Our financial performance

This section presents our operating performance, providing commentary on how the revenue and the EBITDA performance of the Group and its operating segments have developed over the last year.

Group[1]

	Europe £m	AMAP £m	Other[2] £m	Eliminations £m	2016 £m	2015 £m	% change £	% change Organic
Revenue	26,718	13,208	1,160	(113)	40,973	42,227	(3.0)	2.3
Service revenue	24,461	11,843	968	(113)	37,159	38,497	(3.5)	1.5
Other revenue	2,257	1,365	192	–	3,814	3,730		
EBITDA	7,686	4,042	(116)	–	11,612	11,915	(2.5)	2.7
Adjusted operating profit	**1,409**	**1,813**	**(105)**	**–**	**3,117**	**3,507**	**(11.1)**	**(3.9)**
Adjustments for:								
Impairment loss					(450)	–		
Restructuring costs					(236)	(157)		
Amortisation of acquired customer bases and brand intangible assets					(979)	(1,269)		
Other income and expense					(75)	(114)		
Operating profit					**1,377**	**1,967**		
Non-operating income and expense					(2)	(19)		
Net financing costs					(1,824)	(853)		
Income tax (expense)/credit					(3,369)	4,765		
(Loss)/profit for the financial year from continuing operations					**(3,818)**	**5,860**		
Profit for the financial year from discontinued operations					**–**	**57**		
(Loss)/profit for the financial year					**(3,818)**	**5,917**		

Notes:
1 2016 results reflect average foreign exchange rates of £1:€1.37, £1:INR 98.61 and £1:ZAR 20.72.
2 The "Other" segment primarily represent the results of the partner markets and the net result of unallocated central Group costs.

Revenue

Group revenue decreased 3.0% to £41.0 billion and service revenue decreased by 3.5% to £37.2 billion. Reported growth includes the full year impact from the acquisitions of Hellas Online ('HOL') and Cobra Automotive ('Cobra') in the prior year. In Europe, organic service revenue declined 0.6%* reflecting continued competitive pressures in a number of markets, with improving trends throughout the year. In AMAP, organic service revenue increased by 6.9%* continuing its sustained track record of strong organic growth.

EBITDA

Group EBITDA declined 2.5% to £11.6 billion, with organic growth in Europe and AMAP and the acquisitions of HOL and Cobra being more than offset by foreign exchange movements. On an organic basis, EBITDA rose 2.7%* and the Group's EBITDA margin stabilised at 28.3%.

Operating profit

Adjusted operating profit excludes certain income and expenses that we have identified separately to allow their effect on the results of the Group to be assessed (see page 190). The items that are included in operating profit but are excluded from adjusted operating profit are discussed below.

An impairment loss of £450 million was recognised in the current financial year (2015: £nil). Further detail is provided in note 4 to the Group's consolidated financial statements. Restructuring costs of £236 million (2015: £157 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 decreased to £979 million (2015: £1,269 million) due to the acquisition of Ono.

Including the above items, operating profit decreased by £0.6 billion to £1.4 billion as the £0.45 billion impairment charge, £0.3 billion reduction in EBITDA and £0.1 billion increase in restructuring costs were partly offset by £0.1 billion of lower depreciation and amortisation charges and £0.1 billion higher contribution from associates and joint ventures.

Net financing costs

	2016 £m	2015 £m
Investment income	300	883
Financing costs	(2,124)	(1,736)
Net financing costs	**(1,824)**	**(853)**
Analysed as:		
Net financing costs before interest on settlement of tax issues	(1,107)	(1,160)
Interest (expense)/credit arising on settlement of outstanding tax issues	(15)	4
	(1,122)	**(1,156)**
Mark-to-market losses	(247)	(134)
Foreign exchange[1]	(455)	437
	(1,824)	**(853)**

Note:
1 Comprises foreign exchange rate differences in relation to certain intercompany balances.

Net financing costs, excluding mark-to-market losses and foreign exchange differences in relation to certain intercompany balances, decreased by 3% primarily due to the impact of foreign exchange losses on financing costs.

