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 the Europe and AMAP regions, together with Common Functions, have developed over the last year. See pages 171 to 175 for commentary on the 2013 financial year. Consistent with the financial highlights on page 3, this section contains financial information on both a management and statutory basis. The discussion of our revenues, EBITDA and adjusted operating profit by segment is performed under the management basis as this is assessed as being the most insightful presentation and is how the Group's operating performance is reviewed internally by management. The discussion of items of profit and losses under adjusted operating profit, being primarily income tax, net finance costs and non-operating items, is performed on a statutory basis.

Europe

	Germany £m	Italy £m	UK £m	Spain £m	Other Europe £m	Eliminations £m	Europe £m	Restated 2013 £m	% change £	% change Organic
Year ended 31 March 2014										
Revenue	8,272	4,312	6,427	3,518	5,525	(57)	27,997	28,602	(2.1)	(9.3)
Service revenue	7,739	3,863	6,095	3,230	5,104	(54)	25,977	26,501	(2.0)	(9.1)
Other revenue	533	449	332	288	421	(3)	2,020	2,101	(3.9)	(10.8)
EBITDA	2,698	1,536	1,418	787	1,736	–	8,175	9,099	(10.2)	(18.3)
Adjusted operating profit	918	726	187	181	676	–	2,688	4,175	(35.6)	(39.2)
EBITDA margin	32.6%	35.6%	22.1%	22.4%	31.4%		29.2%	31.8%		

Revenue decreased 2.1%, including a 2.5 percentage point favourable impact from foreign exchange rate movements and a 4.7 percentage point positive impact from M&A and other activity. On an organic basis service revenue declined 9.1%*, driven by challenging macroeconomic conditions in many markets, increased competition and the impact of MTR cuts, partially offset by continued growth of mobile in-bundle revenue.

EBITDA decreased 10.2%, including a 2.5 percentage point favourable impact from foreign exchange rate movements and a 5.6 percentage point positive impact from M&A and other activity. On an organic basis EBITDA decreased 18.3%*, resulting from a reduction in service revenue in most markets and higher customer investment, partially offset by efficiency in operating costs.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Europe	**(9.3)**	**4.7**	**2.5**	**(2.1)**
Service revenue				
Germany	(6.2)	9.0	3.6	6.4
Italy	(17.1)	2.2	3.1	(11.8)
UK	(4.4)	31.9	–	27.5
Spain	(13.4)	(0.7)	3.1	(11.0)
Other Europe	(7.1)	(17.5)	1.8	(22.8)
Europe	**(9.1)**	**4.6**	**2.5**	**(2.0)**
EBITDA				
Germany	(18.2)	10.2	3.3	(4.7)
Italy	(24.9)	2.2	2.8	(19.9)
UK	(9.8)	26.9	0.1	17.2
Spain	(23.9)	(1.8)	2.8	(22.9)
Other Europe	(14.0)	(6.2)	2.1	(18.1)
Europe	**(18.3)**	**5.6**	**2.5**	**(10.2)**
Adjusted operating profit				
Germany	(36.0)	(1.1)	2.6	(34.5)
Italy	(41.6)	1.1	2.4	(38.1)
UK	(49.3)	11.0	–	(38.3)
Spain	(56.4)	(2.5)	1.9	(57.0)
Other Europe	(30.2)	4.8	2.4	(23.0)
Europe	**(39.2)**	**1.3**	**2.3**	**(35.6)**

Note:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 April 2013. Refer to "Organic growth" on page 202 for further detail.

Germany

Service revenue decreased 6.2%*, with a slightly improving trend in Q4 compared to Q3. Performance for the year was driven by intense price competition in both the consumer and enterprise segments and an MTR cut effective from December 2012, with Vodafone particularly impacted due to our traditionally high ARPU. In a more competitive environment we launched both a more aggressive 3G price plan ("Smart") and pushed otelo in the entry-level contract segment. Mobile in-bundle revenue increased 2.7%* as a result of growth in integrated Vodafone Red offers, which was more than offset by a decline in mobile out-of-bundle revenue of 22.6%*. We continue to focus on Vodafone Red and 4G where we had nearly 3.0 million customers and 891,000 consumer contract customers respectively at 31 March 2014.

