Final Results - Part Three

Vodafone Group Plc 24 May 2005 PART 3 VODAFONE GROUP PLC PRELIMINARY RESULTS ASIA PACIFIC Financial highlights Year ended 31 March ------------------- 2005 2004 % change £m £m £ Yen Turnover Japan(1) 7,396 7,850 (6) (2) Other Asia Pacific 1,142 1,052 9 Less: intra-segment turnover (7) (6) 17 -------- -------- 8,531 8,896 (4) -------- -------- Total Group operating Japan 758 1,045 (27) (25) profit(2) Other Asia Pacific(3) 192 167 15 -------- -------- 950 1,212 (22) -------- -------- Japan ----- Trading results Voice services 4,404 4,790 (8) (4) Non-voice services 1,206 1,350 (11) (7) -------- -------- Total service revenue 5,610 6,140 (9) (5) Net other revenue(1) 21 20 5 9 Interconnect costs (482) (519) (7) (4) Other direct costs (251) (414) (39) (37) Net acquisition costs(1) (641) (677) (5) (2) Net retention costs(1) (716) (607) 18 23 Payroll (186) (186) - 4 Other operating expenses (1,380) (1,519) (9) (5) -------- -------- EBITDA 1,975 2,238 (12) (8) Depreciation and amortisation(2) (1,217) (1,193) 2 6 -------- -------- Total Group operating profit(2) 758 1,045 (27) (25) -------- -------- EBITDA margin 26.7% 28.5% KPIs Closing Customers ('000) 15,041 14,951 1 Monthly average ARPU Yen6,148 Yen6,725 (9) (1) Turnover for Japan includes revenue of £1,765 million (2004: £1,690 million) which has been excluded from other revenue and deducted from acquisition and retention costs in the trading results (2) Before goodwill amortisation (3) Before exceptional items See page 38 for definition of terms Japan Vodafone continues to encounter difficult market conditions in Japan due to the strength of competitor offerings, specifically in 3G customer propositions. A recent strengthening of the management team and the ongoing transformation plan are intended to improve Vodafone's competitive position and financial performance over the mid to long term. Local currency turnover for the year ended 31 March 2005 fell marginally compared to the prior year, with a 5% decrease in service revenue partially offset by an increase in equipment and other revenue. Service revenue declined following a reduction in ARPU, partially offset by an increase in the average customer base. The ARPU erosion was caused by the loss of higher value customers, through the lack of a competitive 3G offering during the financial year, together with the adverse impact of lower termination charges caused by changes to the regulatory environment from 1 April 2004 and a total ban on using mobile phones whilst driving from 1 November 2004. The average customer base grew 4% over the financial year, although market share declined from 18.4% at 31 March 2004 to 17.3% at 31 March 2005. Prepaid customers comprised 11% of closing customers, up from 9% at 31 March 2004. By 31 March 2005, Vodafone had 798,000 devices registered to use 3G data services in Japan. Non-voice service revenue decreased by 7% over the comparative period, primarily due to the loss of higher value customers, who generally use more data services, and the increased proportion of prepaid customers, who can only access basic data services. A new flat rate data tariff for 3G customers was introduced in the winter and is anticipated to improve the competitiveness of the data proposition. EBITDA margin fell by 1.8 percentage points to 26.7% for the year ended 31 March 2005, principally due to the ARPU dilution, the continued focus on customer retention and the migration of existing customers to 3G service offerings. The impact of these issues has been partially offset by a decrease in other direct costs due to a lower provision for slow moving handset stocks in the year ended 31 March 2005, and other operational efficiencies. The increase in payroll costs was largely due to one-off charges of approximately £25 million associated with a voluntary redundancy programme in the first half of the financial year, which was part of the transformation plan noted below, offset by lower ongoing costs in the second half of the financial year. Operating profit was impacted by increased depreciation charges following 3G network roll out and the disposal of assets in relation to the integration of regional systems. During the financial year, Japan completed the majority of the consolidation of its regional structure, with the integration of key business systems now complete. The integration of billing and IT systems is a longer term, and more complex project and is ongoing. Overall, Japan has improved its cost structure through reductions in general overheads and the effective utilisation of dark fibre. The Group has strengthened its management team in Japan through the appointment of Shiro Tsuda and Bill Morrow during the year. Formerly Senior Executive Vice President at NTT DoCoMo, Inc., Shiro Tsuda brings considerable experience of the mobile telecommunications industry, together with an extensive knowledge of the Japanese business and consumer markets. Bill Morrow has gained significant experience through various global leadership positions within the Vodafone Group for the last eight years and was formerly President of Japan Telecom. In the year ending 31 March 2006, management will focus on enhancing customer satisfaction, through an improved handset portfolio, targeted new product offerings, improvements in both network coverage and capacity and a renewed focus on business