Taxation

	2016 £m	2015 £m
Income tax		
Continuing operations before deferred tax on revaluation of investments in Luxembourg	(162)	(703)
Deferred tax on revaluation of investments in Luxembourg	(3,207)	5,468
Total income tax (expense)/credit – continuing operations	**(3,369)**	**4,765**
Tax on adjustments to derive adjusted profit before tax	(436)	(305)
Recognition of deferred tax asset for losses in Luxembourg	–	(3,341)
Deferred tax following revaluation of investments in Luxembourg	3,207	(2,127)
Deferred tax on use of Luxembourg losses	423	439
Adjusted income tax expense	**(175)**	**(569)**
Share of associates' and joint ventures' tax	(104)	(117)
Adjusted income tax expense for calculating adjusted tax rate	**(279)**	**(686)**
(Loss)/profit before tax	**(449)**	**1,095**
Adjustments to derive adjusted profit before tax (see earnings per share)	2,191	1,122
Adjusted profit before tax	**1,742**	**2,217**
Share of associates' and joint ventures' tax and non-controlling interest	104	117
Adjusted profit before tax for calculating adjusted effective tax rate	**1,846**	**2,334**
Adjusted effective tax rate	**15.1%**	**29.4%**

The Group's underlying tax rate for the year ended 31 March 2016 was 28.8%. Certain non-recurring items had a significant effect on the adjusted effective tax rate in the year, which was 15.1%. These include a benefit of 18.4% following the restructuring and simplification of our Indian business, partially offset by a tax cost of 4.6% due to the reduction in the UK corporation tax rate (which resulted in a decrease in the value of our UK capital allowances).

The Group's adjusted effective tax rate is expected to be in the mid-twenties over the medium term reflecting the ongoing impact from the re-organisation of our Indian business.

The Group's adjusted effective tax rate for both years does not include the use of Luxembourg losses in the year of £423 million (2015: £439 million) and a reduction in the deferred tax asset in the period of £3,207 million (2015: recognition of an additional asset of £2,127 million) arising from the tax treatment of the revaluation of investments based upon the local GAAP financial statements. These items reduce the amount of losses we have available for future use against our profits in Luxembourg and do not affect the amount of tax we pay in other countries.

Additionally, the adjusted effective tax rate in the year ended 31 March 2015 did not include the impact of the recognition of an additional £3,341 million deferred tax asset in respect of the Group's historic tax losses in Luxembourg. The losses were recognised as a consequence of the acquisition of Ono.

Earnings per share

Adjusted earnings per share, which excludes the reduction in the tax losses in Luxembourg following the revaluation of investments in the local statutory accounts in the current period and the recognition of deferred tax assets in respect of tax losses in Luxembourg in the prior year, was 5.04 pence, a decrease of 9.2% year-on-year, reflecting the Group's lower adjusted operating profit for the year.

Basic earnings per share was a loss of 15.08 pence primarily due to the reduction in deferred tax on losses, as described above, which has been excluded from adjusted earnings per share.

	2016 £m	2015 £m
(Loss)/profit attributable to owners of the parent	**(4,024)**	**5,761**
Adjustments:		
Impairment loss	450	–
Amortisation of acquired customer base and brand intangible assets	979	1,269
Restructuring costs	236	157
Other income and expense	75	114
Non-operating income and expense	2	19
Investment income and financing costs	449	(437)
	2,191	**1,122**
Taxation	3,194	(5,334)
Discontinued operations	–	(57)
Non-controlling interests	(17)	(21)
Adjusted profit attributable to owners of the parent	**1,344**	**1,471**

Europe[1]

	Germany £m	Italy £m	UK £m	Spain £m	Other Europe £m	Eliminations £m	Europe £m	Restated 2015 £m	% change £	% change Organic
Year ended 31 March 2016										
Revenue	7,787	4,405	6,173	3,633	4,835	(115)	26,718	27,687	(3.5)	0.4
Service revenue	7,197	3,758	5,849	3,274	4,494	(111)	24,461	25,588	(4.4)	(0.6)
Other revenue	590	647	324	359	341	(4)	2,257	2,099		
EBITDA	2,537	1,478	1,289	915	1,467	–	7,686	7,894	(2.6)	1.7
Adjusted operating profit	378	590	(69)	53	457	–	1,409	1,733	(18.7)	(12.9)
EBITDA margin	32.6%	33.6%	20.9%	25.2%	30.3%		28.8%	28.5%		

Note:
1 The Group has amended its reporting to reflect changes in the internal management of its Enterprise business. The primary change has been that on 1 April 2015 the Group redefined its segments to report international voice transit service revenue within Common Functions rather than within the service revenue amount disclosed for each country and region. The service revenue amounts presented for the year ended 31 March 2015 have been restated onto a comparable basis together with all disclosed organic service revenue growth rates. There is no impact on total Group service revenue or costs.

