

VODAFONE GROUP PUBLIC LTD CO

Form 6-K

November 14, 2018

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 6-K**

**Report of Foreign Private Issuer**

**Pursuant to Rules 13a-16 or 15d-16 under  
the Securities Exchange Act of 1934**

**Dated November 14, 2018**

**Commission File Number: 001-10086**

**VODAFONE GROUP  
PUBLIC LIMITED COMPANY**

(Translation of registrant's name into English)

**VODAFONE HOUSE, THE CONNECTION, NEWBURY, BERKSHIRE, RG14 2FN, ENGLAND**

(Address of principal executive offices)

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Form 20-F

Form 40-F

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Yes

No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .

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This Report on Form 6-K contains a news release dated 14 November 2018 entitled "Vodafone announces results for the six months ended 30 September 2018"

**Vodafone announces results for the six months ended 30 September 2018**

13 November 2018

IFRS 15 was adopted on 1 April 2018 for our statutory reporting, without restating prior year figures. As a result, the discussion of our operating results is primarily on an IAS 18 basis for all periods presented.

**Highlights**

- Group revenue of 21.8 billion and loss for the financial period of 7.8 billion, primarily due to a loss on the disposal of Vodafone India (following the completion of the merger with Idea Cellular) and impairments
- Organic service revenue (excluding handset financing, IAS 18 basis) up 0.8%\*\* and Q2 up 0.5%\*\* with good commercial and financial performance in most markets offset by increased competition in Italy and Spain
- Growth drivers: good momentum in fixed broadband (384,000 net adds) and convergence (616,000 net adds); Vodafone Business grew 1.0%\*, led by strong growth in IoT; Emerging Consumer up 7.4%\* driven by data growth
- Organic adjusted EBITDA up 2.9%\*\* (excluding handset financing and settlements, IAS 18 basis), supported by a third consecutive year of net reduction in operating expenses
- Updating full year guidance: underlying organic adjusted EBITDA growth narrowed to c.3% (previously 1-5%); Free cash flow (pre-spectrum) raised to c. 5.4 billion (previously at least 5.2 billion )
- Stable interim dividend per share of 4.84 eurocents; full year dividend per share expected to be in-line with FY18

|   | Page | Six months ended 30 September |                | Reported Growth % |
|---|------|-------------------------------|----------------|-------------------|
|   |      | 2018 IFRS 15 m                | 2017 IAS 181 m |                   |
| Group revenue                                       | 22   | 21,796                        | 23,075         | (5.5)             |
| Operating (loss)/profit                             | 22   | (2,071)                       | 2,008          | N/M               |
| (Loss)/profit for the financial period <sup>2</sup> | 22   | (7,833)                       | 1,235          | N/M               |

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|  |    |          |          |      |
|--|----|----------|----------|------|
| Basic (loss)/earnings per share <sup>2</sup> | 22 | (29.00c) | 4.03c    | N/M  |
| Interim dividend per share                   | 40 | 4.84c    | 4.84c    |      |
| Net debt                                     | 19 | (32,110) | (30,188) | +6.4 |

| Alternative performance measures <sup>3</sup> | Page | m      | m      | %      | %    |
|---|------|--------|--------|--------|------|
| Group service revenue (IAS 18 basis)          | 7    | 19,711 | 20,592 | (4.3)  | +0.8 |
| Adjusted EBITDA (IAS 18 basis)                | 7    | 7,078  | 7,385  | (4.2)  | +2.9 |
| Adjusted EBIT (IAS 18 basis)                  | 7    | 2,305  | 2,457  | (6.2)  | +8.6 |
| Adjusted earnings per share                   | 17   | 3.56c  | 6.32c  | (43.7) |      |
| Free cash flow pre-spectrum                   | 18   | 894    | 1,289  | (30.6) |      |
| Free cash flow                                | 18   | 566    | 415    | +36.4  |      |

**Nick Read, Group Chief Executive, commented:**

Our performance in the majority of our markets has been good during the first half of the year, and we have taken decisive commercial and operational actions to respond to challenging competitive conditions in Italy and Spain. We are on track to reduce net operating expenses for the third year running, and we are confirming the mid-point of our EBITDA guidance range, with an increased outlook for free cash flow generation.

Looking ahead, my new strategic priorities focus on driving greater consistency of commercial execution, accelerating digital transformation, radically simplifying our operating model and generating better returns from our infrastructure assets. Our goal is to deepen customer engagement through a broader offering of products and services and to deliver the best digital customer experience, supported by consistent investment in our leading Gigabit networks. We expect that this will drive revenue growth, reduce churn and lower our European net operating expenses by at least 1.2 billion by FY2021.

As part of our effort to improve returns, we are creating a virtual internal tower company across our European operations, and we are reviewing the best strategic and financial direction for these assets.

Our focus on organic growth along with the strategic and financial benefits of the proposed acquisition of Liberty Global's assets give confidence in the Group's ability to grow free cash flow, which underpins our dividend.

## CHIEF EXECUTIVE'S STATEMENT

### Financial review of the half year

*On 20 March 2017 we announced an agreement to merge Vodafone India with Idea Cellular ( Idea ) in India, which completed on 31 August 2018. As a result, Vodafone India has been excluded from Group figures for all periods up to 31 August 2018 and the results of Vodafone Idea have been included in all Group figures for all periods thereafter, unless otherwise stated.*

### **Financial results: Statutory performance measures**

Following the adoption of IFRS 15 Revenue from Contracts with Customers on 1 April 2018, the Group's statutory results for the six months ended 30 September 2018 are on an IFRS 15 basis, whereas the statutory results for the six months ended 30 September 2017 are, as previously reported, on an IAS 18 basis. Any comparison between the two bases of reporting is not meaningful. As a result, the discussion of our operating results is primarily on an IAS 18 basis for all periods presented. See Alternative performance measures on page 48 for more information and reconciliations to the closest respective equivalent GAAP measures.

Group revenue declined by 5.5% to 21.8 billion, reflecting foreign exchange headwinds, the impact of the adoption of IFRS 15, which nets certain components of dealer commissions from service revenues, and the sale of Qatar. Operating loss was 2.1 billion, down 4.1 billion, largely driven by impairments of 3.5 billion in Spain, Romania and Vodafone Idea.

The loss for the financial period of 7.8 billion reflects these impairments, a loss on disposal of Vodafone India of 3.4 billion recognised following the completion of the merger with Idea Cellular, higher net financing costs (following adverse foreign exchange movements, mark to market losses and higher gross borrowings) and the de-recognition of a deferred tax asset in Spain. Basic loss per share was 29.00 eurocents, compared to earnings per share of 4.03 eurocents for the period ended 30 September 2017.

### **Financial results: Alternative performance measures**

On an IAS 18 basis, Group organic service revenue excluding handset financing grew 0.8%\*\* (Q1: 1.1%\*\*; Q2: 0.5%\*\*). Growth was driven by market share gains in Europe Consumer fixed, strong mobile data demand and customer base growth in our emerging market operations, and continued momentum in Vodafone Business supported by market share gains in fixed and strong IoT sales. These offset increased competitive pressures in Italy and Spain, and the drag from lower wholesale revenue.

Group organic adjusted EBITDA grew 2.9%\*\* excluding handset financing and settlements. This reflected broad based growth across the majority of our markets, with the exception of Italy and Spain, and was supported by operating expense reduction across both Europe and Common functions, which was only partially offset by inflationary pressures in AMAP.

Consequently, the Group's adjusted organic EBITDA margin (excluding handset financing and settlements) increased by 0.3 percentage points to 30.8%\*\*\*, and we remain on-track for a fourth consecutive year of underlying EBITDA margin expansion. Adjusted EBIT increased 8.6%\*\*\* excluding handset financing and settlements, driven by adjusted EBITDA growth and lower depreciation and amortisation expenses.

On a reported basis, adjusted EBITDA and adjusted EBIT declined, reflecting foreign exchange headwinds, a lower benefit from handset financing in the UK and a regulatory settlement in the UK in the prior year.

The Group's adjusted effective tax rate for H1 was 25.9% compared to 22.2% last year. This higher rate is primarily due to a change in the country mix of the Group's profits, partly driven by the financing for the acquisition of Liberty Global's assets in Germany and Central & Eastern Europe, and the impact of non-tax deductible foreign exchange losses. We expect the Group's underlying effective tax rate for the full year to remain within our low to mid-20s range.

Adjusted earnings per share, which exclude impairment losses and the results of Vodafone India (which were included in discontinued operations), were 3.56 eurocents, a decrease of 43.7% year-on-year, as lower adjusted EBIT and higher net financing costs more than offset the decrease in income tax expense.

### ***Liquidity and capital resources***

Free cash flow pre-spectrum was 0.9 billion, compared to 1.3 billion in the prior year. The reduction year-on-year was principally driven by lower adjusted EBITDA and higher capital creditor outflows, partly offset by lower capital additions (which decreased to 3.1 billion, representing 13.6% of revenues).

Free cash flow post spectrum was 0.6 billion, compared to 0.4 billion in the prior year. Spectrum payments were 0.2 billion, principally reflecting 3500MHz spectrum acquired in the UK to support the rollout of 5G services. Cash restructuring costs of 0.1 billion were similar to the prior year.

Net debt as at 30 September 2018 was 32.1 billion compared to 29.6 billion as at 31 March 2018. This reflects free cash flow generation in the period of 0.9 billion, proceeds from Verizon loan notes of 2.1 billion, offset by FY18 final dividend payments of 2.7 billion, spectrum purchases of 1.0 billion (including 0.6 billion for the Italian auction, which was ongoing at the period end), and a net cash outflow to India from Vodafone Group of 0.8 billion in connection with the Vodafone Idea transaction.

## CHIEF EXECUTIVE'S STATEMENT

### Strategic review of the half year

The Group simplified its strategy during the first half of the financial year, identifying five drivers of sustainable revenue and free cash flow growth, which are described below. The foundation of our strategy is our significant investments in leading 4G wireless and next generation fixed networks, which continue to support an excellent customer experience. Based on network net promoter scores, at the end of the period the Group was a leader or co-leader in 18 out of 20 markets for Consumer and Business, with a significant performance gap relative to value-focused competitors.

### *Europe Consumer: Selling one more product per customer, lowering churn through convergence*

In H1, the European Consumer segment accounted for 49.1% of Group service revenues.

We aim to drive growth in the Europe Consumer segment by developing deeper customer relationships, with a strong focus on our existing base. We intend to both cross-sell additional products (e.g., broadband, family SIMs, TV) and up-sell new experiences (including higher speeds with 4G Evo / 5G, low latency mobile gaming services and a wide range of Consumer IoT devices, enabled by our leading V by Vodafone global platform). Our objective is to increase revenue per customer and to significantly reduce churn as an increasing proportion of our customer base becomes converged over time.

We intend to launch 5G services in-line with leading local competitors during calendar 2019 and 2020, with an initial focus on dense urban areas. 5G's improved spectral and energy efficiency supports up to a 10x reduction in the cost per Gigabyte, which will allow the Group to limit the future growth in network operating costs despite strong expected traffic growth.

Overall, Europe Consumer service revenues excluding UK handset financing declined by 0.6%\*\* in H1, with fixed growth of 3.6%\*\* offset by a mobile decline of 2.1%\*\* . Excluding Spain, Italy and the drag from UK handset financing, service revenues grew by 3.0%\*\* , with fixed growth of 6.1%\*\* and mobile growing by 1.8%\*\* . Fixed represented 28.3% of segment revenues in the period.