customers. In addition, cost reductions are expected through leveraging the Group's global scale and scope. With these measures it is hoped that Vodafone will be more agile and commercially driven when facing mobile number portability in the Japanese market in the next financial year. In the first half of the year, the Group increased its effective shareholding in Vodafone K.K. to 98.2% and its stake in Vodafone Holdings K.K. to 96.1% for a total consideration of £2.4 billion. On 1 October 2004, the merger of Vodafone K.K. and Vodafone Holdings K.K. was completed, resulting in the Group holding a 97.7% stake in the merged company, Vodafone K.K. Other Asia Pacific subsidiaries In the Australian market, value promotions and strategic changes in the tariff structures led to Vodafone increasing market share, turnover and profitability. ARPU also increased, despite falling prices, due to increased usage. In August 2004, Vodafone announced an agreement with another Australian telecommunications carrier to share 3G network equipment to reduce the total cost of ownership of the 3G network and increase speed to market. This is expected to lead to the launch of 3G services in October 2005. In New Zealand, turnover and market share improved over the year as a result of enhanced customer propositions. The EBITDA margin also increased as reduced equipment costs offset the effect of increased interconnection costs as the proportion of activity to non-Vodafone networks increased. The launch of a high speed network upgrade by competitors in the second half of the financial year has intensified competition in the market. Vodafone is expected to launch 3G services in July 2005. Other Asia Pacific China Mobile, in which the Group has a 3.27% stake, and which is accounted for as an investment, grew its customer base by 42% over the year to 213,874,000 at 31 March 2005, including 26,831,000 customers added as a result of acquisitions. Dividends totalling £18 million were received from China Mobile during the year. Changes to the regional structure From 1 April 2005, Vodafone Japan reports directly to the Chief Executive whilst the Group's other operations in Asia Pacific form part of an extended Other Europe, Middle East and Africa region, which will in future be referred to as Other Mobile Operations. Other Operations Financial highlights Year ended 31 March ------------------- 2005 2004 % change £m £m Turnover Germany 1,108 1,002 11 Asia Pacific - 1,126 -------- -------- 1,108 2,128 (48) -------- -------- Total Group operating Germany 66 (58) profit/(loss)(1) Other EMEA (37) (1) Asia Pacific - 79 -------- -------- 29 20 45 -------- -------- (1) Before goodwill amortisation The Group's other operations comprise interests in fixed line telecommunications businesses in Germany (Arcor) and France (Cegetel). Germany In local currency, Arcor's turnover increased by 14%, primarily due to customer and usage growth, partially offset by tariff decreases in a competitive market. Arcor strengthened its position as the main competitor to the incumbent fixed line market leader during the year, growing contract ISDN voice (direct access) customers by 83% to 712,000 and contract DSL (broadband internet) customers by 169% to 455,000 in the year ended 31 March 2005. Market share in the fast growing broadband and direct access markets more than doubled in the year to 7% and 6%, respectively. Revenue growth and further cost efficiencies generated a significantly improved EBITDA margin and increased cash flow. Other EMEA The Group's associated undertaking, Cegetel, focused on increasing its share of the fast growing DSL market, growing its DSL customer base by 566,000 to 841,000 in the year, which has led to higher acquisition costs and adversely impacted operating profit. Asia Pacific The Group disposed of its interests in Japan Telecom during the previous financial year and ceased consolidating the results of this business from 1 October 2003. Global Services One Vodafone The One Vodafone initiatives are targeted at achieving £2.5 billion of annual pre-tax operating free cash flow improvements in the Group's controlled mobile businesses by the year ending 31 March 2008 ("2008 financial year"). The Group also expects mobile capital expenditure in the 2008 financial year to be 10% of mobile revenue as a result of the initiatives. These targets, and the analysis below, have been prepared on the basis of UK GAAP. Cost initiatives are anticipated to generate improvements of £1.4 billion, with a further £1.1 billion from revenue initiatives. Of the £1.4 billion of cost savings, £1.1 billion relates to savings in operating expenses, being payroll and other operating expenses, and tangible fixed asset additions. The remaining cost saving, of £0.3 billion, relates to handset procurement activities. The Group expects that, in the 2008 financial year, the aggregate of mobile operating expenses and tangible fixed asset additions will be broadly similar to those for the year ended 31 March 2004, assuming no significant changes in exchange rates and after adjusting for acquisitions and disposals. Revenue enhancement initiatives are expected to deliver benefits equivalent to at least 1% additional revenue market share for the Group's controlled mobile businesses in the 2008 financial year compared with the 2005 financial year. The Group will measure the revenue