EBITDA declined 18.2%*, with a 4.3* percentage point decline in EBITDA margin, driven by lower service revenue and increased customer investment.

The roll-out of 4G services continued with a focus on urban areas, with overall outdoor population coverage of 70% at 31 March 2014, which combined with our ongoing network enhancement plan has resulted in a significant improvement in voice and data performance in the second half of the year.

Following its acquisition on 14 October 2013, KDG contributed £702 million to service revenue and £297 million to EBITDA in Germany. The domination and profit and loss transfer agreement was registered on 14 March 2014 and the integration of Vodafone Germany and KDG began on 1 April 2014.

Italy

Service revenue declined 17.1%* driven by the effect of the summer prepaid price war penetrating the customer base and the negative impact of MTR cuts effective from January and July 2013. Mobile in-bundle revenue grew 15.2%* driven by the take-up of integrated prepaid plans. Vodafone Red, which had nearly 1.5 million customers at 31 March 2014, continues to penetrate further into the base leading to improving churn in the contract segment.

Enterprise revenue growth, while still negative, showed signs of improvement during the year thanks to the success of "Zero". Prepaid experienced a steep ARPU decline as a result of the market move to aggressive bundled offers. 4G services are now available in 202 municipalities and outdoor coverage has reached 35%.

Fixed line revenue declined 3.2%* as a result of declining fixed voice usage, partly offset by continued broadband revenue growth supported by 77,000 net broadband customer additions during the year. Vodafone Italy now offers fibre services in 37 cities and is progressing well on its own fibre build plans.

EBITDA declined 24.9%*, with a 4.8* percentage point decline in EBITDA margin, primarily driven by the lower revenue, partially offset by strong efficiency improvements delivered on operating costs which fell 7.1%*.

UK

Service revenue decreased 4.4%*, principally driven by declines in enterprise and prepaid and a 1.9 percentage point impact from MTR cuts, partially offset by consumer contract service revenue growth. Mobile in-bundle revenue increased 0.6%* as the positive impact of contract customer growth and greater penetration of Vodafone Red plans into the customer base, with nearly 2.7 million customers at 31 March 2014, offset pricing pressures. Mobile out-of-bundle declined 7.2%*, primarily driven by lower prepaid revenue.

The activity to integrate the UK operations of CWW was accelerated successfully and we continue to deliver cash and capex synergies as planned. The sales pipeline is now growing, which we expect to materialise into revenue increases in the 2015 financial year.

The roll-out of 4G services continued following the launch in August 2013, with services now available in 14 cities and over 200 towns, with over 637,000 4G enabled plans (including Mobile Broadband) at 31 March 2014. We are making significant progress in network performance, particularly in the London area.

EBITDA declined 9.8%*, driven by lower revenue and a 1.0* percentage point decline in the EBITDA margin as a result of higher customer investment.

Spain

Service revenue declined 13.4%*, as a result of intense convergence price competition, macroeconomic price pressure in enterprise and a MTR cut in July 2013. Service revenue trends began to improve towards the end of the year. As a result of a stronger commercial performance and lower customer churn from an improved customer experience, the contract customer base decline slowed during the year and the enterprise customer base remained broadly stable. Mobile in-bundle revenue declined 0.4%* driven by the higher take-up of Vodafone Red plans, which continue to perform well, with over 1.2 million customers at 31 March 2014. We had 797,000 4G customers at 31 March 2014 and services are now available in all Spanish provinces, 227 municipalities and 80 cities.

Fixed line revenue declined 0.2%* as we added 216,000 new customers during the year and added 276,000 homes to our joint fibre network with Orange. On 17 March 2014 we agreed to acquire Grupo Corporativo Ono, S.A. ('Ono'), the leading cable operator in Spain and the transaction is, subject to customary terms and conditions including anti-trust clearances by the relevant authorities, expected to complete in calendar Q3 2014.