Revenue decreased 3.5% for the year. M&A activity, including HOL and Cobra, contributed a 1.3 percentage point positive impact, while foreign exchange movements contributed a 5.2 percentage point negative impact. On an organic basis, service revenue decreased by 0.6%*, reflecting continued competitive pressures in a number of markets.

EBITDA decreased 2.6%, including a 1.2 percentage point positive impact from M&A activity and a 5.5 percentage point negative impact from foreign exchange movements. On an organic basis EBITDA increased 1.7%* driven by good cost control in a number of our markets, as well as the benefits of acquisition integrations.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – Europe	**0.4**	**1.3**	**(5.2)**	**(3.5)**
Service revenue				
Germany	(0.4)	–	(6.7)	(7.1)
Italy	(0.8)	–	(6.7)	(7.5)
UK	(0.3)	(0.4)	(0.1)	(0.8)
Spain	(3.5)	8.7	(6.6)	(1.4)
Other Europe	1.5	1.9	(6.8)	(3.4)
Europe	**(0.6)**	**1.3**	**(5.1)**	**(4.4)**
EBITDA				
Germany	2.1	–	(6.7)	(4.6)
Italy	3.1	–	(6.8)	(3.7)
UK	1.2	(5.4)	–	(4.2)
Spain	4.2	19.6	(6.8)	17.0
Other Europe	(1.5)	1.3	(6.5)	(6.7)
Europe	**1.7**	**1.2**	**(5.5)**	**(2.6)**
Europe adjusted operating profit	**(12.9)**	**(0.2)**	**(5.6)**	**(18.7)**

Note:
1 "Other activity" includes the impact of M&A activity. Refer to "Organic growth" on page 191 for further detail.

Germany

Service revenue declined 0.4%* for the year, but returned to growth in Q4 (Q3: -0.4%*; Q4: 1.6%*) led by improvements in consumer mobile and fixed trends and aided by an accounting reclassification in fixed line.

Mobile service revenue declined 1.6%*. Consumer contract revenue stabilised in the year, supported by consistent growth in contract net adds (+594,000 for the year). This performance has been driven by an increased focus on direct channels and our 'Otelo' second brand; during Q4, higher competition in indirect channels weighed on our contract net additions. The Enterprise market became increasingly competitive during the year, leading to a deteriorating revenue trend as falling ARPU more than offset good contract wins. We have made further strong progress on network investment, with 87% 4G coverage and dropped call rates declining 25% year-on-year to an all-time low of 0.44%. In November, the independent "Connect" test confirmed the premium quality of our voice network in Germany and a strong second and most improved data position.

Fixed service revenue growth was 1.5%*, with continued strong growth in cable and a slowing decline in DSL-related revenue. Cable net adds growth continued to be strong throughout the year, supplemented by ongoing migrations from the DSL base; in the second half of the year DSL net adds also turned positive, with growing customer demand for VDSL. Broadband ARPU was down year-on-year in a promotional market, with improvements in cable offset by DSL declines, although the pace of decline began to moderate during H2. The integration of KDG has been completed; we expect cost synergies to meet the initial targets set out at the time of acquisition, and now expect further upside potential longer-term. In November, we launched Vodafone Red One, our fully integrated fixed, mobile and TV service combining high speed mobile and fixed; as of 31 March 2016 we had 54,000 customers.

EBITDA grew 2.1%*, with EBITDA margin improving by 0.8* percentage points. The impact of lower revenues and increased Project Spring network opex was more than offset by opex efficiencies (including KDG synergies), savings in commercial costs (aided by our increased focus on direct channels) and a change in commission processes.

Italy

Service revenue declined 0.8%* for the year, but returned to growth in Q4 (Q3: -0.3%*; Q4: 1.3%*), aided by the leap-year benefit. The mobile business is on a steady recovery path, while fixed line performance continues to be positive despite increased competition in recent months.

Mobile service revenue declined 1.1%*, as a recovery in ARPU supported by prepaid price increases only partially offset the year-on-year decline in the customer base. Mobile number portability in the market has reduced in recent quarters and the customer base decline stabilised during the year, aided by market-leading NPS scores in mobile following our Project Spring investments. Consumer trends improved faster than Enterprise, where competitive intensity has increased in H2. As of 31 March 2016 we have 95% population coverage on our 4G network and 6.5 million 4G customers (September 2015: 4.0 million).