In Consumer Fixed, we continued to expand our NGN footprint, which is the largest in Europe. On a pro-forma basis for the acquisition of Liberty Global's cable assets (announced in May), we covered 117 million households at the end of the period, with 54 million on-net (including VodafoneZiggo). With the potential to offer superior gigabit-speeds via DOCSIS3.1 on Cable and via FTTH to most of these homes in the next few years, we see significant scope to increase on-net broadband customer penetration, which is currently 28%, at attractive incremental margins.

Including VodafoneZiggo, the Group had 20.4 million broadband customers, 6.2 million converged customers and 13.7 million TV customers at the end of the period. We maintained good commercial momentum in all markets other than Spain, which was impacted by increased competitive intensity and by our decision not to renew unprofitable football rights. During H1 we added 384,000 broadband customers, 744,000 NGN customers and 616,000 converged customers (partially supported by the first-time recognition of prepaid customers in Germany). Our TV customer base declined by 71,000, following football customer losses in



Spain.

In Consumer Mobile, data growth remained strong at 57%, with average smartphone usage increasing to 3.2 GB per month. Our ability to monetise this growth varied by market. In Germany and the UK, underlying Consumer ARPU trends improved on the back of more-for-more offers and RPI-linked price increases, respectively, although on a reported basis this was offset by a mix shift towards SIM-only / family SIMs and convergence discounts. In Italy and Spain, increased competition led to material ARPU declines.

***Vodafone Business: A leading international challenger in fixed, industrialising IoT***

In H1, Vodafone Business accounted for 29.8% of Group service revenues.

We are in the process of rebranding our former Enterprise division as Vodafone Business, which we believe will help to increase our brand recognition as we broaden our service offering. Our strategy is to drive growth and deepen our existing mobile customer relationships by cross-selling additional services including next generation fixed, IoT and Cloud services. We aim to increase revenue per account and reduce churn, while also improving productivity through our salesforce transformation initiative and the rapid digitalisation of our operations.

We believe our unique global footprint and extensive partner market relationships provide us with a competitive advantage in selling to select multinational customers, which represent c.20% of divisional service revenues and are managed centrally by our Vodafone Global Enterprise team.

We aim to build on our strength in connectivity to become the partner of choice for local corporate / government customers (which represent c.30% of Business revenues) and for multinationals, leveraging our leading global IoT platform. We are investing in IoT solutions for specific industry verticals, expanding from our current focus on automotive to digital buildings, healthcare and logistics. Together with good growth in IoT connections (which rose 28% in Q2 to 77 million), this supported IoT revenue growth of 14.0%\* in H1.

We also see significant future opportunities to gain share as the Wide Area Networking (WAN) market transitions to Software Defined Networking (SDN), which offers large enterprise customers both greater flexibility and significant cost savings compared to legacy products.

For SoHo and SME customers, which represent c.50% of divisional service revenues, we aim to cross-sell fixed and unified communications propositions and also to position Vodafone as an integrator of value added digital and IoT services, offsetting the pressure on mobile prices.

## CHIEF EXECUTIVE S STATEMENT

Overall, Vodafone Business service revenues grew by 1.0%\* in H1 (Q1: 0.9%\*, Q2 1.1%\*), led by good growth in Vodacom (4.7%\*) and with a stable performance in Europe (0.2%\*). Within Europe, Germany and the UK improved, while southern Europe slowed. Fixed revenues, which represent 31.0% of Vodafone Business, grew at 3.9%\* (Q1: 3.2%\*, Q2 4.7%\*), supported by ongoing market share gains in fixed, security and cloud services. Mobile declined by 0.3%\* (Q1: -0.1%\*, Q2 -0.5%\*), as customer growth and IoT gains were offset by ARPU pressure.

The Vodafone Business contribution margin expanded by 90 basis points in H1, reflecting our salesforce transformation initiative.

### ***Emerging Consumer: Driving data penetration, growing digital and financial services***

In H1, the Emerging Consumer segment accounted for 16.8% of Group service revenues.

We continue to see significant growth potential in our African and Middle Eastern markets. Data growth remained strong at 18% in Q2, however data penetration is currently still low, with only 22% of our mobile customer base using 4G services, and with smartphone penetration at only 43%. As 4G smartphone costs continue to fall, driving ongoing adoption, we aim to grow ARPU. For example, customers in South Africa typically spend 22% more when moving from 3G to 4G services.

We also see significant opportunity to grow in digital and financial services. M-Pesa, our African payments platform, has moved beyond its origins as a money transfer service, and now provides enterprise payments, financial services and merchant payment services for mobile commerce. Over US\$10 billion of payments are processed over the platform every month, across the seven African markets where M-Pesa services are active. We now have 35 million M-Pesa customers, and in H1 M-Pesa grew revenues by 19.4%\* to 0.4 billion. M-Pesa represented 12.0% of Emerging Consumer service revenues in H1.

During H1, the Emerging Consumer segment grew at 7.4%\*. In euro terms service revenue declined by 9.3%, due to a sharp FX devaluation in Turkey.

### ***Digital Transformation: A new radically simpler, digital first operating model, leveraging Group scale***

We see the emergence of new digital technologies, including big data analytics, artificial intelligence agents and robotic process automation (RPA) as a compelling opportunity to transform the Group's operating model and fundamentally reshape our cost base. We are accelerating the implementation of our Digital Vodafone programme, as speed will be a key factor in retaining the benefit of these new technologies.

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During H1, we increased the proportion of mobile customers acquired through online channels to 13%, compared to less than 10% a year ago, helping to reduce commissions paid to third party distributors. In fixed, 30% of customer acquisitions are now online. In customer operations, we have deployed our TOBi chatbots in 5 markets, with a further 5 markets due to launch in H2. This contributed to a 10% year-on-year reduction in the frequency of customer contacts to our call centres in H1 (excluding the impact of our commercial repositioning in Spain). In addition, by deploying RPA bots in our shared service centres, we reduced over 900 FTE roles in H1.

In order to gain the full benefit of this digital first approach, we intend to shift towards a radically simpler and more flexible operating model. Over the coming quarters, we will adopt new simplified pricing models across our markets, and will proactively phase out complex legacy pricing structures. Lower complexity will allow both significant savings in IT costs and greater commercial agility. We are also introducing a number of digital only products, starting with Vodafone Bit in Spain, which will have lower commissions and operating costs.

We also see additional opportunities to leverage Group scale. We already have 20,000 employees in our shared service centres in India, Egypt and Eastern Europe, and have centralised over 80% of procurement. Looking ahead, we see further opportunities from centralising European network design and engineering functions, as well as IT operations.

Together with the benefits of our ongoing Fit for Growth programme and zero based budgeting efforts, we expect that the rapid adoption of digital technologies will enable us to reduce operating expenses in our European operations (including Common functions) by at least 1.2 billion on an absolute organic basis by FY21, compared to FY18 levels. In AMAP, operating expenses are expected to continue to grow below local inflation levels, supporting margins.

In H1, we reduced net operating expenses on an organic basis by 0.2 billion in Europe and Common Functions, and by 0.1 billion for the Group overall. For the full year, we aim to reduce operating expenses on an organic basis by 400 million in Europe and Common Functions. This is the third year in a row in which we have reduced our net operating expenses, supporting organic EBITDA margin expansion.

## CHIEF EXECUTIVE'S STATEMENT

### *Improving asset utilisation: Capturing synergies, strategic partnerships and creating a virtual TowerCo in Europe*

We aim to improve the utilisation of all of the Group's assets as part of our focus on improving returns on capital. We have announced a number of in-market consolidation deals, which we expect to unlock significant synergies. We have a strong track record of delivering or exceeding targeted cost and capex synergies on prior deals, including KDG in Germany and ONO in Spain.

In the Netherlands, VodafoneZiggo has already delivered over one-third of targeted cost and capex synergies, and is on track to achieve its goal of 210 million of annual run-rate savings by calendar 2021 (the fifth full year post closing). In India, we are making a fast start on capturing the US\$10 billion NPV of targeted cost and capex savings following the merger of Vodafone India with Idea Cellular. Our announced acquisition of Liberty Global's cable assets in Germany and Central and Eastern Europe (CEE) targets expected cost and capex savings of 535 million by the fifth full year post completion, with an NPV of 6 billion including integration costs. We will remain highly focused on capturing these significant opportunities for value creation.

We also believe that strategic partnerships are another important potential route towards improving industry returns. We have been successful in agreeing capital-smart partnerships in fixed-line, notably in Italy, the UK and Portugal, and we also intend to explore opportunities for partnerships in mobile, providing that these do not compromise our network differentiation.

In this context, we are creating a virtual Tower company to manage the 58,000 towers in our controlled operations across Europe. This internal vertical organisation will have a dedicated management team solely focused on adding new tenancies and reducing operating expenses. We are also conducting due diligence in order to determine the optimal strategic and financial direction for all of our tower assets, including those held in joint ventures.

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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. Change at constant exchange rates presents performance on a comparable basis in terms of foreign exchange rates only. Organic growth and change at constant exchange rates are alternative performance measures. See Alternative performance measures on page 48 for further details and reconciliations to the respective closest equivalent GAAP measure.

\*\* Organic growth excluding the impact of UK handset financing and settlements (see page 53 for further details).

1. Following the adoption of IFRS 15 Revenue from Contracts with Customers on 1 April 2018, the Group's statutory results for the six months ended 30 September 2018 are on an IFRS 15 basis, whereas the statutory results for the six months ended 30 September 2017 are on an IAS 18 basis as previously reported.

2. Six months ended 30 September 2018 includes 3.5 billion of impairment charges in respect of the Group's investments in Spain, Romania and Vodafone Idea and a 3.4 billion loss on the disposal of Vodafone India. See note 8 Acquisitions and disposals for further details.

3. Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. Group service revenue, adjusted EBITDA and adjusted EBIT are presented on an IAS 18 basis. See Alternative performance measures on page 48 for reconciliations to the closest respective equivalent GAAP measure and Definition of terms on page 59 for further details.

**GUIDANCE**

Please see page 48 for Alternative performance measures , page 59 for Definition of terms and page 61 for Forward-looking statements .

**2019 financial year guidance**

|  | <b>Adjusted EBITDA<br/>bn</b>   | <b>Free cash flow<br/>(pre-spectrum)<br/>bn</b> |
|--|---|---|
| Original guidance (excluding Vodafone India) | Organic growth of 1 - 5% excluding settlements and UK handset financing | At least 5.2 billion                            |
| Updated guidance                             | Organic growth of c.3% excluding settlements and UK handset financing   | c. 5.4 billion                                  |

Consistent with prior guidance, we now expect to grow our adjusted organic EBITDA by around 3% in FY19, excluding the impact of UK handset financing in both years, and the significant benefit in the prior year from regulatory settlements in the UK and a legal settlement in Germany. Based on guidance FX rates, and under IAS 18 accounting standards, this implies an adjusted EBITDA range of 14.3-14.5 billion for the year.

Under IFRS 15, we expect our organic service revenue growth will be slightly higher and our absolute adjusted EBITDA will be slightly lower, primarily due to the elimination of the impact of UK handset financing under IAS 18, with no impact on FCF.

We now target a reduction in operating expenses in Europe and Common functions of at least 1.2 billion by FY21 compared to FY18 on an absolute organic basis, including savings in FY19 of around 400 million.

On an IAS 18 basis, we continue to expect our capital additions expressed as a percentage of our revenues to remain in the mid-teens , excluding capital additions related to the Gigabit Investment Plan in Germany and the announced acquisition of Liberty Global's assets in Germany and CEE.

We now aim to generate FCF pre-spectrum of around 5.4 billion, after all capex, before M&A and restructuring costs, and based on guidance FX rates, reflecting our confidence in achieving the mid-point of our EBITDA guidance range.

