

VODAFONE GROUP PUBLIC LTD CO

Form 6-K

November 15, 2006

**Form 6-K**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Report of Foreign Private Issuer**

**Pursuant to Rules 13a-16 or 15d-16 of**

**the Securities Exchange Act of 1934**

Dated November 15, 2006

**VODAFONE GROUP**

**PUBLIC LIMITED COMPANY**

(Exact name of registrant as specified in its charter)

VODAFONE HOUSE, THE CONNECTION, NEWBURY, BERKSHIRE, RG14 2FN, ENGLAND (Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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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):

This Report on Form 6-K contains a news release issued by Vodafone Group Plc on, November 14 2006, entitled VODAFONE ANNOUNCES RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006 .

**VODAFONE GROUP PLC**

**VODAFONE ANNOUNCES RESULTS FOR  
THE SIX MONTHS ENDED 30 SEPTEMBER 2006**

**Embargo:  
Not for publication  
before 07:00 hours  
14 November 2006**

**Highlights<sup>(1)</sup>:**

Group revenue of £15.6 billion, with organic growth of 4.1%

Profit before taxation for the period increased to £4.8 billion before impairment charges of £8.1 billion. Loss before taxation was £3.3 billion

Adjusted basic earnings per share increased by 17.7% to 5.98 pence, including the benefit from an interim adjusted effective tax rate of 29.2%. Basic loss per share from continuing operations of 8.02 pence

Free cash flow from continuing operations of £3.0 billion and net cash inflow from operating activities from continuing operations of £4.8 billion, after net taxation paid of £1.2 billion

Interim dividend per share increased by 6.8%, to 2.35 pence, giving a pay out of £1.2 billion

**Outlook summary<sup>(2)</sup>:**

No change to the full year organic proportionate mobile revenue growth range of 5% to 6.5% and proportionate organic mobile EBITDA margin expectations of around 1 percentage point lower than last year

Free cash flow from continuing operations outlook increased to an expected range of £4.7 billion to £5.2 billion due to the delayed settlement of certain long-standing tax issues

Capitalised fixed asset additions outlook unchanged with a range of £4.2 billion to £4.6 billion

Full year adjusted effective tax rate expected to be lower than previously indicated at around 30%. Longer term percentage rate now expected to be in the low 30 s

- (1) See page 4 for Group Financial and Operating Highlights, page 40 for use of non-GAAP financial information and page 41 for definition of terms
- (2) See page 39 for a cautionary statement on Forward-Looking Statements

**Arun Sarin, Chief Executive, commented:**

These results show that Vodafone is on track to deliver on its key targets for the current financial year. Competitive and regulatory pressures in the European region have been offset by strong performances in our developing markets and the United States. We have also made good progress since May in the execution of our new strategy and the response to our new products and services has been very encouraging.

## **CHIEF EXECUTIVE S STATEMENT**

Vodafone has announced first half results showing progress in very competitive markets. Despite the pressures from competition and regulation, we continue to execute the strategy laid out to shareholders in May and are on track to meet our full year targets.

We have a unique franchise of international customers, with over 191 million proportionate mobile customers, of whom 147 million are in controlled or jointly controlled entities.

Proportionate mobile revenue for the first half of this financial year increased by 6% on an organic basis. The Europe region remains very competitive with flat organic growth year on year. Of our four principal markets, Germany, Italy and the UK saw declining total revenue after taking into account the impact of termination rate cuts, whilst Spain continued its strong progress, posting another period of double digit top line growth. Our high growth markets in the EMAPA region continued to perform well, growing organically at 13.7% year on year. Together with the US, where Verizon Wireless revenue grew 18.2% year on year in local currency, this strong performance helped to offset the lower growth in our more established markets.

Proportionate mobile EBITDA margins on an organic basis were only slightly lower year on year, though the mobile EBITDA margin is expected to fall by a larger amount year on year in the second half of the 2007 financial year.

Free cash flow from continuing operations was slightly lower at £3.0 billion in the first half of the financial year; a 6.9% increase in operating free cash flow was offset by higher tax payments of £1.2 billion.

Higher interest rates, along with pricing and continued regulatory pressures in the German market, led to an impairment charge of £8.1 billion in the total carrying value of goodwill in respect of our German and Italian operations.

