flow was £4.8 billion², in line with our guidance range of £4.5–£5.0 billion.

2015 financial year guidance³

	EBITDA £bn	Free cash flow £bn
2015 financial year guidance	11.4–11.9	Positive

We expect EBITDA to be in the range of £11.4 billion to £11.9 billion.

We expect free cash flow to be positive after all capex, before the impact of M&A, spectrum purchases and restructuring costs. Total capex over the next two years is expected to be around £19 billion, after which we anticipate capital intensity normalising to a level of 13–14% of annual revenue.



Nick Read
Chief Financial Officer

Notes:

- * All amounts in this document marked with an "*" represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and movements in foreign exchange rates. See page 202 "Non-GAAP financial information" for further details.

1 Please see page 201 for "Non-GAAP financial information".

2 Guidance foreign exchange rates for the year ended 31 March 2014 were £1:€1.17, £1:US\$1.52, £1:INR 84.9 and £1:ZAR 14.3.

3 We have based guidance for the 2015 financial year on our current assessment of the global macroeconomic outlook and assume foreign exchange rates of £1:€1.21, £1:INR 105.8 and £1:ZAR 18.4. It excludes the impact of licences and spectrum purchases, 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 EBITDA by £60 million and have no material impact on free cash flow. A 1% change in the Indian rupee to sterling exchange rate would impact EBITDA by £10 million and free cash flow by £5 million. A 1% change in the South African Rand to sterling exchange rate would impact EBITDA by £15 million and free cash flow by £5 million. Guidance for the year ending 31 March 2015 includes the results of Vodafone's remaining joint ventures (Australia, Fiji and Indus Towers) on an equity basis, consistent with IFRS requirements.