**Dividend policy**

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The Board currently intends to propose a total dividend of 15.07 eurocents per share for the current financial year, in-line with the FY18 dividend, with an interim dividend of 4.84 eurocents (also stable YoY). The Board will consider growing the dividend per share over the long-term, once the Group's financial leverage has reduced towards the lower end of the revised target range of 2.5x-3.0x net debt / EBITDA.

### Assumptions

We have based guidance for the financial year ending 31 March 2019 on our current assessment of the global macroeconomic outlook and assume foreign exchange rates of 1:£0.87, 1:ZAR 15.1, 1:TRY 5.1 and 1:EGP 22.1. Guidance excludes the impact of licence and spectrum payments, material one-off tax-related payments, restructuring payments, changes in shareholder recharges from India 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.

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Note:

1. Adjusted EBITDA and free cash flow (pre-spectrum) are alternative performance measures. Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. The adjusted EBITDA and free cash flow (pre-spectrum) measures are forward-looking alternative performance measures which at this time cannot be quantitatively reconciled to comparative GAAP financial information. See [Alternative performance measures](#) on page 48 for more information.

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## FINANCIAL RESULTS

## Group1, 2

Following the adoption of IFRS 15 Revenue from Contracts with Customers on 1 April 2018, the Group's statutory results for the six months ended 30 September 2018 are on an IFRS 15 basis, whereas the statutory results for the six months ended 30 September 2017 are on an IAS 18 basis as previously reported, with any comparison between the two bases of reporting not being meaningful. As a result, the discussion of our operating results is primarily on an IAS 18 basis for all periods presented. See Alternative performance measures on page 48 for more information and reconciliations to the closest respective equivalent GAAP measures.

|   | Six months ended 30 September |                     |                     |                                |               |
|---|-------------------------------|---------------------|---------------------|--------------------------------|---------------|
|   | 2018<br>IFRS 15<br>m          | 2018<br>IAS 18<br>m | 2017<br>IAS 18<br>m | IAS 18 Growth<br>Reported<br>% | Organic*<br>% |
| <b>Continuing operations</b>  |                               |                     |                     |                                |               |
| Mobile customer revenue   |                               | 12,693              | 13,408              |                                |               |
| Mobile incoming revenue   |                               | 916                 | 1,036               |                                |               |
| Other service revenue   |                               | 1,055               | 1,086               |                                |               |
| Mobile service revenue  |                               | 14,664              | 15,530              |                                |               |
| Fixed service revenue   |                               | 5,047               | 5,062               |                                |               |
| <b>Service revenue</b>  | <b>18,440</b>                 | <b>19,711</b>       | <b>20,592</b>       | <b>(4.3)</b>                   | <b>(0.1)</b>  |
| Other revenue   | 3,356                         | 2,834               | 2,483               |                                |               |
| <b>Revenue</b>  | <b>21,796</b>                 | <b>22,545</b>       | <b>23,075</b>       | <b>(2.3)</b>                   | <b>1.5</b>    |
| Direct costs  | (5,230)                       | (5,154)             | (5,281)             |                                |               |
| Customer costs  | (4,264)                       | (4,889)             | (4,772)             |                                |               |
| Operating expenses  | (5,429)                       | (5,424)             | (5,637)             |                                |               |
| <b>Adjusted EBITDA</b>  | <b>6,873</b>                  | <b>7,078</b>        | <b>7,385</b>        | <b>(4.2)</b>                   | <b>(0.2)</b>  |
| Depreciation and amortisation:  |                               |                     |                     |                                |               |
| Acquired intangibles  | (116)                         | (116)               | (122)               |                                |               |
| Purchased licences  | (731)                         | (731)               | (763)               |                                |               |
| Other   | (3,926)                       | (3,926)             | (4,043)             |                                |               |
| <b>Adjusted EBIT</b>  | <b>2,100</b>                  | <b>2,305</b>        | <b>2,457</b>        | <b>(6.2)</b>                   | <b>(1.6)</b>  |
| Share of adjusted results in associates and joint ventures <sup>3</sup> | (8)                           | 41                  | 171                 |                                |               |
| <b>Adjusted operating profit</b>  | <b>2,092</b>                  | <b>2,346</b>        | <b>2,628</b>        | <b>(10.7)</b>                  | <b>(0.6)</b>  |
| Impairment loss   | (3,495)                       |                     |                     |                                |               |
| Restructuring costs   | (95)                          |                     | (33)                |                                |               |



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|   |                |              |
|---|----------------|--------------|
| Amortisation of acquired customer base and brand intangible assets <sup>3</sup> | (317)          | (543)        |
| Other income and expense  | (256)          | (44)         |
| <b>Operating (loss)/profit</b>  | <b>(2,071)</b> | <b>2,008</b> |
| Non-operating income and expense  | (3)            | (1)          |
| Net (financing costs)/investment income   | (815)          | 152          |
| Income tax expense <sup>4</sup>   | (1,409)        | (579)        |
| <b>(Loss)/profit for the financial period from continuing operations</b>        | <b>(4,298)</b> | <b>1,580</b> |
| <b>Loss for the financial period from discontinued operations</b>               | <b>(3,535)</b> | <b>(345)</b> |
| <b>(Loss)/profit for the financial period</b>                                   | <b>(7,833)</b> | <b>1,235</b> |
| Attributable to:  |                |              |
| - Owners of the parent  | (7,965)        | 1,131        |
| - Non-controlling interests   | 132            | 104          |

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. Change at constant exchange rates presents performance on a comparable basis in terms of foreign exchange rates only. Organic growth and change at constant exchange rates are alternative performance measures. See Alternative performance measures on page 48 for further details and reconciliations to the respective closest equivalent GAAP measure.
1. Service revenue, adjusted EBITDA, adjusted EBIT and adjusted operating profit are alternative performance measures. Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. See Alternative performance measures on page 48 for more information and reconciliations to the closest respective equivalent GAAP measure and Definition of terms on page 59 for further details.
  2. Current period reflects average foreign exchange rates of 1:£0.88, 1:INR 80.77, 1:ZAR 15.73, 1:TKL 5.90 and 1:EGP 21.01.
  3. Share of adjusted results in equity accounted associates and joint ventures excludes amortisation of acquired customer bases and brand intangible assets, restructuring costs and other costs of 0.4 billion (2017: 0.2 billion) which are included in amortisation of acquired customer base and brand intangible assets, restructuring costs and other income and expense respectively.
  4. Refer to page 16 for further details.

## FINANCIAL RESULTS

Europe<sup>1</sup>

| IAS 18 basis  | Germany<br>m | Italy<br>m   | UK<br>m      | Spain<br>m   | Other<br>Europe<br>m | Eliminations<br>m | Europe<br>m   | IAS 18 Growth<br>Reported<br>% | Organic*<br>% |
|---|--------------|--------------|--------------|--------------|----------------------|-------------------|---------------|--------------------------------|---------------|
| <b>30 September 2018</b>                                      |              |              |              |              |                      |                   |               |                                |               |
| Mobile customer revenue                                       | 2,719        | 1,685        | 1,888        | 1,299        | 1,654                |                   | 9,245         |                                |               |
| Mobile incoming revenue                                       | 101          | 170          | 141          | 63           | 190                  | (9)               | 656           |                                |               |
| Other service revenue   | 259          | 117          | 134          | 89           | 138                  | (52)              | 685           |                                |               |
| Mobile service revenue  | 3,079        | 1,972        | 2,163        | 1,451        | 1,982                | (61)              | 10,586        |                                |               |
| Fixed service revenue   | 2,081        | 523          | 734          | 754          | 405                  | (1)               | 4,496         |                                |               |
| <b>Service revenue</b>  | <b>5,160</b> | <b>2,495</b> | <b>2,897</b> | <b>2,205</b> | <b>2,387</b>         | <b>(62)</b>       | <b>15,082</b> | <b>(1.9)</b>                   | <b>(1.8)</b>  |
| Other revenue   | 291          | 420          | 500          | 216          | 180                  | (3)               | 1,604         |                                |               |
| <b>Revenue</b>  | <b>5,451</b> | <b>2,915</b> | <b>3,397</b> | <b>2,421</b> | <b>2,567</b>         | <b>(65)</b>       | <b>16,686</b> | <b>(0.5)</b>                   | <b>(0.5)</b>  |
| Direct costs  | (963)        | (577)        | (767)        | (717)        | (654)                | 65                | (3,613)       |                                |               |
| Customer costs  | (1,149)      | (671)        | (919)        | (569)        | (433)                |                   | (3,741)       |                                |               |
| Operating expenses  | (1,261)      | (587)        | (910)        | (593)        | (631)                |                   | (3,982)       |                                |               |
| <b>Adjusted EBITDA</b>  | <b>2,078</b> | <b>1,080</b> | <b>801</b>   | <b>542</b>   | <b>849</b>           |                   | <b>5,350</b>  | <b>(4.2)</b>                   | <b>(4.2)</b>  |
| Depreciation and amortisation:                                |              |              |              |              |                      |                   |               |                                |               |
| Acquired intangibles  |              | (61)         |              |              | (2)                  |                   | (63)          |                                |               |
| Purchased licences  | (353)        | (36)         | (218)        | (33)         | (54)                 |                   | (694)         |                                |               |
| Other   | (1,110)      | (544)        | (598)        | (597)        | (490)                |                   | (3,339)       |                                |               |
| <b>Adjusted EBIT</b>  | <b>615</b>   | <b>439</b>   | <b>(15)</b>  | <b>(88)</b>  | <b>303</b>           |                   | <b>1,254</b>  | <b>(19.4)</b>                  | <b>(19.5)</b> |
| Share of adjusted results in<br>associates and joint ventures |              |              |              |              | 42                   |                   | 42            |                                |               |
| <b>Adjusted operating profit</b>                              | <b>615</b>   | <b>439</b>   | <b>(15)</b>  | <b>(88)</b>  | <b>345</b>           |                   | <b>1,296</b>  | <b>(17.6)</b>                  | <b>(17.7)</b> |
| <b>Adjusted EBITDA margin</b>                                 | <b>38.1%</b> | <b>37.0%</b> | <b>23.6%</b> | <b>22.4%</b> | <b>33.1%</b>         |                   | <b>32.1%</b>  |                                |               |
| <b>30 September 2017</b>                                      |              |              |              |              |                      |                   |               |                                |               |
| Mobile customer revenue                                       | 2,683        | 1,889        | 2,070        | 1,369        | 1,624                |                   | 9,635         |                                |               |
| Mobile incoming revenue                                       | 106          | 172          | 152          | 83           | 197                  | (13)              | 697           |                                |               |
| Other service revenue   | 257          | 127          | 155          | 106          | 138                  | (69)              | 714           |                                |               |
| Mobile service revenue  | 3,046        | 2,188        | 2,377        | 1,558        | 1,959                | (82)              | 11,046        |                                |               |
| Fixed service revenue   | 2,016        | 485          | 697          | 768          | 365                  | (4)               | 4,327         |                                |               |
| <b>Service revenue</b>  | <b>5,062</b> | <b>2,673</b> | <b>3,074</b> | <b>2,326</b> | <b>2,324</b>         | <b>(86)</b>       | <b>15,373</b> |                                |               |
| Other revenue   | 215          | 434          | 441          | 186          | 128                  | (2)               | 1,402         |                                |               |
| <b>Revenue</b>  | <b>5,277</b> | <b>3,107</b> | <b>3,515</b> | <b>2,512</b> | <b>2,452</b>         | <b>(88)</b>       | <b>16,775</b> |                                |               |
| Direct costs  | (969)        | (607)        | (736)        | (683)        | (663)                | 88                | (3,570)       |                                |               |
| Customer costs  | (1,102)      | (661)        | (889)        | (502)        | (405)                |                   | (3,559)       |                                |               |
| Operating expenses  | (1,277)      | (639)        | (960)        | (576)        | (611)                |                   | (4,063)       |                                |               |
| <b>Adjusted EBITDA</b>  | <b>1,929</b> | <b>1,200</b> | <b>930</b>   | <b>751</b>   | <b>773</b>           |                   | <b>5,583</b>  |                                |               |
| Depreciation and amortisation:                                |              |              |              |              |                      |                   |               |                                |               |
| Acquired intangibles  |              | (61)         |              |              | (2)                  |                   | (63)          |                                |               |
| Purchased licences  | (350)        | (22)         | (214)        | (33)         | (55)                 |                   | (674)         |                                |               |
| Other   | (1,081)      | (553)        | (595)        | (586)        | (476)                |                   | (3,291)       |                                |               |
| <b>Adjusted EBIT</b>  | <b>498</b>   | <b>564</b>   | <b>121</b>   | <b>132</b>   | <b>240</b>           |                   | <b>1,555</b>  |                                |               |
| Share of adjusted results in<br>associates and joint ventures | 2            |              |              |              | 15                   |                   | 17            |                                |               |
| <b>Adjusted operating profit</b>                              | <b>500</b>   | <b>564</b>   | <b>121</b>   | <b>132</b>   | <b>255</b>           |                   | <b>1,572</b>  |                                |               |
| <b>Adjusted EBITDA margin</b>                                 | <b>36.6%</b> | <b>38.6%</b> | <b>26.5%</b> | <b>29.9%</b> | <b>31.5%</b>         |                   | <b>33.3%</b>  |                                |               |