EBITDA declined 23.9%*, with a 3.4* percentage point decline in EBITDA margin, primarily driven by the lower revenue, partly offset by lower commercial costs and operating cost reductions of 9.4%*.

Other Europe

Service revenue declined 7.1%* as price competition and MTR cuts resulted in service revenue declines of 5.6%*, 8.4%* and 14.1%* in the Netherlands, Portugal and Greece respectively. However, Hungary and Romania returned to growth in H2, and all other markets apart from Portugal showed an improvement in revenue declines in Q4.

In the Netherlands mobile in-bundle revenue increased by 3.4%*, driven by the success of Vodafone Red plans. In Portugal, the broadband customer base and fixed line revenues continued to grow as the fibre roll-out gained momentum in a market moving strongly towards converged offers, whilst in Greece the customer base grew due to the focus on data. In Ireland, contract growth remained good in a declining market.

EBITDA declined 14.0%*, with a 2.1* percentage point reduction in the EBITDA margin, driven by lower service revenue, partly offset by operating cost efficiencies.

Operating results (continued)

Africa, Middle East and Asia Pacific

	India £m	Vodacom £m	Other AMAP £m	Eliminations £m	AMAP £m	Restated 2013 £m	% change £	% change Organic
Year ended 31 March 2014								
Revenue	4,394	4,718	5,860	(1)	14,971	15,413	(2.9)	8.4
Service revenue	3,927	3,866	5,295	(1)	13,087	13,729	(4.7)	6.1
Other revenue	467	852	565	–	1,884	1,684	11.9	27.4
EBITDA	1,397	1,716	1,567	–	4,680	4,532	3.3	16.2
Adjusted operating profit	354	1,228	510	–	2,092	1,893	10.5	28.6
EBITDA margin	31.8%	36.4%	26.7%		31.3%	29.4%		

Revenue declined 2.9% mainly as a result of a 12.0 percentage point adverse impact from foreign exchange rate movements, particularly with regard to the Indian rupee, the South African rand and the Turkish lira. On an organic basis service revenue grew 6.1%*, driven by a higher customer base, increased customer usage and successful pricing strategies, partially offset by the impact of MTR reductions and a general weakening in macroeconomic conditions in certain countries. Growth was led by strong performances in India, Turkey, Qatar and Ghana and robust performances in Vodacom and Egypt, partly offset by service revenue declines in Australia and New Zealand.

EBITDA increased 3.3%, including a 13.9 percentage point adverse impact from foreign exchange rate movements. On an organic basis, EBITDA grew 16.2%*, driven primarily by strong growth in India, Turkey, Australia, Qatar and Ghana as well as improved contributions from Egypt and Vodacom.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – AMAP	**8.4**	**0.7**	**(12.0)**	**(2.9)**
Service revenue				
India	13.0	–	(11.7)	1.3
Vodacom	4.1	(2.8)	(13.7)	(12.4)
Other AMAP	2.8	4.0	(9.4)	(2.6)
AMAP	**6.1**	**0.7**	**(11.5)**	**(4.7)**
EBITDA				
India	26.4	–	(13.7)	12.7
Vodacom	6.6	0.2	(16.1)	(9.3)
Other AMAP	19.3	3.2	(10.7)	11.8
AMAP	**16.2**	**1.0**	**(13.9)**	**3.3**
Adjusted operating profit				
India	83.3	–	(23.1)	60.2
Vodacom	8.9	0.3	(17.0)	(7.8)
Other AMAP	66.5	(2.6)	(13.9)	50.0
AMAP	**28.6**	**(0.2)**	**(17.9)**	**10.5**

Notes:
1 "Other activity" includes the impact of M&A activity and the revision to intra-group roaming charges from 1 April 2013. Refer to "Organic growth" on page 202 for further detail.