benefits in its five principal controlled markets compared to its established competitors. Incremental pre-tax operating free cash flow of £1.1 billion per annum is anticipated from these benefits, with the majority expected to be derived from enhanced handset offerings in addition to improved customer management and roaming. The One Vodafone programme continues to make progress in delivering the benefits of global scale and scope to the Group. Activity in the 2005 financial year has been to establish the internal structure, organisation and detailed plans for each area to deliver the One Vodafone targets. The programme has focused on the following six key initiatives: The Group's aim for the network and supply chain management initiative is to exploit the benefits of the Group's scale beyond the current centralised supply chain. Harmonisation of network design and planning along with standardisation of network equipment specifications across suppliers is expected to reduce maintenance costs and increase purchasing options. Sharing of best practice across operating companies has already led to cost savings from the replacement of leased lines with owned fixed optical fibre capacity and microwave links. The service delivery platform initiative is aimed at consolidating European development and operations. Hosting centres in Germany and Italy are already operational and the Group's European mobile operating subsidiaries are expected to begin migrating their service delivery platforms over the next 18 months. Development activities are to be consolidated into Germany, Italy, the UK and the US. The Group has focused its plans for information technology delivery on the development of a roadmap towards the consolidation of billing and customer relationship management systems. This is expected to be a longer term project and is expected to deliver benefits over a number of years. A key theme is the identification of best practice and implementing this across existing systems. The development of an end-to-end terminals delivery process from initial design to delivery to customer, incorporating benefits from greater volumes of customised handsets, is intended to reduce time to market, through consolidation of platforms and streamlined testing programmes and to generate cost savings. These savings are expected to arise primarily from standardised handsets and accessories, through better management of volumes across Europe and efficiencies in logistics. The availability of a common portfolio of 3G handsets following the launch of Vodafone live! with 3G in November 2004 is an early example of success. The customer management initiative aims to implement consistent segment and value based customer management across the Group to improve customer retention and satisfaction and, therefore, reduce churn. Finally, providing Vodafone's customers with better value when they travel abroad, as well as generating the best value inter-operator tariffs for the Group, are the key goals of the roaming initiative. The Group also expects to centralise certain support activities for roaming. The launch of the Vodafone Travel Promise in May 2005 is a key step in delivering better value for our customers when travelling abroad. The objective for the 2006 financial year is to begin implementation of these plans and deliver benefits in each area, although some initiatives will be more advanced than others. Significant benefits are expected in the 2007 financial year, with the full targets expected to be met in the 2008 financial year. Vodafone live! Vodafone live!, the Group's integrated communications and multimedia proposition, initially launched in October 2002, has continued to grow strongly. The proposition, targeted primarily at the young adult ("young active fun") segment, has been launched in six new markets since 31 March 2004, bringing the total number of countries now offering Vodafone live! to 22, comprising 15 controlled networks, 4 of the Group's associated companies and 3 Partner Networks. New markets added in the 2005 financial year include Malta, Austria, Belgium, Croatia and Slovenia. There were 30.9 million Vodafone live! active devices, including 12.8 million in Japan, on controlled networks at 31 March 2005, with an additional 3.2 million devices connected in the Group's associated companies. The Group has continued to develop its Vodafone live! proposition by offering a new range of services, content, handsets and tariffs. The design of the Vodafone live! portal, through which customers can access a range of online services - games, ringtones, news, sports and information - has been enhanced and an improved search function has made it easier for customers to find and purchase content. Over 23 new handsets have been added to the Vodafone live! portfolio, with an increased emphasis on exclusive and customised devices. The new handsets added have offered improved imaging capability across the range, better connectivity, with a significant proportion of devices now offering 'Bluetooth', and increased memory card storage to enable customers to save content on their devices. Vodafone live! with 3G In November 2004, the Group launched Vodafone live! with 3G across 13 markets with an initial portfolio of 10 devices. At 31 March 2005, there were 2.1 million devices on controlled networks capable of accessing the Vodafone live! with 3G portal. 