| <b>Change at constant exchange rates (%)</b>               |             |               |                |                |             |
|--|-------------|---------------|----------------|----------------|-------------|
| Mobile customer revenue                                    | 1.3         | (10.8)        | (8.1)          | (5.1)          | 2.0         |
| Mobile incoming revenue                                    | (4.6)       | (1.1)         | (6.5)          | (24.0)         | (4.2)       |
| Other service revenue                                      | 1.0         | (7.7)         | (13.0)         | (15.5)         | (1.3)       |
| Mobile service revenue                                     | 1.1         | (9.9)         | (8.4)          | (6.8)          | 1.1         |
| Fixed service revenue                                      | 3.2         | 7.9           | 6.2            | (1.8)          | 11.0        |
| <b>Service revenue</b>                                     | <b>1.9</b>  | <b>(6.6)</b>  | <b>(5.1)</b>   | <b>(5.2)</b>   | <b>2.6</b>  |
| Other revenue  | 35.0        | (3.5)         | 14.0           | 16.2           | 44.2        |
| <b>Revenue</b>   | <b>3.3</b>  | <b>(6.2)</b>  | <b>(2.7)</b>   | <b>(3.6)</b>   | <b>4.8</b>  |
| Direct costs   | (0.7)       | (5.0)         | 5.1            | 5.1            | (1.1)       |
| Customer costs   | 4.3         | 1.5           | 4.1            | 13.2           | 7.4         |
| Operating expenses   | (1.2)       | (8.1)         | (4.5)          | 3.0            | 3.0         |
| <b>Adjusted EBITDA</b>                                     | <b>7.7</b>  | <b>(10.0)</b> | <b>(13.4)</b>  | <b>(27.8)</b>  | <b>9.8</b>  |
| Depreciation and amortisation:                             |             |               |                |                |             |
| Acquired intangibles                                       |             |               |                |                |             |
| Purchased licences   | 0.9         | 61.9          | 2.7            | (1.1)          | (2.1)       |
| Other  | 2.7         | (1.7)         | 1.1            | 2.0            | 2.9         |
| <b>Adjusted EBIT</b>                                       | <b>23.4</b> | <b>(22.1)</b> | <b>(112.1)</b> | <b>(166.4)</b> | <b>26.2</b> |
| Share of adjusted results in associates and joint ventures | NM          |               |                |                | 181.9       |
| <b>Adjusted operating profit</b>                           | <b>23.0</b> | <b>(22.1)</b> | <b>(112.1)</b> | <b>(166.4)</b> | <b>35.3</b> |
| <b>Adjusted EBITDA margin (pps)</b>                        | <b>1.6</b>  | <b>(1.6)</b>  | <b>(2.9)</b>   | <b>(7.5)</b>   | <b>1.5</b>  |

**FINANCIAL RESULTS**

On a statutory basis, revenue decreased by 0.7 billion to 16.0 billion, including a 0.6 billion decrease due to the adoption of IFRS 15.

On an IAS 18 basis, revenue decreased 0.5% including a 0.1 percentage point negative impact from foreign exchange movements. On an organic basis, service revenue excluding the drag from UK handset financing decreased 0.7%\*\* (Q1 -0.3%\*\* , Q2 -1.1%\*\*), reflecting competitive pressure in Italy and Spain offset by good growth in Germany, the UK and Other Europe.

Adjusted EBITDA decreased 4.2%, including a 0.1 percentage point negative impact from foreign exchange movements. On an organic basis and excluding UK handset financing impacts and a UK settlement in the prior year, adjusted EBITDA was almost stable (-0.2)%\*\* as service revenue declines were offset by lower operating expenses.

Adjusted EBIT decreased 19.5%\*, reflecting lower adjusted EBITDA.

|   | Reported<br>change<br>% | Other activity<br>(including<br>M&A)<br>pps | Foreign<br>exchange<br>pps | Organic*<br>change<br>% |
|---|-------------------------|---|----------------------------|-------------------------|
| <b>Europe revenue</b>                   | <b>(0.5)</b>            | <b>(0.1)</b>                                | <b>0.1</b>                 | <b>(0.5)</b>            |
| <b>Service revenue</b>                  |                         |   |                            |                         |
| Germany                                 | 1.9                     | 0.1   |                            | 2.0                     |
| Italy                                   | (6.7)                   | 0.3   |                            | (6.4)                   |
| UK                                      | (5.8)                   | 0.1   | 0.7                        | (5.0)                   |
| Spain                                   | (5.2)                   | 0.5   |                            | (4.7)                   |
| Other Europe                            | 2.7                     | (0.2)                                       | (0.1)                      | 2.4                     |
| <b>Europe service revenue</b>           | <b>(1.9)</b>            |   | <b>0.1</b>                 | <b>(1.8)</b>            |
| <b>Adjusted EBITDA</b>                  |                         |   |                            |                         |
| Germany                                 | 7.7                     | (0.4)                                       |                            | 7.3                     |
| Italy                                   | (10.0)                  | 0.3   |                            | (9.7)                   |
| UK                                      | (13.9)                  | (1.0)                                       | 0.5                        | (14.4)                  |
| Spain                                   | (27.8)                  | 0.6   |                            | (27.2)                  |
| Other Europe                            | 9.8                     | 0.5   |                            | 10.3                    |
| <b>Europe adjusted EBITDA</b>           | <b>(4.2)</b>            | <b>(0.1)</b>                                | <b>0.1</b>                 | <b>(4.2)</b>            |
| <b>Europe adjusted EBIT</b>             | <b>(19.4)</b>           | <b>(0.1)</b>                                |                            | <b>(19.5)</b>           |
| <b>Europe adjusted operating profit</b> | <b>(17.6)</b>           | <b>(0.1)</b>                                |                            | <b>(17.7)</b>           |

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. Change at constant exchange rates presents performance on a comparable basis in terms

of foreign exchange rates only. Organic growth and change at constant exchange rates are alternative performance measures. See [Alternative performance measures](#) on page 48 for further details and reconciliations to the respective closest equivalent GAAP measure.

\*\* Organic growth excluding the impact of UK handset financing and settlements (see page 53 for further details).

1 The Financial Results discussion, including the discussion of service revenue, adjusted EBITDA, adjusted EBIT and adjusted operating profit, is primarily performed on an IAS 18 basis. 2018 information on an IAS 18 basis and percentage movements on an IAS 18 basis are alternative performance measures. See [Alternative performance measures](#) on page 48 for more information and reconciliations to the closest respective equivalent GAAP measure and [Definitions of terms](#) on page 59 for further details.

### Germany

Service revenue grew 2.0%\* (Q1: 2.4%\*, Q2: 1.7%\*) driven by strong customer base growth in both mobile and fixed line. The slight slowdown in quarterly trends reflects the lapping of a tough prior year comparator relating to wholesale MVNO revenues.

Mobile service revenue grew 1.3%\* (Q1: 1.7%\*, Q2: 0.9%\*) driven by a higher contract customer base. We added 466,000 contract customers in the first half of the year (H1 2017/18: 301,000) supported by strong sales performances in both branded and indirect channels, and the success of our GigaCube proposition. Contract ARPU declined, however it grew excluding the mix shift towards SIM-only, multi-SIM family contracts and convergence. In Q2, our consumer segment continued to perform well and Business returned to growth, however this was partially offset by a tough prior year comparator relating to wholesale MVNO revenues. We retained our market leading consumer NPS, and our 4G coverage is now 93% with the ability to offer 500Mbps in over 45 cities. Narrow-band IoT, which enables deep indoor coverage at low cost for connected devices, is now available across 90% of our 4G footprint.

Fixed service revenue grew 3.2%\* (Q1: 3.4%\*, Q2: 3.0%\*) driven by customer base growth. We added 115,000 broadband customers in H1, with quarterly trends improving despite an increase in competitor promotions, reflecting the growing demand for higher speed offers. We also maintained good momentum in convergence supported by our GigaKombi proposition, and we added 513,000 consumer converged customers (including prepaid mobile customers with fixed products for the first time), bringing our consumer converged customer base to 1.2 million. Our Gigabit investment plan is well underway. We have successfully completed the analogue switch off for 42% of our TV customers, enabling the efficient roll out of DOCSIS 3.1. We are targeting to cover 8 million households (70%) with this Gigabit capable technology by the end of the year.

## FINANCIAL RESULTS

Adjusted EBITDA grew 7.3%\* with a 1.5 percentage point improvement in adjusted EBITDA margin to 38.1%. This was driven by service revenue growth, our focus on more profitable direct channels, and a further 1.2%\* reduction in operating expenses despite the strong growth in customer numbers.

### Italy

Service revenue declined 6.4%\* (Q1: -6.5%\*, Q2: -6.3%\*), primarily reflecting increased competition in mobile due to the arrival of a new entrant.

Mobile service revenue declined 9.5%\* (Q1: -9.5%\*, Q2: -9.6%\*). Promotional activity in the prepaid segment remained high, and in Q2 stepped up further following the launch of the new entrant in late May. As a result, mobile number portability ( MNP ) volumes were 46% higher year-on year in Q2 and 42% higher compared to Q1. In June, we launched a new secondary brand ( Ho. ) to specifically address customers in the value segment of the market. Customer take-up to date has been encouraging, mitigating losses on our main brand. Overall our active consumer prepaid customer base declined by 213,000 in H1, and consumer prepaid ARPU fell by 5.4%. During this period we maintained our market leading network position.

In October 2018, we announced that we had acquired 300MHz of spectrum across 700MHz, 3700MHz, and 26GHz bands for 2.4bn, a significantly greater cost than in other European markets due to an artificial auction construct. This spectrum will enable the deployment of 5G, allowing us to maintain our leading network position in Italy and delivering substantial network operating cost efficiencies as demand for data continues to grow.