India

Service revenue increased 13.0%*, driven by continued customer growth and data usage as well as improved voice pricing. Mobile customers increased by 14.2 million during the year, yielding a closing customer base of 166.6 million at 31 March 2014.

Data usage grew 125% during the year, primarily resulting from a 39% increase in mobile internet users and a 67% increase in usage per customer. At 31 March 2014 active data customers totalled 52 million including seven million 3G customers.

We progressively rolled out M-Pesa across India over the year, reaching nationwide coverage by March 2014.

EBITDA grew 26.4%*, with a 3.3* percentage point increase in EBITDA margin, driven by the higher revenue and the resulting economies of scale on costs.

In February, Vodafone India successfully bid for additional spectrum in 11 telecom circles in the Indian Government's 900MHz and 1800MHz spectrum auction, enabling the company to provide customers with enhanced mobile voice and data services across the country. Of the total £1.9 billion cost of these spectrum licences, £0.5 billion was paid during the financial year with the remainder payable in instalments starting in 2017.

Vodacom

Service revenue grew 4.1%*, driven by strong growth in Vodacom's mobile operations outside South Africa. In South Africa, organic service revenue increased 0.3%*, despite the adverse impact of an MTR cut, due to the strong growth in data revenues of 23.5%*, driven by higher smartphone penetration and the strong demand for prepaid bundles.

Vodacom's mobile operations outside South Africa delivered service revenue growth of 18.9%* mainly from continued customer base growth. M-Pesa continued to perform well and is now operational in all of the Vodacom mobile operations outside of South Africa, with over 4.4 million customers actively using the service.

EBITDA increased 6.6%*, driven by revenue growth, optimisation in customer investment and efficiencies in South Africa operating costs. The EBITDA margin decline of 0.3* percentage points is the result of higher sales of lower margin handsets.

On 14 April 2014, Vodacom announced the acquisition of the Vodacom customer base from Nashua, a mobile cellular provider for South African mobile network operators, subject to the approval of the Competition Authority.

On 19 May 2014 Vodacom announced that it had reached an agreement with the shareholders of Neotel Proprietary Limited ('Neotel'), the second largest provider of fixed telecommunications services for both enterprise and consumers in South Africa, to acquire 100% of the issued share capital in, and shareholder loans against, Neotel for a total cash consideration of ZAR 7.0 billion (£0.4 billion). The transaction remains subject to the fulfilment of a number of conditions precedent including applicable regulatory approvals and is expected to close before the end of the financial year.

Other AMAP

Service revenue increased 2.8%*, with growth in Turkey, Egypt, Qatar and Ghana being partially offset by declines in Australia and New Zealand.

Service revenue growth in Turkey was 7.9%* after a 5.4 percentage point negative impact from voice and SMS MTR cuts effective from 1 July 2013. Mobile in-bundle revenue in Turkey grew 25.0%* driven by higher smartphone penetration, the success of Vodafone Red plans and continued growth in enterprise.

In Egypt service revenue increased 2.6%*, driven by the growth in the customer base, higher data usage and a successful pricing strategy. Service revenue growth in Qatar came as a result of strong net customer additions and the success of segmented commercial offers. In Ghana, service revenue grew 19.3%*, driven by an increase in customers and higher data usage in both consumer and enterprise.

EBITDA grew 19.3%* with a 3.1* percentage point improvement in EBITDA margin, with improvements in Turkey, Australia, Qatar and Ghana driven by the increase in scale and operating cost efficiencies, and with robust contribution from Egypt, partially offset by a decline in New Zealand.

Our joint venture in Australia experienced a service revenue decline of 9.0%*. The turnaround plan remains on track, yielding improved levels of network performance, net promoter score and customer base management. The EBITDA margin was improved by 14.8* percentage points, as a result of restructuring and stronger cost discipline.

Our associate in Kenya, Safaricom, increased service revenue by 17.2% driven by a higher customer base and continued growth in M-Pesa.