Fixed service revenue was up 1.2%*, driven by sustained commercial momentum. We added 168,000 broadband customers during the year, a strong performance, and in Q4 50% of our gross adds have taken a fibre-based service. Of our base of 2.0 million broadband customers, 297,000 are fibre customers. We have now built out our own fibre network to over 16,000 cabinets, enabling us to reach 3.6 million households. Our high speed broadband rollout in Italy will be enhanced by our commercial agreement with Enel, which plans to roll out Fibre-To-The-Home (FTTH) to 224 cities nationwide, providing access on competitive commercial terms. In these areas Enel will be our exclusive fibre partner going forward.

EBITDA was up 3.1%*, as we successfully offset the decline in service revenue with savings in commercial costs and operating expenses. The EBITDA margin was stable year-on-year due principally to higher handset revenues.

UK

Service revenue declined 0.3%* for the year (Q3: -0.7%*; Q4: -0.1%*), with improving trends in fixed line offset by a slowdown in mobile, reflecting operational challenges following a billing system migration. Q4 growth benefited from strong carrier services activity; excluding this, underlying trends were stable. The organic growth rate for the year excludes one-off settlements with other network operators in Q2.

Mobile service revenue declined 0.7%*. Contract customer growth slowed in Q4, impacted partly by higher churn in relation to the billing system migration. Revenue trends were also impacted by the pricing and usage of 08XX numbers following the introduction of Non-Geographic Call Services regulation, and a focus on giving customers more control of their out-of-bundle data spend. As a result, in-bundle revenue and demand for data add-ons continued to grow. Enterprise mobile trends remained relatively stable despite increased competition. National 4G coverage reached 91% (based on the OFCOM definition), and 99.5% in London; based on our estimations, 4G coverage was 84%, and despite some delays the pace of 4G coverage expansion in conjunction with our network sharing partner is now accelerating. We achieved significant growth in 4G customers, with 7.0 million at the period end (September 2015: 5.3 million).

Fixed service revenue grew 1.1%*. Excluding carrier services, fixed service revenue grew 2.4%* in the second half of the year including an improving performance in Enterprise. After regional trials during the summer, we began to offer our consumer broadband service to 24 million premises across the UK (98% of BT's fibre footprint) in October, securing 38,000 customers by 31 March 2016. Our new TV service is in field trials with plans to launch later in the current calendar year.

EBITDA grew 1.2%*, with a 0.2* percentage point increase in the EBITDA margin driven by continued operational efficiencies. Reported EBITDA benefited from one-off settlements with other network operators in the first half of the year.

Spain

Service revenue declined 3.5%* (Q3: -3.1%*; Q4: -3.2%*), with mobile revenue recovering steadily despite the negative effect of handset financing, and continued positive momentum in fixed. Excluding handset financing effects, service revenues declined by 0.3%* in the year.

Mobile service revenue fell 8.0%*. The contract customer base continued to grow in a more stable market, despite increased promotional activity around the start of the new football season. We are seeing signs that ARPU is beginning to stabilise, aided by our market-leading NPS scores in mobile and our 'more-for-more' pricing strategy, in which customers receive higher data allowances and additional features (e.g. free European roaming) together with an increase in the monthly tariff. Our 4G population coverage reached 91% at 31 March 2016 and we have 5.4 million 4G customers.

Fixed service revenue rose 7.8%*, supported by consistent growth in broadband net additions. The integration of Ono has proceeded successfully and we have already achieved 100% of the original €240 million of cost and capex synergies targeted. We now expect to be able to deliver €300 million of annualised run-rate savings over the original timeframe. In part this reflects the very successful launch in May of Vodafone One, our fully integrated cable, mobile and TV service, which has already reached 1.5 million customers. Including our joint fibre network build with Orange, we now reach 8.5 million premises with cable or fibre. Our recent agreement with Mediapro together with the wholesale obligations imposed on the incumbent provide us with access to a full range of premium TV channels for the coming years, albeit at an increased cost.

EBITDA increased 4.2%* year-on-year with a 1.3* percentage point increase in the EBITDA margin, as strong cost control, the benefit to margin from handset financing and the cost synergies from the Ono acquisition more than offset rising TV costs.

Other Europe

Service revenue rose 1.5%* (Q3: 1.6%*; Q4: 2.1%*), with all markets except Greece achieving growth during the year. In Q4, Romania (7.7%*), Portugal (3.5%*) and the Czech Republic enjoyed an improvement in top-line growth.