Fixed service revenue grew 7.9%\* (Q1: 7.1%\*, Q2: 8.6%\*). Our commercial momentum remained strong, as we added 121,000 broadband households in H1. Through our owned NGN footprint and our rapidly expanding strategic partnership with Open Fiber, we now cover 5.8 million households. We also added 91,000 converged customers, taking our total converged customer base to 834,000.

Adjusted EBITDA declined by 9.7%\* and the adjusted EBITDA margin was 1.6 percentage points lower at 37.0%. The decline in service revenue was partially offset by a tight control of operating expenses, which declined by 8.1%\* year-on-year.

### UK

Excluding the drag from handset financing, service revenue grew 0.8%\*\* (Q1: 0.5%\*\*\*, Q2: 1.1%\*\*), driven by growth in consumer mobile and fixed line, and by a return to growth in Business fixed. This improved performance reflects the substantial operational improvements and commercial actions taken over the past year. On a reported basis service revenue declined 5.0%\* (Q1: -4.9%\*, Q2: -5.1%\*), with the drag on growth from handset financing increasing from 5.4 percentage points in Q1 to 6.2 percentage points in Q2.

Mobile service revenue excluding handset financing declined by 0.8%\*\* (Q1: -0.9%\*\* , Q2: -0.6%\*\*), with growth in consumer being offset by lower Business and MVNO revenue. The growth in consumer was driven by a higher contract customer base and an RPI-linked price increase. Our commercial momentum accelerated through the period; excluding Talkmobile, our low-end mobile brand which is being phased out, we added 181,000 contract customers in the first half of the year (H1 2017/18: 59,000). This was supported by a 2 percentage point year-on-year improvement in consumer branded churn, and our best ever network satisfaction and consumer NPS scores. Our active consumer prepaid base also grew by 100,000 in Q2 supported by VOXI, our targeted youth proposition.

Fixed service revenue grew 6.2%\* (Q1: 5.3%\*, Q2: 7.0%\*) driven by continued strong momentum in consumer broadband and a return to service revenue growth in Business. We added 97,000 consumer broadband net additions in H1, and in total we now serve 479,000 broadband customers. In September, we launched our first fibre-to-the-home offer in Milton Keynes, leveraging our strategic partnership with CityFibre. This offer will be rolled out to a further 9 cities by early 2019.

Adjusted organic EBITDA excluding handset financing and a one-off settlement in the prior year grew 12.1%\*\* , and our adjusted EBITDA margin improved by 2.1%\*\* percentage points. This improvement was driven by service revenue growth, a 5.7%\* reduction in operating expenses excluding the one-off settlement, and improved Business fixed profitability; to date, we have closed 15 legacy networks and transitioned these customers to our RedStream next-generation network. On a reported basis adjusted EBITDA decreased by 14.4%\* and the reported adjusted EBITDA margin decreased by 2.9 percentage points to 23.6%.

## FINANCIAL RESULTS

### Spain

Service revenue declined 4.7%\* (Q1: -2.2%\*, Q2: -7.2%\*). The slowdown in quarterly trends reflects the commercial actions we took in May in order to improve the competitiveness of our offers, particularly in the value segment, and the impact of our decision not to renew unprofitable football content rights. Going forward, unless football rights are available on profitable terms, we intend to focus our content strategy on premium movies and TV series.

Competition in the market remained high during the first half of the year, resulting in a 20-25% increase in market portability volumes across both mobile and fixed and a significant increase in our churn rates. Post our commercial repositioning in May, porting trends in June and July improved significantly, supported by improved momentum in our second brand Lowi. However, as a result of our decision not to renew unprofitable rights for the Champions League and the match of the week in La Liga, we lost football customers in August and September. Our performance was further impacted by discounted TV/football promotions launched by the incumbent. However, our porting performance versus other operators remained resilient, and the summer promotions ended at the beginning of October. Overall, in H1 our mobile contract base grew by 35,000, our broadband customer base declined by 118,000, and we lost 98,000 TV customers. We maintained our market leading NPS position in consumer, and further improved our market leading network position with 4G coverage of 96% and an NGN footprint covering 21.5 million households (of which 10.3 million are on-net).

Adjusted EBITDA declined by 27.2%\* and the adjusted EBITDA margin was 7.5 percentage points lower at 22.4%. This was principally driven by the reduction in ARPU and fixed customers as well as higher commercial costs following the commercial repositioning of the business. Excluding certain one-time items primarily relating to content costs and intercompany charges, adjusted EBITDA declined by 20.7%\*.

Following challenging current trading and economic conditions, management has reassessed the expected future business performance in Spain. Following this reassessment, projected cash flows are lower and this has led to an impairment charge of 2.9 billion with respect to the Group's investment in Spain for the six months ended 30 September 2018.

### Other Europe

Other Europe, which represents 12.1% of Group service revenue, grew 2.4%\* (Q1: 2.6%\*, Q2: 2.3%\*) with all major markets growing during the first half of the year. Adjusted EBITDA grew 10.3%\* and adjusted EBITDA margin grew 1.6 percentage points to 33.1%\* reflecting continued strong cost control, and good customer base growth.

In Ireland, service revenue grew 2.5%\* (Q1: 1.7%\*, Q2: 3.3%\*) driven by mobile base growth and prepaid ARPU increases. Portugal service revenue grew 2.3%\* (Q1: 3.6%\*, Q2: 1.1%\*) supported by strong customer base growth and higher ARPU in fixed line. The slowdown in quarterly trends reflects the impact of an MTR cut in July. In Greece, service revenue grew by 1.6%\* (Q1: 2.1%\*, Q2: 1.2%\*) driven by ARPU growth in consumer mobile and fixed customer base growth. The slowdown quarter-on-quarter reflect the lapping of price rises in the prior year.



VodafoneZiggo Joint Venture

The results of VodafoneZiggo (in which Vodafone owns a 50% stake), are reported here under US GAAP which is broadly consistent with Vodafone's IFRS basis of reporting.

Total revenue declined 1.8% during H1 (Q1: -2.9%, Q2: -0.6%). This reflected continued price competition in mobile, particularly in the B2B segment, partially offset by growth in fixed line. The improvement in quarterly trends principally reflected the lapping of MTR cuts and roaming regulation from the prior year, combined with continued good customer base growth in both mobile and fixed. We reached the milestone of 1 million converged customers, and 30% of broadband customers and 48% of eligible mobile customers are now converged, driving significant NPS and churn benefits.

Adjusted EBITDA was stable in H1, as declining revenues were offset by lower operating and direct costs which were down 2.9% year-on-year. We continued to make good progress on integrating the businesses and have now realised over one third of the targeted cost and capital expenditure synergies.

During H1, Vodafone received 163 million in dividends from the joint venture and 25 million in interest payments on the shareholder loan.

## FINANCIAL RESULTS

Africa, Middle East and Asia Pacific ( AMAP )<sup>1</sup>

| IAS 18 basis  | Vodacom<br>m | Other AMAP<br>m | Eliminations<br>m | AMAP<br>m    | IAS 18 Growth |               |
|---|--------------|-----------------|-------------------|--------------|---------------|---------------|
|   |              |                 |                   |              | Reported<br>% | Organic*<br>% |
| <b>30 September 2018</b>                                      |              |                 |                   |              |               |               |
| Mobile customer revenue                                       | 2,014        | 1,424           |                   | 3,438        |               |               |
| Mobile incoming revenue                                       | 84           | 205             |                   | 289          |               |               |
| Other service revenue   | 115          | 72              |                   | 187          |               |               |
| Mobile service revenue  | 2,213        | 1,701           |                   | 3,914        |               |               |
| Fixed service revenue   | 127          | 332             |                   | 459          |               |               |
| <b>Service revenue</b>  | <b>2,340</b> | <b>2,033</b>    |                   | <b>4,373</b> | <b>(9.0)</b>  | <b>7.4</b>    |
| Other revenue   | 484          | 426             |                   | 910          |               |               |
| <b>Revenue</b>  | <b>2,824</b> | <b>2,459</b>    |                   | <b>5,283</b> | <b>(7.3)</b>  | <b>9.2</b>    |
| Direct costs  | (399)        | (776)           |                   | (1,175)      |               |               |
| Customer costs  | (691)        | (482)           |                   | (1,173)      |               |               |
| Operating expenses  | (668)        | (535)           |                   | (1,203)      |               |               |
| <b>Adjusted EBITDA</b>  | <b>1,066</b> | <b>666</b>      |                   | <b>1,732</b> | <b>(6.5)</b>  | <b>6.8</b>    |
| Depreciation and amortisation:                                |              |                 |                   |              |               |               |
| Acquired intangibles  | (41)         | (12)            |                   | (53)         |               |               |
| Purchased licences  | (2)          | (35)            |                   | (37)         |               |               |
| Other   | (335)        | (292)           |                   | (627)        |               |               |
| <b>Adjusted EBIT</b>  | <b>688</b>   | <b>327</b>      |                   | <b>1,015</b> | <b>1.3</b>    | <b>6.9</b>    |
| Share of adjusted results in<br>associates and joint ventures | 106          | (107)           |                   | (1)          |               |               |
| <b>Adjusted operating profit</b>                              | <b>794</b>   | <b>220</b>      |                   | <b>1,014</b> | <b>(12.4)</b> | <b>5.8</b>    |
| <b>Adjusted EBITDA margin</b>                                 | <b>37.7%</b> | <b>27.1%</b>    |                   | <b>32.8%</b> |               |               |
| <b>30 September 2017</b>                                      |              |                 |                   |              |               |               |
| Mobile customer revenue                                       | 1,996        | 1,761           |                   | 3,757        |               |               |
| Mobile incoming revenue                                       | 80           | 262             |                   | 342          |               |               |
| Other service revenue   | 121          | 88              |                   | 209          |               |               |
| Mobile service revenue  | 2,197        | 2,111           |                   | 4,308        |               |               |
| Fixed service revenue   | 113          | 382             |                   | 495          |               |               |
| <b>Service revenue</b>  | <b>2,310</b> | <b>2,493</b>    |                   | <b>4,803</b> |               |               |
| Other revenue   | 489          | 407             |                   | 896          |               |               |
| <b>Revenue</b>  | <b>2,799</b> | <b>2,900</b>    |                   | <b>5,699</b> |               |               |
| Direct costs  | (361)        | (937)           |                   | (1,298)      |               |               |
| Customer costs  | (737)        | (493)           |                   | (1,230)      |               |               |
| Operating expenses  | (638)        | (680)           |                   | (1,318)      |               |               |
| <b>Adjusted EBITDA</b>  | <b>1,063</b> | <b>790</b>      |                   | <b>1,853</b> |               |               |
| Depreciation and amortisation:                                |              |                 |                   |              |               |               |
| Acquired intangibles  | (43)         | (16)            |                   | (59)         |               |               |
| Purchased licences  | (2)          | (87)            |                   | (89)         |               |               |
| Other   | (325)        | (378)           |                   | (703)        |               |               |
| <b>Adjusted EBIT</b>  | <b>693</b>   | <b>309</b>      |                   | <b>1,002</b> |               |               |
| Share of adjusted results in<br>associates and joint ventures | 29           | 126             |                   | 155          |               |               |
| <b>Adjusted operating profit</b>                              | <b>722</b>   | <b>435</b>      |                   | <b>1,157</b> |               |               |
| <b>Adjusted EBITDA margin</b>                                 | <b>38.0%</b> | <b>27.2%</b>    |                   | <b>32.5%</b> |               |               |

|  |              |               |
|--|--------------|---------------|
| <b>Change at constant exchange rates (%)</b>               |              |               |
| Mobile customer revenue                                    | 5.2          | (1.7)         |
| Mobile incoming revenue                                    | 9.3          | (1.9)         |
| Other service revenue                                      | (0.4)        | (1.6)         |
| Mobile service revenue                                     | 5.1          | (1.7)         |
| Other service revenue                                      | 16.8         | (2.2)         |
| <b>Service revenue</b>                                     | <b>5.7</b>   | <b>(1.8)</b>  |
| Other revenue  | 3.5          | 39.5          |
| <b>Revenue</b>   | <b>5.3</b>   | <b>3.5</b>    |
| Direct costs   | 15.2         | 1.6           |
| Customer costs   | (2.2)        | 29.7          |
| Operating expenses   | 9.1          | (7.2)         |
| <b>Adjusted EBITDA</b>                                     | <b>4.8</b>   | <b>0.3</b>    |
| Depreciation and amortisation:                             |              |               |
| Acquired intangibles                                       |              |               |
| Purchased licences   | (17.4)       | (53.1)        |
| Other  | 8.2          | (8.6)         |
| <b>Adjusted EBIT</b>                                       | <b>3.6</b>   | <b>26.9</b>   |
| Share of adjusted results in associates and joint ventures | NM           | NM            |
| <b>Adjusted operating profit</b>                           | <b>14.4</b>  | <b>(41.6)</b> |
| <b>Adjusted EBITDA margin (pps)</b>                        | <b>(0.2)</b> | <b>(0.9)</b>  |

**FINANCIAL RESULTS**

On a statutory basis, revenue decreased by 0.5 billion to 5.2 billion, including a 0.1 billion decrease due to the adoption of IFRS 15.