In May this year, we announced five core strategic goals to drive forwards the financial and operating results of the Company:

### **Revenue stimulation and cost reduction in Europe**

In our mature European markets, we are fighting the twin pressures of price erosion and regulation. The core strategy in this region is to stimulate revenue and cut costs.

Average monthly voice usage per customer in Europe is still below 150 minutes. Central to stimulating revenue is driving fixed to mobile substitution with larger minute bundles and innovative tariffs, prepaid to contract migrations and targeted promotions. In

Germany and the UK, new larger and better value bundles have been launched, maintaining competitiveness in the respective marketplaces. In Italy, revenue declines appear to be stabilising following a successful summer promotion. We are targeting fixed to mobile substitution through Vodafone At Home and similar offerings in Germany, Italy, the UK, Greece, Hungary and Portugal. Expansion of this offering will occur, with a further three countries expected to launch by the end of the current financial year. Building on our success in business, we continue to deliver leading edge services, such as Oficina Vodafone in Spain and applications using the benefits of mobile broadband following the introduction of HSDPA.

Progress has also been made on core cost reduction programmes which will demonstrate benefits over time. In outsourcing, we have chosen EDS and IBM to manage application development and maintenance services in a global IT outsourcing deal, which is expected to deliver 25% to 30% unit cost savings within three to five years. We continue to look at the cost of owning and maintaining networks, with recent announcements including 2G and 3G network sharing in Spain and entering into discussions on network sharing in the Czech Republic. We have also announced quicker than expected progress on data centre consolidation in Europe, where we expect to save costs of around 25% to 30% in two to three years.

### **Deliver strong growth in emerging markets**

Our focus in emerging markets is to build on our strong track record of creating value, having delivered strong performances over time in markets such as Egypt and South Africa. This has continued in the first half of this financial year, with organic service revenue growth of 40.2% in Egypt and 20.8% in South Africa.

Our more recent acquisitions are performing very well, with first half year on year organic service revenue growth of 31.3% in Romania and 14.4% in the Czech Republic. In Turkey, we are very pleased with progress and the company is performing well ahead of its acquisition business plan. In India, organic revenue growth was greater than 50%. All of these performances are ahead of our expectations at the time of each acquisition.

### **Innovate and deliver on our customers' total communications needs**

As customer needs are evolving, we are providing a sub-segment of our customer base with fixed broadband connectivity as part of a total telecommunications solution. This type of service will typically be provided using wholesale relationships with infrastructure providers and we have announced deals with BT in the UK, Fastweb in Italy and Arcor in Germany.

We are continuing to develop a mobile advertising revenue stream and in this respect we have announced today our intent to partner with Yahoo! in the UK. We are also developing products and services which will integrate the mobile and PC environments.

We will continue to pursue a mobile centric approach, focusing on the core benefits to customers of mobility and personalisation, and will resell fixed line technologies only according to customer needs.

### **Actively manage our portfolio to maximise returns**

Vodafone will seek to invest only where we can generate superior returns for our shareholders in markets that offer a strong local position, with a focus on specific regions.

In keeping with this strategy, in the first half of the financial year we closed the sale of Vodafone Japan and recently completed the sale of our 25% stake in Proximus in Belgium for cash proceeds of 2 billion. For Proximus, this represented a good exit price with an enterprise value of 7.2 times forecast EBITDA for the current financial year. Most recently, we announced the proposed acquisition of up to a further 4.9% of Vodafone Egypt, increasing our exposure to this high growth market. We will continually review the countries in which we operate going forward.

### **Align capital structure and shareholder returns policy to strategy**

In May this year, we outlined a new capital structure and returns policy commensurate with the operational strategy of the business. As a result, we are now targeting a low single A credit rating.

The Board also announced a targeted annual 60% payout of adjusted earnings per share in the form of dividends. We are announcing an interim dividend of 2.35 pence, up by 6.8% when compared to last year.

Having returned over £19 billion to shareholders, excluding dividends, in the last two financial years, we have no current plans for further share purchases or other one-off returns.