In the Netherlands, service revenue increased 0.3%*, with growth moving into decline during H2 (Q3: 0.2%*; Q4: -1.3%*) as continued gains in fixed line (partly aided by a Q4 accounting reclassification) were offset by a decline in mobile contract ARPU. In Portugal, fixed service revenue continues to grow strongly and mobile is recovering as ARPU and churn pressure from the shift towards convergent pricing begins to moderate. Our FTTH network now reaches 2.4 million homes. Ireland returned to service revenue growth in Q2, with strong momentum in fixed line and an improving trend in mobile. The initial 4G roll-out is complete with 95% population coverage. In Greece macroeconomic conditions remained a drag, however good cost control led to improved margins. The integration of HOL is progressing according to plan.

EBITDA declined 1.5%*, with a 1.0* percentage point decline in EBITDA margin, mainly driven by lower margins in Portugal and Romania.

Africa, Middle East and Asia Pacific[1]

	India £m	Vodacom £m	Other AMAP £m	Eliminations £m	AMAP £m	Restated 2015 £m	% change £	% change Organic
Year ended 31 March 2016								
Revenue	4,516	3,887	4,814	(9)	13,208	13,382	(1.3)	7.0
Service revenue	4,497	3,233	4,122	(9)	11,843	11,935	(0.8)	6.9
Other revenue	19	654	692	–	1,365	1,447		
EBITDA	1,331	1,484	1,227	–	4,042	4,086	(1.1)	7.2
Adjusted operating profit	469	992	352	–	1,813	1,802	0.6	11.7
EBITDA margin	29.5%	38.2%	25.5%		30.6%	30.5%		

Note:
1 The Group has amended its reporting to reflect changes in the internal management of its Enterprise business. The primary change has been that on 1 April 2015 the Group redefined its segments to report international voice transit service revenue within Common Functions rather than within the service revenue amount disclosed for each country and region. The service revenue amounts presented for the year ended 31 March 2015 have been restated onto a comparable basis together with all disclosed organic service revenue growth rates. There is no impact on total Group service revenues or costs.

Revenue decreased 1.3%, with strong organic growth offset by a 7.7 percentage point adverse impact from foreign exchange movements, particularly with regards to the South African rand, Turkish lira and Egyptian pound. On an organic basis, service revenue was up 6.9%* driven by growth in the customer base, increased voice and data usage, and continued good commercial execution. Overall growth was negatively impacted by MTR cuts and other regulatory charges, mainly in India.

EBITDA decreased 1.1%, including a 7.9 percentage point adverse impact from foreign exchange movements. On an organic basis, EBITDA grew 7.2%*, driven by growth in all major markets.

	Organic change %	Other activity[1] pps	Foreign exchange pps	Reported change %
Revenue – AMAP	**7.0**	**(0.6)**	**(7.7)**	**(1.3)**
Service revenue				
India	5.0	–	(0.2)	4.8
Vodacom	5.4	–	(12.7)	(7.3)
Other AMAP	10.1	(1.9)	(9.3)	(1.1)
AMAP	**6.9**	**(0.7)**	**(7.0)**	**(0.8)**
EBITDA				
India	4.1	–	(0.3)	3.8
Vodacom	12.7	–	(15.5)	(2.8)
Other AMAP	4.5	(1.3)	(7.1)	(3.9)
AMAP	**7.2**	**(0.4)**	**(7.9)**	**(1.1)**
AMAP adjusted operating profit	**11.7**	**(1.1)**	**(10.0)**	**0.6**

Note:
1 "Other activity" includes the impact of M&A activity. Refer to "Organic growth" on page 191 for further detail.

India

Service revenue increased 5.0%* (Q3: 2.3%*; Q4: 5.3%*) as customer base growth and strong demand for 3G data was partially offset by a number of regulatory changes, including MTR cuts, roaming price caps and an increase in service tax. Excluding these impacts, service revenue growth was 10.0%*. Q4 growth recovered versus Q3 as voice price competition moderated during the quarter and regulatory impacts began to reduce in March.

We added 14.1 million customers during the year, taking the total to 197.9 million. Growth in total minutes of use continued, but this was offset by a decline in average revenue per minute as a result of ongoing competition on voice business.

Data growth continues to be very strong, with data usage over the network up 64% year-on-year, and the active data customer base increasing by 3.8 million to 67.5 million. The 3G customer base grew to 27.4 million, up 41.4% year-on-year, and smartphone penetration in our four biggest urban areas is now 52.8%. In Q4, browsing revenue represented 19.2% of local service revenue, up from 14.9% in the equivalent quarter last year.

Since the launch of Project Spring we have added over 37,700 new 3G sites, taking the total to 55,500 and our population coverage to 95% of target urban areas. We have launched 4G in five key circles and plan to expand to cover over 60% of our data revenues in the coming year, ahead of the upcoming spectrum auction.