Revenue decreased 7.3%, with strong organic growth offset by a 4.8 percentage point impact arising from the disposal of Vodafone Qatar at the end of FY18 and an 11.7 percentage point adverse impact from foreign exchange movements, particularly with regards to the Turkish Lira. On an organic basis service revenue was up 7.4%\* driven by continued commercial execution, strong growth in data and the benefit of price increases to adjust for local inflation.

Adjusted EBITDA decreased 6.5%, including a 3.8 percentage point impact from the disposal of Vodafone Qatar and a 9.5 percentage point adverse impact from foreign exchange movements. On an organic basis, adjusted EBITDA grew 6.8%\*, driven by underlying revenue growth and ongoing cost management to mitigate inflationary impacts.

Adjusted EBIT increased 6.9%\*.

|                                       | Reported<br>change<br>% | Other activity<br>(including<br>M&A)<br>pps | Foreign<br>exchange<br>pps | Organic*<br>change<br>% |
|---------------------------------------|-------------------------|---|----------------------------|-------------------------|
| <b>AMAP revenue</b>                   | <b>(7.3)</b>            | <b>4.8</b>                                  | <b>11.7</b>                | <b>9.2</b>              |
| <b>Service revenue</b>                |                         |   |                            |                         |
| Vodacom                               | 1.3                     |   | 4.4                        | 5.7                     |
| Other AMAP                            | (18.5)                  | 11.2  | 16.7                       | 9.4                     |
| <b>AMAP service revenue</b>           | <b>(9.0)</b>            | <b>5.3</b>                                  | <b>11.1</b>                | <b>7.4</b>              |
| <b>Adjusted EBITDA</b>                |                         |   |                            |                         |
| Vodacom                               | 0.3                     |   | 4.5                        | 4.8                     |
| Other AMAP                            | (15.7)                  | 9.9   | 16.0                       | 10.2                    |
| <b>AMAP adjusted EBITDA</b>           | <b>(6.5)</b>            | <b>3.8</b>                                  | <b>9.5</b>                 | <b>6.8</b>              |
| <b>AMAP adjusted EBIT</b>             | <b>1.3</b>              | <b>(3.2)</b>                                | <b>8.8</b>                 | <b>6.9</b>              |
| <b>AMAP adjusted operating profit</b> | <b>(12.4)</b>           | <b>11.1</b>                                 | <b>7.1</b>                 | <b>5.8</b>              |

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. Change at constant exchange rates presents performance on a comparable basis in terms of foreign exchange rates only. Organic growth and change at constant exchange rates are alternative performance measures. See Alternative performance measures on page 48 for further details and reconciliations to the respective closest equivalent GAAP measure.

1 The Financial Results discussion, including the discussion of service revenue, adjusted EBITDA, adjusted EBIT and adjusted operating profit, is primarily performed on an IAS 18 basis. 2018 information on an IAS 18 basis and percentage movements on an IAS 18 basis are alternative performance measures. See [Alternative performance measures](#) on page 48 for more information and reconciliations to the closest respective equivalent GAAP measure and [Definitions of terms](#) on page 59 for further details.

#### Vodacom

Vodacom Group service revenue grew 5.7%\* (Q1: 5.1%\*, Q2: 6.3%\*), supported by strong customer additions and data growth in South Africa, as well as growing demand for data and M-Pesa in Vodacom's International operations. The improvement in quarterly trends was driven by a further acceleration in the International operations.

In South Africa, service revenue grew by 4.6%\* (Q1: 4.9%\*, Q2: 4.3%\*). This was supported by continued strong customer base growth in both contract and prepaid and further improvements in Business. Q2 service revenue growth was 2.2%\* excluding a one-off benefit relating to a change in revenue deferral policy for our new plus plans. This underlying slowdown reflected customers optimising their bundle spend as a result of macroeconomic pressures. In total we added 2.5 million prepaid customers in the first half of the year, taking our total prepaid customer base to 47.2 million, an increase of 3.4% year-on-year.

Data revenue grew by 7.5% and now represents 43.8% of total service revenue. We continued to drive strong data bundle adoption, which provides customers with a worry-free experience by reducing their exposure to out-of-bundle charges. As a result, we have continued to see strong growth in data bundle sales, which were up 26% year-on-year to 437 million. In total we now have 20.5 million data customers, of which 8.6 million are on 4G, up 42% year-on-year. Through our advanced digital platform we have started to launch new data services such as our video play platform and a range of financial services. Initial take up of these services has been encouraging. We maintained our market leading NPS and network positions, with 4G coverage now reaching 83%.

Vodacom's International operations outside of South Africa, which represent 23.9% of Vodacom Group service revenue, grew by 12.2%\* (Q1: 9.4%\*, Q2: 15.0%\*). This was driven by strong growth in Mozambique and the DRC (with growth in Q2 benefitting from the lapping of the devaluation of the Congolese Franc in the prior year), and sustained momentum in Tanzania and Lesotho.

## FINANCIAL RESULTS

Vodacom's adjusted EBITDA grew by 4.8%\*, supported by revenue growth. Adjusted EBITDA margins reduced modestly to 37.7%, reflecting increased roaming costs in South Africa following a change in accounting treatment, with these costs now reflected in operating expenses.

In September 2018, Vodacom concluded its second broad-based BEE (black economic empowerment) transaction replacing the existing deal from 2008. This new scheme, valued at 1 billion, is the biggest ever in the telecommunications industry and makes YeboYethu (Vodacom South Africa BEE shareholders) the third largest shareholder. The deal secures Vodacom's Level 3 BEE scorecard credentials, specifically in relation to black ownership, with effective black ownership of c.20%. This is a key input in assessments for spectrum allocation, and Government/corporate business. As a result of this transaction Vodafone Group's shareholding in Vodacom will fall from 64.5% to 60.5%.

### Other AMAP

Service revenue grew 9.4%\* (Q1: 9.4%\*, Q2: 9.4%\*), supported by continued strong operational performances and local currency service revenue growth in both Turkey and Egypt. Adjusted EBITDA grew 10.2%\* and the adjusted EBITDA margin declined by 0.1 percentage points to 27.1%.

In Turkey, service revenue grew 14.6%\* (Q1: 14.0%\*, Q2: 15.2%\*) supported by strong net adds in consumer contract, increased mobile data revenue, and good fixed line customer base growth. Adjusted EBITDA grew 17.9%\*, however the adjusted EBITDA margin declined by 1.4 percentage points to 21.4% reflecting an increase in costs as a result of greater inflationary pressures and a 30% devaluation in the Turkish Lira during H1.

Egypt service revenue grew 16.9%\* (Q1: 16.7%\*, Q2: 17.0%\*) with successful segmented campaigns, rising data penetration and price increases supporting ARPU. Adjusted EBITDA grew 17.3%\* and the adjusted EBITDA margin improved by 0.5 percentage points to 45.6% with revenue growth and strong cost discipline more than offsetting inflationary pressures.

### Associates and joint ventures

#### *Vodafone Idea*

On 31 August 2018, the Group completed the transaction to combine its subsidiary, Vodafone India (excluding its 42% stake in Indus Towers), with Idea Cellular to form Vodafone Idea, with the combined company being jointly controlled by Vodafone and the Aditya Birla Group. See note 5 Discontinued operations and assets and liabilities held for sale for the results of Vodafone India for the five months ended 31 August 2018 and note 8 Acquisition and disposals for details on the formation of Vodafone Idea.

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The Vodafone Idea joint venture's net loss for the month of September 2018 is reported within Share of adjusted results for associates and joint ventures. In accordance with applicable IFRS, the Group also recognised an impairment charge of 0.3 billion to reduce the Group's carrying value of its investment in Vodafone Idea to fair value at 30 September 2018. See note 3 Impairment review for further details. Note 3 also sets out the primary assumptions underlying the carrying value of Vodafone Idea, the risks that these may not materialise and the consequential potential impact on our investment carrying value.

Vodafone Idea will report its second quarter results on 14 November 2018.

## FINANCIAL RESULTS

### Group results

#### Revenue

On a statutory basis, Group revenue decreased 1.3 billion to 21.8 billion, including a 0.7 billion decrease due to the adoption of IFRS 15 as set out on page 26. On an IAS 18 basis, Group revenue decreased by 2.3% reflecting the disposal of Vodafone Qatar in the prior period and adverse foreign exchange movements.

On an IAS 18 basis, Group service revenue decreased by 0.1%\* as market share gains in European Consumer fixed, strong mobile data demand and customer base growth in our emerging market operations and continued momentum in Vodafone Business were offset by increased competitive pressures in Italy and Spain, the drag from lower wholesale revenue and the impact of handset financing.

#### Adjusted EBITDA

On a statutory basis, Group adjusted EBITDA decreased 0.5 billion to 6.9 billion, including a 0.2 billion decrease due to the adoption of IFRS 15 (see page 26), the disposal of Vodafone Qatar in the prior period and adverse foreign exchange movements. On an IAS 18 basis, Group adjusted EBITDA decreased by 0.2%\* and the Group's adjusted EBITDA margin decreased 0.5\* percentage points driven by a lower benefit from handset financing and settlements in the UK.

#### Adjusted EBIT

On a statutory basis, adjusted EBIT decreased by 0.4 billion to 2.1 billion, including a 0.2 billion decrease due to the adoption of IFRS 15. On an IAS 18 basis, adjusted EBIT decreased by 6.2% to 2.3 billion driven as a result of lower adjusted EBITDA partially offset by lower depreciation and amortisation expenses.

#### Operating (loss)/profit

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



For the six months ended 30 September 2018, the Group recorded impairment charges of 3.5 billion. The impairment charges relate solely to goodwill and are recognised in the consolidated income statement within operating (loss)/profit.

The Group's share of adjusted results in associates and joint ventures was a loss of 0.0 billion, down from a profit of 0.2 billion in the prior year, partly due to the inclusion of the results of Vodafone Idea following the completion of the merger on 31 August 2018.