### **Prospects for the current year**

Revenue progression remains in line with expectations and the Group continues to expect organic growth in proportionate mobile revenue to be in the range of 5% to 6.5% and proportionate mobile EBITDA margins to be around 1 percentage point lower than the 2006 financial year on an organic basis.

Free cash flow from continuing operations on an underlying basis is still expected to be in the range of £5.2 billion to £5.7 billion. As a result of a delay in the settlement of certain items, payments in respect of long standing tax issues are expected to be around £0.5 billion for this financial year, leading to an expected range of £4.7 billion to £5.2 billion for reported free cash flow from continuing operations.



**Summary**

We are successfully executing a clear five point strategy to provide long term value creation for our shareholders. The financial results for the first six months highlight that we are on track to deliver on our key full year targets. We will continue to deliver real value to customers that will enable us to achieve our targets in the face of tough competition and regulatory pressures.

**Arun Sarin**

## GROUP FINANCIAL AND OPERATING HIGHLIGHTS

<b>Continuing operations<sup>(1)(2)</sup>:</b>	<b>Page</b>	<b>2006 £m</b>	<b>2005 £m</b>	<b>Change % Reported</b>	<b>Organic</b>
<b>- Financial information</b>					
<b>Revenue</b>	21	<b>15,594</b>	14,548	7.2	4.1
<b>Operating (loss)/profit</b>	21	<b>(2,952)</b>	4,286		
<b>(Loss)/profit before taxation</b>	21	<b>(3,330)</b>	3,911		
<b>(Loss)/profit for the period</b>	21	<b>(4,548)</b>	2,629		
<b>Basic (loss)/earnings per share (pence)</b>	21	<b>(8.02)p</b>	4.07p		
<b>Capitalised fixed asset additions</b>		<b>1,824</b>	1,750	4.2	
<b>Net cash flow from operating activities</b>	19	<b>4,840</b>	5,227	(7.4)	
<b>- Performance reporting<sup>(3)</sup></b>					
<b>Group EBITDA</b>	7	<b>6,242</b>	5,907	5.7	2.8
<b>Adjusted operating profit</b>	7	<b>5,141</b>	4,782	7.5	7.4
<b>Adjusted profit before tax</b>	17	<b>4,724</b>	4,558	3.6	
<b>Adjusted effective tax rate</b>	17	<b>29.2%</b>	31.5%		
<b>Adjusted profit for the period attributable to equity shareholders</b>	29	<b>3,441</b>	3,237	6.3	
<b>Adjusted basic earnings per share (pence)</b>	29	<b>5.98p</b>	5.08p	17.7	
<b>Free cash flow</b>	19	<b>2,955</b>	3,252	(9.1)	
<b>Net debt at 30 September</b>	19	<b>20,229</b>	13,421	50.7	
<b>Continuing operations<sup>(1)(2)</sup>:</b>	<b>Page</b>	<b>2006 Million</b>	<b>2005 Million</b>	<b>Change % Reported</b>	<b>Organic</b>
<b>Operational (4)(5)</b>					
<b>Vodafone live! - Closing active devices</b>	44	<b>30.7</b>	22.2	38.3	
<b>Closing 3G registered devices</b>	44	<b>10.9</b>	3.3	230.3	
<b>Closing Vodafone Mobile Connect data cards</b>		<b>1.0</b>	0.6	66.7	
<b>Mobile voice usage (minutes)</b>	48	<b>112,649</b>	84,077	34.0	18.2

*The interim results have been prepared in accordance with International Financial Reporting Standards ( IFRS ) (including International Accounting Standards ( IAS ) and interpretations issued by the International Accounting Standards Board ( IASB ) and its committees, and as interpreted by any regulatory bodies applicable to the Group) and adopted for use in the European Union ( EU ).*

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*This interim results announcement contains certain information on the Group's results and cash flows that have been derived from amounts calculated in accordance with IFRS but are not themselves IFRS measures. They should not be viewed in isolation as alternatives to the equivalent IFRS measure and should be read in conjunction with the equivalent IFRS measure. Further disclosures are provided under Use of Non-GAAP Financial Information on page 40.*