Non-Controlled Interests

Verizon Wireless[1,2]

	2014 £m	2013 £m
Revenue	9,955	21,972
Service revenue	9,000	19,697
Other revenue	955	2,275
EBITDA	4,274	8,831
Interest	(20)	(25)
Tax[2]	(50)	13
Group's share of result in VZW	3,169	6,500

Notes:
1 All amounts represent the Group's share based on its 45% partnership interest, unless otherwise stated. Results for the year ended 31 March 2014 only include results to 2 September 2013, the date the Group announced its intention to dispose of its 45% interest.
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.

On 2 September 2013 Vodafone announced it had reached an agreement with Verizon Communications Inc. to dispose of its US group whose principal asset was its 45% interest in Verizon Wireless. The Group ceased recognising its share of results in Verizon Wireless on 2 September 2013, and classified its investment as a held for sale asset and the results as a discontinued operation. The transaction completed on 21 February 2014.

Operating results (continued)

Operating loss

Adjusted operating profit excludes certain income and expenses that we have identified separately to allow their effect on the present results of the Group to be assessed (see page 201). The items that are included in operating loss but are excluded from adjusted operating profit are discussed below.

Impairment losses of £6,600 million (2013: £7,700 million) recognised in respect of Germany, Spain, Portugal, Czech Republic and Romania. Further detail is provided in note 4 to the Group's consolidated financial statements.

Restructuring costs of £355 million (2013: £311 million) have been incurred to improve future business performance and reduce costs.

Amortisation of intangible assets in relation to customer bases and brands are recognised under accounting rules after we acquire businesses and amounted to £551 million (2013: £249 million). Amortisation charges increased in the year as a result of the acquisition of KDG and Vodafone Italy in the year.

Other income and expense comprises a loss of £0.7 billion arising largely from our acquisition of a controlling interest in Vodafone Italy. The year ended 31 March 2013 includes a £0.5 billion gain on the acquisition of CWW.

Including the above items, operating loss increased to £3.9 billion from £2.2 billion as lower impairment charges were offset by lower revenue, higher customer costs and higher amortisation.

Net financing costs

	2014 £m	2013 £m
Investment income	346	305
Financing costs	(1,554)	(1,596)
Net financing costs	**(1,208)**	**(1,291)**

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.

Taxation

	2014 £m	2013 £m
Income tax expense:		
Continuing operations before recognition of deferred tax	2,736	476
Discontinued operations	1,709	1,750
Total income tax expense	**4,445**	**2,226**
Recognition of additional deferred tax – continuing operations	(19,318)	–
Total tax (credit)/expense	**(14,873)**	**2,226**

The recognition of the additional deferred tax assets, which arose from losses in earlier years, was triggered by the agreement to dispose of the US group whose principal asset was its 45% interest in VZW, which removes significant uncertainty around both the availability of the losses in Germany and the future income streams in Luxembourg. The Group expects to use these losses over a significant number of years; the actual use of these losses is dependent on many factors which may change, including the level of profitability in both Germany and Luxembourg, changes in tax law and changes to the structure of the Group.

	2014 £m	2013 £m
Total tax (credit)/expense	**(14,873)**	**2,226**
Tax on adjustments to derive adjusted profit before tax	290	150
Removal of post-disposal VZW tax	(1,019)	–
Recognition of deferred tax asset for losses in Germany and Luxembourg	19,318	–
Tax liability on US rationalisation and reorganisation	(2,210)	–
Deferred tax on current year movement of Luxembourg losses	113	–
Adjusted income tax expense	**1,619**	**2,376**
Share of associates' and joint ventures' tax	226	390
Adjusted income tax expense for calculating adjusted tax rate	**1,845**	**2,766**
Profit before tax		
– Continuing operations	(5,270)	(3,483)
– Discontinued operations	49,817	6,366
Total profit before tax	**44,547**	**2,883**
Adjustments to derive adjusted profit before tax	(38,070)	7,833
Adjusted profit before tax	**6,477**	**10,716**
Share of associates' and joint ventures' tax and non-controlling interest	281	575
Adjusted profit before tax for calculating adjusted effective tax rate	**6,758**	**11,291**
Adjusted effective tax rate	**27.3%**	**24.5%**

The adjusted effective tax rate for the year ended 31 March 2014 was 27.3%, in line with our expectation for the year. The rate has been adjusted to exclude tax arising in respect of our US group after the date of the announcement of the disposal of VZW.