Restructuring costs and other income and expense increased by 0.3 billion during the period. Amortisation of intangible assets in relation to customer bases and brands, which are recognised on the acquisition of businesses, was 0.3 billion, a decrease of 0.2 billion compared to the prior period.

Including the above items, the Group reported an operating loss of 2.1 billion, a decrease of 4.1 billion on the prior period.

#### Net (financing costs)/net investment income

|   | Six months ended 30 September |              |
|---|-------------------------------|--------------|
|   | 2018                          | 2017         |
|   | m                             | m            |
| Investment income   | 184                           | 333          |
| Financing costs   | (999)                         | (181)        |
| <b>Net (financing costs)/net investment income</b>                            | <b>(815)</b>                  | <b>152</b>   |
| Analysed as:  |                               |              |
| Net financing costs before interest on settlement of tax issues               | (430)                         | (312)        |
| Net Interest income/(expense) arising on settlement of outstanding tax issues | 15                            | (33)         |
|   | <b>(415)</b>                  | <b>(345)</b> |
| Mark to market (losses)/gains   | (185)                         | 195          |
| Foreign exchange <sup>1</sup>   | (215)                         | 302          |
|   | <b>(815)</b>                  | <b>152</b>   |

Note:

1. Primarily comprises foreign exchange rate differences reflected in the income statement in relation to sterling and US dollar balances.

Net financing costs decreased by 967 million primarily driven by mark to market losses (including economic hedges of the mandatory convertible bond) and adverse foreign exchange rate movements. Net financing costs before interest on settlement of tax issues includes increased interest costs from the bond issuance as part of the financing for the Liberty Global transaction. Excluding these, underlying financing costs remained stable, reflecting consistent weighted average borrowing costs for both periods.

**FINANCIAL RESULTS****Taxation**

|   | Six months ended 30 September |              |
|---|-------------------------------|--------------|
|   | 2018                          | 2017         |
|   | m                             | m            |
| <b>Income tax expense:</b>  | <b>(1,409)</b>                | <b>(579)</b> |
| Tax on adjustments to derive adjusted profit before tax                       | (57)                          | (29)         |
| Deferred tax following revaluation of investments in Luxembourg               | (159)                         |              |
| Luxembourg deferred tax asset recognised in the period                        |                               | (159)        |
| Deferred tax on use of Luxembourg losses in the period                        | 185                           | 168          |
| Tax on the Safaricom transaction  |                               | 110          |
| Derecognition of a deferred tax asset in Spain                                | 1,048                         |              |
| <b>Adjusted income tax expense for calculating adjusted tax rate</b>          | <b>(392)</b>                  | <b>(489)</b> |
| <b>(Loss)/profit before tax</b>   | <b>(2,889)</b>                | <b>2,159</b> |
| Adjustments to derive adjusted profit before tax <sup>1</sup>                 | 4,393                         | 214          |
| <b>Adjusted profit before tax<sup>2</sup></b>                                 | <b>1,504</b>                  | <b>2,373</b> |
| Share of adjusted results in associates and joint ventures                    | 8                             | (171)        |
| <b>Adjusted profit before tax for calculating adjusted effective tax rate</b> | <b>1,512</b>                  | <b>2,202</b> |
| <b>Adjusted effective tax rate<sup>2</sup></b>                                | <b>25.9%</b>                  | <b>22.2%</b> |

Notes:

1. See Earnings per share on page 17.
2. Adjusted profit before tax and adjusted effective tax are alternative performance measures. Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. See Alternative performance measures on page 48 for further details.

The Group's adjusted effective tax rate for its controlled businesses for the six months ended 30 September 2018 was 25.9% compared to 22.2% for the same period during the last financial year. The higher rate in the current year is primarily due to a change in the mix of the Group's profit, partly driven by the financing for the Liberty Global transaction and the impact of non-tax deductible foreign exchange losses. We expect the Group's underlying effective tax rate for the full year to remain within our low to mid-20s range.

The Group's adjusted effective tax rate for both years does not include the following items: the derecognition of a deferred tax asset in Spain of 1,048 million (2017: nil); deferred tax on the use of Luxembourg losses of 185 million (2017: 168 million); an increase in the deferred tax asset of 159 million (2017: nil) arising from a revaluation of investments based upon the local GAAP financial statements and tax returns. The last two items change the total 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.

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The Group's adjusted effective tax rate for the six months ended 30 September 2017 does not include a recognition of deferred tax asset of 159 million due to higher interest rates and a tax charge in respect of capital gains on the transfer of shares in Vodafone Kenya Limited to the Vodacom Group of 110 million.

**FINANCIAL RESULTS****Adjusted earnings per share**

Adjusted earnings per share, which excludes impairment losses and the results of Vodafone India (the latter being included in discontinued operations), were 3.56 eurocents, a decrease of 43.7% year-on-year, as the impact of the adoption of IFRS 15, lower adjusted operating profit and higher net financing costs more than offset the decrease in adjusted income tax expense.

Basic loss per share was 29.00 eurocents, compared to an earnings per share of 4.03 eurocents for the period ended 30 September 2017, with the increase largely due to impairment charges of 3.5 billion, a 3.4 billion loss on the disposal of Vodafone India recognised during the period, higher net financing costs from adverse foreign exchange movements, mark to market losses and higher gross borrowings and the derecognition of a deferred tax asset in Spain, all of which have been excluded from adjusted earnings per share.

|   | Six months ended 30 September |              |
|---|-------------------------------|--------------|
|   | 2018                          | 2017         |
|   | m                             | m            |
| <b>(Loss)/profit attributable to owners of the parent</b>               | <b>(7,965)</b>                | <b>1,131</b> |
| Adjustments:  |                               |              |
| Impairment loss   | 3,495                         |              |
| Amortisation of acquired customer base and brand intangible assets      | 317                           | 543          |
| Restructuring costs   | 95                            | 33           |
| Other income and expense  | 256                           | 44           |
| Non-operating income and expense  | 3                             | 1            |
| Investment income and financing costs                                   | 227                           | (407)        |
|   | <b>4,393</b>                  | <b>214</b>   |
| Taxation <sup>1</sup>   | 1,017                         | 90           |
| India <sup>2</sup>  | 3,535                         | 345          |
| Non-controlling interests   | (1)                           | (7)          |
| <b>Adjusted profit attributable to owners of the parent<sup>3</sup></b> | <b>979</b>                    | <b>1,773</b> |

|  | Million | Million |
|--|---------|---------|
| Weighted average number of shares outstanding basic <sup>4</sup> | 27,462  | 28,067  |
| <b>Earnings per share</b>  |         |         |

|  | eurocents | eurocents |
|--|-----------|-----------|
| Basic (loss)/earnings per share          | (29.00c)  | 4.03c     |
| Adjusted earnings per share <sup>3</sup> | 3.56c     | 6.32c     |

Notes:

1. See page 16.

2. Represents the results of Vodafone India, which has been accounted for as a discontinued operation for all periods up to 31 August 2018, the date it was combined with Idea Cellular to form Vodafone Idea.
3. Adjusted profit attributable to owners of the parent and adjusted earnings per share are alternative performance measures. Alternative performance measures are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. See [Alternative performance measures](#) on page 48 for further details.
4. Weighted average number of shares outstanding includes a dilution of 765 million shares (2017: 1,292 million shares) following the issue of £2.9 billion of mandatory convertible bonds in February 2016, of which £1.4 billion matured in August 2017, which were classified as equity after taking into account the cost of future coupon payments.

## LIQUIDITY AND CAPITAL RESOURCES

## Cash flows and funding

|  | Six months ended 30 September |                           |                           |
|--|-------------------------------|---------------------------|---------------------------|
|  | IFRS 15 basis<br>2018<br>m    | IAS 18 basis<br>2018<br>m | IAS 18 basis<br>2017<br>m |
| Adjusted EBITDA  | 6,873                         | 7,078                     | 7,385                     |
| Capital additions <sup>1</sup>                                 | (3,067)                       | (3,067)                   | (3,263)                   |
| Working capital  | (2,320)                       | (2,525)                   | (2,294)                   |
| Disposal of property, plant and equipment                      | 4                             | 4                         | 9                         |
| Other  | 48                            | 48                        | 65                        |
| <b>Operating free cash flow<sup>2</sup></b>                    | <b>1,538</b>                  | <b>1,538</b>              | <b>1,902</b>              |
| Taxation   | (395)                         | (395)                     | (400)                     |
| Dividends received from associates and investments             | 305                           | 305                       | 284                       |
| Dividends paid to non-controlling shareholders in subsidiaries | (185)                         | (185)                     | (154)                     |
| Interest received and paid                                     | (369)                         | (369)                     | (343)                     |
| <b>Free cash flow (pre-spectrum)<sup>2</sup></b>               | <b>894</b>                    | <b>894</b>                | <b>1,289</b>              |
| Licence and spectrum payments                                  | (231)                         | (231)                     | (747)                     |
| Restructuring payments   | (97)                          | (97)                      | (127)                     |
| <b>Free cash flow<sup>2</sup></b>                              | <b>566</b>                    | <b>566</b>                | <b>415</b>                |
| Acquisitions and disposals                                     | 168                           |                           | 1,079                     |
| Equity dividends paid  | (2,736)                       |                           | (2,637)                   |
| Share buybacks   |                               |                           | (549)                     |
| Foreign exchange   | 296                           |                           | 693                       |
| Other <sup>3</sup>   | (773)                         |                           | 149                       |
| <b>Net debt increase</b>                                       | <b>(2,479)</b>                |                           | <b>(850)</b>              |
| Opening net debt <sup>4</sup>                                  | (29,631)                      |                           | (29,338)                  |
| <b>Closing net debt<sup>4</sup></b>                            | <b>(32,110)</b>               |                           | <b>(30,188)</b>           |

## Notes:

- Capital additions include the purchase of property, plant and equipment and intangible assets, other than licence and spectrum, during the period.
- Operating free cash flow, free cash flow (pre-spectrum) and free cash flow are alternative performance measures which are non-GAAP measures that are presented to provide readers with additional financial information that is regularly reviewed by management and should not be viewed in isolation or as an alternative to the equivalent GAAP measure. See [Alternative performance measures](#) on page 48 for more information and reconciliations to the closest respective equivalent GAAP measure and [Definition of terms](#) on page 59 for further details.
- Other for the six months ended 30 September 2018 include 2,135 million (2017: nil) received from the repayment of US\$2.5 billion of loan notes issued by Verizon Communications Inc., a 1,377 million (2017: nil) capital injection into Vodafone India and 808 million of debt in relation to licences and spectrum in Italy and Spain (2017: nil).
- Net debt at 31 March 2018, 30 September 2017 and 31 March 2017 has been revised to exclude 1.8 billion of liabilities for payments due to holders of the equity shares in Kabel Deutschland AG under the

terms of a domination and profit and loss transfer agreement, which are now separately disclosed in the consolidated statement of financial position and are no longer presented within borrowings (see page 23).

Operating free cash flow decreased 0.3 billion mainly due to lower adjusted EBITDA, lower capital additions and higher working capital cash outflows.

Free cash flow (pre-spectrum) was 0.9 billion, a decrease of 0.3 billion, largely driven by the decrease in operating free cash flow.

Licence and spectrum payments include amounts relating to the purchase of spectrum in the UK of 0.2 billion (2017: 0.6 billion in Italy, 0.1 billion in Germany).

Acquisitions and disposals include 0.3 billion received on completion of the merger of Vodafone India with Idea Cellular on 31 August 2018.

A foreign exchange gain of 0.4 billion was recognised on net debt as a result of the translation impact of closing foreign exchange rates, mainly due to movements in the Turkish Lira and South African Rand against the Euro.