Our M-Pesa business continues to expand, with 1.3 million active customers at March 2016, and approximately 120,000 agents. In August, the Reserve Bank of India granted us 'in principle' approval to set up a payments bank.

EBITDA grew 4.1%*, with a 0.2* percentage point deterioration in EBITDA margin as the benefits of service revenue growth were offset by the ongoing increase in operating costs related to Project Spring, higher acquisition costs and the translation effects of non-rupee operating costs.

Market conditions remain competitive and may be further impacted by the forthcoming spectrum auctions and a new entrant. Preparations continue for a potential IPO of Vodafone India.

Vodacom

Vodacom Group service revenue increased 5.4%* (Q3: 7.2%*; Q4: 6.3%*), supported by strong momentum in both South Africa and the International operations.

In South Africa, organic service revenue grew 4.7%* (Q3: 7.2%*; Q4: 6.5%*), with the consumer and enterprise businesses both performing well. We continued to focus on building brand and network differentiation, with our performance driven by strong demand for data. We further enhanced our leading network position, more than doubling our LTE/4G sites to over 6,000, taking coverage to 58.2% on LTE/4G and 98.9% on 3G. Data revenue growth remained strong at 18.8*% in Q4 and data is now 36.3% of local service revenue. Our pricing transformation strategy is making good progress, with 85% of contract customers now on integrated price plans and churn falling to our lowest levels at 6.9% in Q4. Total bundle sales reached 1.1 billion, supported by our 'Just 4 U' personalised offers.

Service revenue growth in Vodacom's International operations outside South Africa was 10.0%*, driven by increased voice revenue as a result of pricing strategies and bundle offerings, data take-up and M-Pesa. Active data customers reached 10.1 million, 37% of total customers, and active M-Pesa customers totalled 6.8 million in Q4, all benefiting from sustained network investment.

Vodacom Group EBITDA increased 12.7%*, significantly faster than revenues, with a 3.6* percentage point improvement in EBITDA margin. This strong performance partly reflected a change in accounting for certain transactions in the indirect channel, which depressed equipment sales and total revenues with no impact on EBITDA. Excluding this effect, EBITDA margins rose driven by operating leverage, tight cost control and a tailwind from foreign exchange gains.

Other AMAP

Service revenue increased 10.1%* (Q3: 10.8%*; Q4: 12.1%*), with strong growth in Turkey, Egypt and Ghana partially offset by a decline in Qatar.

Service revenue in Turkey was up 19.7%*, reflecting continued strong growth in consumer contract and Enterprise revenue, and we launched 4G services in April 2016. Fixed line momentum was strong, almost quadrupling the fixed broadband customer base to 363,000 at the end of the period. In Egypt, service revenue was up 8.9%* driven by continued strong growth in data. New Zealand returned to modest growth, with solid mobile contract customer trends and improving fixed line ARPU.

EBITDA grew 4.5%*, with a 2.1* percentage point contraction in EBITDA margin. A strong revenue performance and improved margins in Turkey were partly offset by higher costs for imported goods post foreign exchange rate devaluations across the region.

Associates and joint ventures

Indus Towers, the Indian towers company in which Vodafone has a 42% interest, achieved local currency revenue growth of 5.8%. Indus Towers owned 119,881 towers as at 31 March 2016, with a tenancy ratio of 2.25. Our share of Indus Towers EBITDA was £305 million and its contribution to the Group's adjusted operating profit was £74 million.

Safaricom, Vodafone's 40% associate which is the leading mobile operator in Kenya, saw local currency service revenue growth of 13.8% for the year, with local currency EBITDA up 16.8%, driven by an increase in the customer base leading to growth across all revenue streams, predominantly mobile data and M-Pesa. 4G coverage is now in 20 out of 47 counties.

Vodafone Hutchison Australia ('VHA'), in which Vodafone owns a 50% stake, is performing solidly in an intensely competitive environment, with service revenues (excluding MTR impact) returning to growth after five years in decline. EBITDA growth was driven by an increase in revenue and improved cost management.

Notes:
References to "Q4" are to the quarter ended 31 March 2016 unless otherwise stated.
References to "Q3" are to the quarter ended 31 December 2015 unless otherwise stated.
References to the "second half of the year" or "H2" are to the six months ended 31 March 2016 unless otherwise stated. References to the "year" or "financial year" are to the financial year ended 31 March 2016 and references to the "prior financial year" are to the financial year ended 31 March 2015 unless otherwise stated.
All amounts marked with an "*" represent "organic growth", which presents performance on a comparable basis, both in terms of merger and acquisition activity as well as in terms of movements in foreign exchange rates. See page 191 "Non-GAAP information" for further details.