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 VZW.

Discontinued operations

On 2 September 2013 the Group announced it had reached an agreement with Verizon Communications Inc. to dispose of its US group whose principal asset was its 45% interest in VZW. The Group ceased recognising its share of results in VZW on 2 September 2013, and classified its investment as a held for sale asset and the results as a discontinued operation. The transaction completed on 21 February 2014.

The table below sets out all of the elements relating to this discontinued operation within the consolidated income statement.

	2014 £m	2013 £m
Share of result in associate	**3,191**	**6,422**
Net financing income/(costs)	27	(56)
Profit before taxation	**3,218**	**6,366**
Taxation relating to performance of discontinued operations	(1,709)	(1,750)
Post-tax profit from discontinued operations	**1,509**	**4,616**

The table below sets the gain on disposal of discontinued operations.

	2014 £m	2013 £m
Gain on disposal of discontinued operations before tax	**44,996**	–
Other items arising from the disposal	1,603	–
Net gain on disposal of discontinued operations	**46,599**	–
Profit for the financial year from discontinued operations	**48,108**	**4,616**

Earnings/(loss) per share

We have redefined adjusted earnings per share to exclude amortisation of acquired customer base and brand-related intangible assets, restructuring costs and one-off items in relation to both the disposal of our interest in Verizon Wireless and the acquisition of the remaining 23% of Vodafone Italy. Comparatives have been restated consistently.

Adjusted earnings per share was 17.54 pence, a decrease of 12.8% year-on-year, reflecting lower adjusted operating profit primarily due to the cessation of equity accounting for VZW from 2 September 2013, partially offset by a reduction in shares in issue arising from the Group's share buyback programme.

Basic earnings per share from continuing operations increased to 42.10 pence (2013: loss of 15.66 pence) primarily due to the recognition of the additional deferred tax assets in the current year.

	Statutory basis	
	2014 £m	2013 £m
Profit attributable to equity shareholders	**59,254**	**413**
Adjustments:		
Impairment loss	6,600	7,700
Amortisation of acquired customer base and brand intangible assets	551	249
Restructuring costs	355	311
Other income and expense	717	(468)
Discontinued and other items	(46,520)	–
Non-operating income and expense	149	(10)
Investment income and financing costs	78	51
	(38,070)	**7,833**
Taxation	(17,511)	(150)
Removal of VZW trading results and tax after 2 September[1]	1,019	(2,669)
Non-controlling interests	(50)	(28)
Adjusted profit attributable to equity shareholders	**4,642**	**5,399**

	Million	Million
Weighted average number of shares outstanding – basic	26,472	26,831
Weighted average number of shares outstanding – diluted	26,682	26,831

Note:
1 The adjustment for the year ended 31 March 2014 primarily relates to the removal of tax in respect of our US group after 2 September 2013, whereas the adjustment for the year ended 31 March 2013 includes the removal of both profit contributions and tax for the period from 2 September 2012 to 31 March 2013.

References to "Q4" are to the quarter ended 31 March 2014 unless otherwise stated. References to the "second half of the year" are to the six months ended 31 March 2014 unless otherwise stated. References to the "year" or "financial year" are to the financial year ended 31 March 2014 and references to the "prior financial year" are to the financial year ended 31 March 2013 unless otherwise stated. References to the "2014 financial year", "2015 financial year", "2016 financial year", "2017 financial year" and the "2019 financial year" are to the financial years ending 31 March 2014, 2015, 2016, 2017 and 2019, respectively. References to "calendar Q3 2014" are to the quarter ended 30 September 2014, unless otherwise stated.