Closing net debt at 30 September 2018 was 32.1 billion (31 March 2018: 29.6 billion) and excludes the remaining £1.4 billion mandatory convertible bond issued in February 2016 which will be settled in equity shares, liabilities of 1.8 billion (31 March 2018: 1.8 billion) relating to minority holdings in KDG and 0.9 billion of shareholder loans receivable from VodafoneZiggo.

Closing net debt also continues to include certain bonds which are reported at an amount 1.6 billion (31 March 2018: 1.65 billion) higher than their euro-equivalent cash redemption value as a result of hedge accounting under IFRS. In addition, where bonds are issued in currencies other than euros, the Group has entered into foreign currency swaps to fix the euro cash outflows on redemption. The impact of these swaps are not reflected in gross debt and would decrease the euro equivalent redemption value of the bonds by less than 0.1 billion (31 March 2018: 0.6 billion increase).

## LIQUIDITY AND CAPITAL RESOURCES

## Analysis of net debt:

|  | 30 September<br>2018<br>m | Restated <sup>1</sup><br>31 March<br>2018<br>m |
|--|---------------------------|--|
| Bonds  | (41,969)                  | (33,950)                                       |
| Commercial paper <sup>2</sup>  | (791)                     | (2,712)  |
| Bank loans   | (2,687)                   | (3,316)  |
| Cash collateral liabilities  | (1,332)                   | (1,070)  |
| Other borrowings <sup>3</sup>  | (1,393)                   | (373)  |
| <b>Gross borrowings</b>  | <b>(48,172)</b>           | <b>(41,421)</b>                                |
| Derivative financial instruments <sup>4</sup>                          | (2,798)                   | (2,383)  |
| <b>Gross debts</b>   | <b>(50,970)</b>           | <b>(43,804)</b>                                |
| Cash and cash equivalents  | 6,962                     | 4,674  |
| Other financial instruments:   |                           |  |
| Derivative financial instruments <sup>5</sup>                          | 3,039                     | 2,629  |
| Short term investments <sup>6</sup>                                    | 8,013                     | 6,152  |
| Cash collateral <sup>7</sup>   | 846                       | 718  |
| <b>Total cash and cash equivalents and other financial instruments</b> | <b>18,860</b>             | <b>14,173</b>                                  |
| <b>Net debt</b>  | <b>(32,110)</b>           | <b>(29,631)</b>                                |

## Notes:

- Liabilities for payments due to holders of the equity shares in Kabel Deutschland AG under the terms of a domination and profit and loss transfer agreement are now separately disclosed in the consolidated statement of financial position and are no longer presented within borrowings (see page 23); gross borrowings at 31 March 2018 have therefore been revised to exclude 1.8 billion in respect of such liabilities.
- At 30 September 2018, US\$114 million (31 March 2018: US\$570 million) was drawn under the US commercial paper programme and 693 million (31 March 2018: 2,249 million) was drawn under the euro commercial paper programme.
- Amount primarily includes 808 million of debt in relation to licences and spectrum in Italy and Spain (31 March 2018: nil).
- Comprises mark-to-market adjustments on derivative financial instruments which are included as a component of trade and other payables.
- Comprises mark-to-market adjustments on derivative financial instruments which are included as a component of trade and other receivables.
- At 30 September 2018 the amount primarily includes 4,817million (31 March 2018: 3,087 million) in managed investment funds, 2,106 million (31 March 2018: 1,974 million) in government bonds of which UK gilts of 1,086 million (31 March 2018: 1,112 million) are used primarily as collateral in relation to derivative financial instruments, and 993 million (31 March 2018: 976 million) short-term investments in portfolios of supply chain and handset receivables, principally in third party corporate entities.



7. Comprises cash paid under collateral support agreements.

The following table sets out the Group's undrawn committed bank facilities:

|  | Maturity      | 30 September<br>2018<br>m |
|--|---------------|---------------------------|
| US\$4.2 billion committed revolving credit facility <sup>1</sup> | February 2022 | 3,586                     |
| 4.0 billion committed revolving credit facility <sup>1</sup>     | January 2025  | 3,920                     |
| Other committed credit facilities                                | Various       | 145                       |
| <b>Undrawn committed facilities</b>                              |               | <b>7,651</b>              |

Note:

1. Both facilities support US and euro commercial paper programmes of up to US\$15 billion and 8 billion respectively.

#### Post employment benefits

During the six months ended 30 September 2018, the net deficit arising from the Group's obligations in respect of its defined benefit schemes decreased to 0.2 billion compared to 0.4 billion at 31 March 2018 primarily due to a 0.1 billion reduction in the value of plan assets during the period being offset by a 0.3 billion actuarial gain arising from changes in financial assumptions, principally due to an increase in the discount rates in the UK and Eurozone.

#### Dividends

Dividends will continue to be declared in euros and paid in euros, pounds sterling and US dollars, aligning the Group's shareholder returns with the primary currency in which we generate free cash flow. The foreign exchange rate at which future dividends declared in euros will be converted into pounds sterling and US dollars will be calculated based on the average exchange rate over the five business days during the week prior to the payment of the dividend.

The Board currently intends to propose a total dividend of 15.07 eurocents per share for the current financial year, in-line with the dividend for the year ended 31 March 2018, and have announced an interim dividend of 4.84 eurocents (also stable year-on-year). The ex-dividend date for the interim dividend is 22 November 2018 for ordinary shareholders, the record date is 23 November 2018 and the dividend is payable on 1 February 2019. Dividend payments on ordinary shares will be paid directly into a nominated bank or building society account.

## RISK FACTORS

There are a number of key factors and uncertainties that could have a significant effect on the Group's financial performance, including the following:

1. Cyber threat and information security

An external attack, insider threat or supplier breach could cause service interruption or confidential data breaches.

2. Adverse political and regulatory measures

The scale and complexity of political and regulatory risk is increasing especially as digital becomes the backbone of economic growth, potentially resulting in political intervention and competitive disadvantage. 5G spectrum auctions are also underway in many jurisdictions which could lead to unfair spectrum allocation or pricing.

3. Market disruption

New entrants to markets or competitors with lean models could create pricing pressure. As more competitors push unlimited bundles, it might impact profitability in the short to medium term through price erosion.

4. Effective digital and technological transformation

We plan to accelerate the evolution of Vodafone towards a digital future to improve customer experience, increase speed to market and operate in an efficient and agile manner. Failure to do this could lead to missed commercial opportunities, increased cost of working and customer service failures.

5. Disintermediation

We face increased competition from a variety of new technology platforms which could impact our customer relationships and experience. We must be able to keep pace with new technology to compete in changing markets while maintaining high levels of customer service.

6. Global economic disruption/adequate liquidity

As a multinational business, we operate in many countries and currencies, so changes to global economic conditions can impact us. Any major economic disruption could result in reduced spending power for our customers and impact our ability to access capital markets. A relative strengthening or weakening of the major currencies in which we transact could impact our profitability.

7. Technology resilience

A technology site loss could result in a major impact on our customers, revenues and reputation. This could involve all major technology sites including: mobile, fixed, and data centres.

8. Legal and regulatory compliance

Vodafone must comply with a multitude of local and international laws as well as more specific regulations. These include licence requirements, privacy regulation, anti-money laundering, competition law, anti-bribery law, intellectual property rights and economic sanctions.

9. Maintain investment grade credit rating

We may fail to maintain our investment grade credit rating if we do not effectively allocate the Group's capital to maximise returns.

10. Electro-magnetic fields related health risks

Electromagnetic signals emitted by mobile devices and base stations may be found to pose health risks, with potential impacts including: changes to national legislation, a reduction in mobile phone usage or litigation.

There have been two changes to the above risk factors since 31 March:

- The separate risk on privacy and data management has been merged into the legal and regulatory compliance risk (8) due to the GDPR compliance programme moving from the implementation phase into business as usual.

- The wording for risk 9 has been updated to reflect the link between effective allocation of the Group's capital and the impact on our credit rating.

#### **Brexit implications**

The Board continues to keep the possible implications of Brexit for Vodafone's operations under review. A cross-functional team has identified ways in which Brexit might affect the Group's operations. There remains insufficient information about the likely terms of the post-Brexit arrangements between the UK and the EU, as well as about any possible transitional arrangements, to draw any conclusions about the probable impact.

Although we are a UK headquartered company and have put in place necessary contingency planning, a very large majority of our customers are in other countries, accounting for most of our revenue and cash flow. Each of our national operating companies is a stand-alone business, incorporated and licensed in the jurisdiction in which it operates, and able to adapt to a wide range of local developments. As such, our ability to provide services to our customers in the countries in which we operate, inside or outside the EU, is unlikely to be affected by Brexit. We are not a major international trading company, and do not use passporting for any of our major services or processes.

## RISK FACTORS

Depending on the arrangements agreed between the UK and the EU, there are two primary issues that could directly affect our operations, in both cases potentially causing us to incur additional cost:

- Creation of a data frontier between the UK and the EU: the inability to move data freely between the UK and EU countries might cause us to have to move some technical facilities, and affect future network design; and
- Inability to access the talent we need to run a multinational Group operation from the UK: increased controls over or restrictions to our ability to employ leading talent from non UK markets could cause us to have to adjust our operating model to ensure that we attract and retain the best people for the roles we have.

As far as our UK operations are concerned, we are reviewing the impact of a no deal scenario. One potential impact may be on our processes for the procurement of handsets and technical equipment, which may result in a greater investment in working capital at 31 March 2019 and consequently lower cash flow, although this would be unlikely to have a material impact at a Group level.

A further, indirect, issue that could affect our future performance would be if the Brexit process caused downward revisions to macro-economic performance in our major markets including the UK, impacting the performance of the operating companies in those markets.

Further information in relation to these risk factors and uncertainties can be found on pages 38 to 45 of the Group's annual report for the financial year ended 31 March 2018, which is available at <http://www.vodafone.com/investor>.

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board and as adopted by the European Union; and

- the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules sourcebook 4.2.7 and Disclosure Guidance and Transparency Rules sourcebook 4.2.8.

Neither the Company nor the directors accept any liability to any person in relation to the half-year financial report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

The names and functions of the Vodafone Group Plc board can be found at:

<http://www.vodafone.com/board>

By Order of the Board

Rosemary Martin

Group General Counsel and Company Secretary

13 November 2018

## UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statement

|  |      | Six months ended 30 September |               |
|--|------|-------------------------------|---------------|
|  | Note | 2018<br>m                     | 2017<br>m     |
| <b>Revenue</b>   | 2    | <b>21,796</b>                 | <b>23,075</b> |
| Cost of sales  |      | (15,163)                      | (16,208)      |
| <b>Gross profit</b>  |      | <b>6,633</b>                  | <b>6,867</b>  |
| Selling and distribution expenses                                  |      | (1,907)                       | (1,987)       |
| Administrative expenses  |      | (2,781)                       | (2,770)       |
| Share of results of equity accounted associates and joint ventures |      | (430)                         | (58)          |
| Impairment loss  | 3    | (3,495)                       |               |
| Other income and expense   |      | (91)                          | (44)          |
| <b>Operating (loss)/profit</b>                                     | 2    | <b>(2,071)</b>                | <b>2,008</b>  |
| Non-operating income and expense                                   |      | (3)                           | (1)           |
| Investment income  |      | 184                           | 333           |
| Financing costs  |      | (999)                         | (181)         |
| <b>(Loss)/profit before taxation</b>                               |      | <b>(2,889)</b>                | <b>2,159</b>  |
| Income tax expense   | 4    | (1,409)                       | (579)         |