Financial position and resources

Consolidated statement of financial position

The consolidated statement of financial position is set out on page 88. Details on the major movements of both our assets and liabilities in the year are set out below:

Assets

Goodwill and other intangible assets

Goodwill and other intangible assets increased by £3.3 billion to £46.8 billion. The increase primarily arose as a result of £7.3 billion of additions, including £5.4 billion for spectrum purchased in India, Germany, Turkey, Spain, Italy and the UK, plus £2.3 billion of favourable movements in foreign exchange rates which were partly offset by £4.3 billion of amortisation, £1.7 billion transferred to assets held for resale and £0.5 billion of goodwill impairment.

Property, plant and equipment

Property, plant and equipment increased by £1.5 billion to £28.1 billion, principally due to £6.7 billion of additions driven by investment in the Group's networks as a result of Project Spring plus £1.0 billion of favourable foreign exchange movements, partly offset by £5.2 billion of depreciation charges and £0.9 billion transferred to assets held for resale.

Other non-current assets

Other non-current assets decreased by £2.0 billion to £30.7 billion, mainly due to decrease in deferred tax assets primarily due to the reduction of tax losses in Luxembourg (see note 6 for further details).

Current assets

Current assets increased by £8.3 billion to £28.1 billion, mainly due to a £3.3 billion increase in cash and cash equivalents, £2.9 billion of assets held for resale and a £1.1 billion increase in trade receivables.

Total equity and liabilities

Total equity

Total equity decreased by £0.4 billion to £67.3 billion as the £2.8 billion of proceeds from the convertible bonds was offset by £3.2 billion of dividends paid to equity shareholders and non-controlling interests and the total comprehensive loss for the year of £0.1 billion.

Non-current liabilities

Non-current liabilities increased by £7.1 billion to £33.0 billion, primarily due to a £6.9 billion increase in long-term borrowings.

Current liabilities

Current liabilities decreased by £4.5 billion to £33.4 billion, mainly due to £3.4 billion of additional short-term borrowings and a £0.8 billion increase in trade and other payables. Trade payables at 31 March 2016 were equivalent to 45 days (2015: 43 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 commitments

A summary of our principal contractual financial obligations and commitments is shown below.

	Payments due by period £m				
Contractual obligations and commitments[1]	Total	< 1 year	1–3 years	3–5 years	>5 years
Borrowings[2]	53,816	16,188	9,999	7,215	20,414
Operating lease commitments[3]	7,862	1,527	2,084	1,429	2,822
Capital commitments[3,4]	2,051	1,839	178	32	2
Purchase commitments[5]	6,952	3,857	2,697	274	124
Total	**70,681**	**23,411**	**14,958**	**8,950**	**23,362**

Notes:
1 This table includes commitments in respect of options over interests in Group businesses held by non-controlling shareholders (see "Potential cash outflows from option agreements and similar arrangements" on page 133) and obligations to pay dividends to non-controlling shareholders (see "Dividends from associates and to non-controlling shareholders" on page 133). The table excludes current and deferred tax liabilities and obligations under post employment benefit schemes, details of which are provided in notes 6 "Taxation" and 26 "Post employment benefits" respectively. The table also excludes the contractual obligations of associates and joint ventures.
2 See note 21 "Borrowings".
3 See note 29 "Commitments".
4 Primarily related to spectrum and network infrastructure.
5 Primarily related to device purchase obligations.

Dividends

We provide returns to shareholders through equity dividends and historically have generally paid dividends in February and August in each year. The Directors expect that we will continue to pay dividends semi-annually.

The £3.0 billion equity dividend in the current year comprises £2.0 billion in relation to the final dividend for the year ended 31 March 2015 and £1.0 billion for the interim dividend for the year ended 31 March 2016.

The interim dividend of 3.68 pence per share announced by the Directors in November 2015 represented a 2.2% increase over last year's interim dividend. The Directors are proposing a final dividend of 7.77 pence per share. Total dividends for the year increased by 2.0% to 11.45 pence per share.

Liquidity and capital resources

Our liquidity and working capital may be affected by a material decrease in cash flow due to a number of factors as outlined in "Principal risk factors and uncertainties" on pages 22 to 28. We do not use non-consolidated special purpose entities as a source of liquidity or for other financing purposes.