3G has enhanced the mobile experience with up to a ten-fold increase in portal and content download speeds, giving Vodafone live! customers access to a unique range of high quality content and communication services. Vodafone live! with 3G customers can now experience news broadcasts, sports highlights, music videos, movie trailers and a host of other video content at a quality approaching that of digital television. With the signing of an exclusive deal with Twentieth Century Fox, Vodafone UK customers were also the first to experience a new generation of made-for-mobile TV and film content, so called "mobisodes". Several markets have already launched TV broadcast services and these will be developed further in the coming year. The wide bandwidth of 3G supports access to sophisticated 3D games and Vodafone has introduced a range of branded titles. The 3G service also supports full track music downloads which allow customers to use their phone to listen to music, choosing from a range that currently includes over 500,000 music tracks. Vodafone has secured music from some of the world's greatest artists through agreements with Sony BMG Music Entertainment and for music from the catalogues of EMI and Warner Music. Customers can also download live performance videos and stream clips direct to their mobiles through Vodafone's agreement with MTV. Business services The Vodafone Mobile Connect data card provides working mobility to customers accessing email and company applications with access speeds up to 384 kilobits per second when connected to a 3G network. The Vodafone Mobile Connect 3G/GPRS data card has now been rolled out across 17 markets, including the Group's associated undertakings in France, Belgium and South Africa and the Group's Partner Network operators in Austria, Bahrain and Finland. The product portfolio was enhanced in the financial year with the launch of a quad-band data card allowing customers to connect whilst travelling in the US and a data card supporting both GPRS and EDGE technology which provides high speed connectivity in a number of the Group's Partner Networks. Vodafone Mobile Connect data cards are available in an increasing number of distribution channels and with a growing range of service and price bundles. At 31 March 2005, there were 0.5 million registered Vodafone Mobile Connect data cards on the Group's controlled networks, including 0.3 million 3G/GPRS data cards. The Vodafone Wireless Office service, which offers fixed line functionality and the freedom of mobility in a single handset solution on either a group/team or a company-wide basis, was introduced into a further seven markets in the financial year, bringing the total to 11. On 21 April 2005, the Group announced the roll out of push email, a service providing real-time, secure and remote access to email, contacts and calendar direct to a range of business-focused mobile devices. New email, calendar appointments and contact details are automatically 'pushed' to the customer's selected device and updates made on the device are automatically reflected on the customer's PC. During the launch phase, the service will be supported by four devices, with additional devices introduced in the coming months. Other initiatives In May 2005, the Group announced the launch of Vodafone Simply and the Vodafone Travel Promise. Vodafone Simply is a new service designed to provide an easy to use mobile solution for customers who want to use voice and text services with minimum complexity to keep in touch with family and friends. The service includes a new, stylish and easy to use Vodafone Simply mobile phone, which has been developed with the emphasis on only the most commonly used functions. The handset is aimed at people who do not want the extra features that most new phones offer. The Vodafone Travel Promise is a new roaming campaign, the first element of which is the Vodafone Passport price plan, an easy to understand voice roaming price plan which provides customers with greater price clarity when using their mobile voice services abroad. For a one-off connection fee per call, determined by the network operator, Vodafone Passport customers will be able to make voice calls at domestic rates when roaming on Vodafone's controlled networks (excluding Egypt) and the networks of selected associated undertakings. In addition, when receiving calls abroad, customers will pay the same connection fee, allowing them to talk for up to a maximum of 60 minutes, for no additional charge. On 14 February 2005, Vodafone commenced field tests of the High Speed Downlink Packet Access ("HSDPA") technology in Japan. HSDPA enables transmission speeds of up to two megabits per second ("2 Mbps"), though 14.4 Mbps can theoretically be achieved. At CeBIT, the major trade fair for IT and communication held in March 2005, Vodafone Germany launched Vodafone At Home, an alternative to a fixed line network allowing private householders and home office users to replace their existing fixed line connection. The Group also demonstrated new mobile TV technology, a first prototype of an HSDPA data card and a number of new handsets, including two Ferrari branded handsets jointly developed with Sharp. This information is provided by RNS The company news service from the London Stock Exchange

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