See page 41 for definition of terms

- (1) Excluding the results of discontinued operations. See note 9 to the interim consolidated financial statements
- (2) Amounts presented as at 30 September or for the six months then ended
- (3) These measures are stated excluding impairment losses, non-recurring amounts related to business acquisitions and disposals, changes in the fair value of equity put rights and similar arrangements and net foreign exchange gains and losses on certain financial instruments and intercompany borrowings
- (4) Cumulative number as at 30 September
- (5) Figures represent 100% of subsidiary information and a pro-rata share in joint ventures

## GROUP PROPORTIONATE INFORMATION

	2006 £m	2005 £m	Change % £	Organic
<b><u>Financial Information</u></b>				
<b>Revenue</b>				
Europe				
- Germany	2,827	2,913	(3.0)	
- Italy	2,174	2,240	(2.9)	
- Spain	2,268	1,968	15.2	
- UK	2,549	2,568	(0.7)	
- Other Europe	2,230	2,457	(9.2)	
Less: revenue between Europe operations	(218)	(197)		
	11,830	11,949	(1.0)	0.6
EMAPA				
- Subsidiaries and joint ventures	2,867	1,865	53.7	
- Associated undertakings and investments	6,712	6,092	10.2	
Less: revenue between EMAPA operations	(6)	(5)		
	9,573	7,952	20.4	13.7
Other <sup>(1)</sup>	606	528	14.8	
Eliminations	(112)	(114)		
<b>Group Continuing operations</b>	<b>21,897</b>	<b>20,315</b>	<b>7.8</b>	<b>6.2</b>
<b>Mobile operations Continuing operations</b>	<b>21,263</b>	<b>19,798</b>	<b>7.4</b>	<b>6.0</b>
<b>EBITDA</b>				
Europe				
- Germany	1,263	1,353	(6.7)	
- Italy	1,128	1,207	(6.5)	
- Spain	813	721	12.8	
- UK	785	781	0.5	
- Other Europe	819	849	(3.5)	
	4,808	4,911	(2.1)	(1.6)
EMAPA				
- Subsidiaries and joint ventures	988	657	50.4	
- Associated undertakings and investments	2,689	2,344	14.7	
	3,677	3,001	22.5	17.5
Other <sup>(1)</sup>	301	243	23.9	
<b>Group - Continuing operations</b>	<b>8,786</b>	<b>8,155</b>	<b>7.7</b>	<b>6.2</b>
<b>Mobile operations - Continuing operations</b>	<b>8,656</b>	<b>8,090</b>	<b>7.0</b>	<b>5.6</b>
			Percentage Points	Percentage Points
<b>EBITDA margin</b>				
Europe				

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- Germany	<b>44.7%</b>	46.4%	(1.7)	
- Italy	<b>51.9%</b>	53.9%	(2.0)	
- Spain	<b>35.8%</b>	36.6%	(0.8)	
- UK	<b>30.8%</b>	30.4%	0.4	
- Other Europe	<b>36.7%</b>	34.6%	2.1	
	<b>40.6%</b>	41.1%	(0.5)	
EMAPA				
- Subsidiaries and joint ventures	<b>34.5%</b>	35.2%	(0.7)	
- Associated undertakings and investments	<b>40.1%</b>	38.5%	1.6	
	<b>38.4%</b>	37.7%	0.7	
<b>Group EBITDA margin - Continuing operations</b>	<b>40.1%</b>	40.1%		
<b>Mobile EBITDA margin - Continuing operations</b>	<b>40.7%</b>	40.9%	(0.2)	(0.1)

(1) Other operations include the Group's fixed line operator in Germany, Arcor, and common functions which represent revenue from Partner Markets and unallocated central Group income and expenses

Proportionate information is presented and calculated on the basis described on page 37. See page 41 for definition of terms

	<b>2006 Million</b>	2005 Million	Reported	Change % Organic
<b><u>Mobile customers</u></b>				
Net proportionate customer additions <sup>(1)</sup>	<b>12.0</b>	10.1	18.8	
Proportionate customers at 30 September	<b>191.6</b>	156.3	22.6	13.9

(1) Excludes additions from acquisitions and stake changes and the impact of a change in the application of the disconnection policy. Further analysis is provided on page 43

Customers are presented for continuing operations. See page 41 for definition of terms

## OUTLOOK