In addition to the commentary on the Group's consolidated statement of cash flows below, further disclosure in relation to the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk can be found in "Borrowings", "Liquidity and capital resources" and "Capital and financial risk management" in notes 21, 22 and 23 respectively to the consolidated financial statements.

Cash flows

A reconciliation of cash generated by operations to free cash flow, a non-GAAP measure used by management is shown on pages 190 and 191. The reconciliation to net debt is shown below.

	2016 £m	2015 £m
EBITDA	11,612	11,915
Working capital	(386)	(121)
Capital expenditure	(8,599)	(9,197)
Disposal of property, plant and equipment	140	178
Other	117	88
Operating free cash flow[1]	**2,884**	**2,863**
Taxation	(689)	(758)
Dividends received from associates and investments	67	224
Dividends paid to non-controlling shareholders in subsidiaries	(223)	(247)
Interest received and paid	(1,026)	(994)
Free cash flow[1]	**1,013**	**1,088**
Licence and spectrum payments	(2,944)	(443)
Acquisitions and disposals	(96)	(7,040)
Equity dividends paid	(2,998)	(2,927)
Foreign exchange	(1,968)	895
Convertible issue	2,754	–
Other[2]	(2,665)	(144)
Net debt increase	**(6,904)**	**(8,571)**
Opening net debt	(22,271)	(13,700)
Closing net debt[3]	**(29,175)**	**(22,271)**

Notes:
1 Operating free cash flow for the year ended 31 March 2016 excludes £186 million (2015: £336 million) of restructuring costs, £nil (2015: £365 million) UK pensions contribution payment and £nil (2015; £116 million) of KDG incentive scheme payments that vested upon acquisition.
2 Other cash flows for the year ended 31 March 2016 include £2,020 million (2015: £nil) of debt recognised in respect of spectrum in India and Germany, £186 million (2015: £336 million) of restructuring costs, £nil (2015: £365 million) UK pensions contribution payment, £nil (2015: £359 million) of Verizon Wireless tax dividends received after the completion of the disposal, £nil (2015: £328 million) of interest paid on the settlement of the Piramal option, £nil (2015: £116 million) of KDG incentive scheme payments that vested upon acquisition, £nil (2015: £176 million) tax refund relating to the rationalisation and reorganisation of our non-US assets prior to the disposal of our stake in Verizon Wireless and a £50 million (2015: £100 million) payment in respect of the Group's historic UK tax settlement.
3 Includes cash and cash equivalents of £14 million (2015: £nil) in respect of assets held for sale.

Cash generated by operations

Excluding restructuring and other costs, cash generated by operations increased 2.6% to £11.4 billion as lower EBITDA was offset by working capital movements.

Capital expenditure

Capital expenditure decreased £0.6 billion to £8.6 billion primarily driven by the completion of the Project Spring investment programme.

Free cash flow

Free cash flow was £1.0 billion, a decrease of £0.1 billion from the prior year, as higher cash generated by operations excluding restructuring and other costs and working capital movements in respect of capital expenditure were offset by lower capital expenditure and lower dividends received from Indus Towers.

Licence and spectrum payments

Payments for licences and spectrum include amounts relating to the purchase of spectrum in Germany of £1.4 billion, £0.6 billion in India, £0.6 billion in Turkey, £0.2 billion in Italy and £0.1 billion in the UK.

Acquisitions and disposals

Payments for acquisitions and disposals for the year ended 31 March 2015 primarily included £2,945 million in relation to the acquisition of the entire share capital of Ono plus £2,858 million of associated net debt acquired and £563 million in relation to the acquisition of the remaining 10.97% equity interest in Vodafone India.

Convertible issue and foreign exchange

A foreign exchange loss of £2.0 billion was recognised on net debt as losses on the euro and rupee offset favourable foreign exchange movements on the South African rand.

This was offset by £2.8 billion of proceeds from the issue of £2.9 billion of mandatory convertible bonds in February 2016, £2.8 billion of which have been classified as equity after taking into account the cost of future coupon payments.

The Group also holds $5.0 billion (2015: $5.25 billion) of Verizon loan notes, and has the potential to utilise the proceeds from these notes to repurchase the shares issued to satisfy the mandatory convertible bonds.

This year's report contains the strategic report on pages 1 to 37, which includes an analysis of our performance and position, a review of the business during the year, and outlines the principal risks and uncertainties we face. The strategic report was approved by the Board and signed on its behalf by the Chief Executive and Chief Financial Officer.

Vittorio Colao
Chief Executive

Nick Read
Chief Financial Officer

17 May 2016