

**VODAFONE LIMITED**

**Company No: 01471587**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 March 2014**

MONDAY



\*A3N8TL2J\*

A15

22/12/2014

#86

COMPANIES HOUSE

## **VODAFONE LIMITED**

**Company No: 01471587**

### **STRATEGIC REPORT**

#### **Strategic report for the year ended 31 March 2014**

Market conditions remained difficult during the year ended 31 March 2014. This was due to a number of reasons: lower customer spend; a decline in handset market volumes; competitive market pricing; and on-going regulatory pressure. As a company, including mobile and fixed we achieved £7.0 billion of revenue (2013: £5.0 billion), an increase of 42% driven by the inclusion of the trade of Cable & Wireless's UK operations from 1 April 2013. This included a 4.4% decline in mobile service revenue for the year, with +1% customer base growth being offset by a -6% decline in Average Revenue Per User. Our profitability was also under pressure and, when combined with the fixed business result, operating profit declined to £5.9 million from £134.6 million profit in the prior year.

In Quarter 4 the revenue trend improved with the decline in organic service revenue slowing to -3.6% from -5.1% in Quarter 3. This improvement was driven by a 5% increase in contract customers to 11.7 million over the year, and in the year we posted 562,000 contract net adds. Contract churn improved by 0.4 percentage points to 16.2%.

Take-up of 4G has been encouraging with 637,000 customers using the service boosted by our content deals with Spotify and Sky Sports Mobile TV.

The integration of the UK operations of Cable & Wireless Worldwide was accelerated at the end of the year and we continue to deliver synergies as planned, including delivering our plans for the integrated network. The integration has helped us create a significant Enterprise business, and there is a growing fixed pipeline in Enterprise.

We have invested heavily in our Network programme, as part of our commitment to build the UK's strongest network. We announced that in 2014 we will invest and spend £1 billion in the UK network and services, and will make a similar investment in 2015.

By 31 March 2014 we had already extended Ultrafast 4G to over 200 cities, towns and districts, following our launch in August 2013. We have also introduced HD Voice across the majority of our sites.

We continue to make good progress in network performance as part of our commitment to provide coverage using 2G, 3G and 4G services to 98% of the UK. This will be a significant movement for us and will strengthen our relationship with our customers and help differentiate us from our competitors.

Good progress has already been made on expanding our high street presence and strengthening our branded distribution channels. As part of the £100 million initiative we announced in April, seven stores had opened by the year end.

Overall, the company has delivered some good results, but it has been a challenging year. Our strategy is to continually improve our financial and operating performance by differentiating the company from competitors through improved customer experience combined with building the UK's strongest network.

## **VODAFONE LIMITED**

**Company No: 01471587**

### **STRATEGIC REPORT**

#### **Financial Position and Liquidity**

The balance sheet on page 12 of the financial statements shows the Company's overall financial position at the end of the year.

The major source of liquidity for the Company comes from the cash generated from trading activities. The Group's treasury function provides a centralised treasury service to the Company, including managing its cash flow risks and follows a framework of policies and guidelines authorised and reviewed annually by the Group's management. Going concern is discussed within the statement of accounting policies (see note 1).

During the year the Company continued to invest in its network infrastructure. Total expenditure on tangible fixed assets was £883.8m (2013: £550.4m), an increase of £333.4m. This increase reflects the inclusion of the ex-Cable & Wireless UK business.

Net current assets decreased by £316.9m in the year 31 March 2014, including a decrease in the deferred tax asset (see note 16) of £246.1m. Provisions reduced by £79.0m in the year largely as a result of the settlement of liabilities in respect of exited properties.

The Company closed the year with cash of £61m and required no significant long term funding from group undertakings despite the drop in operating profit in the year. For further details of current and long term amounts payable to and due from the parent company and fellow subsidiary undertakings, see notes 12, 13 and 14 of the financial statements.

## VODAFONE LIMITED

Company No: 01471587

### STRATEGIC REPORT

#### Principal risks and uncertainties

The Company has a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the ever-changing environments in which we operate.

The principal risks and uncertainties for the Company and mitigating factors are as follows:

Key Risks	Mitigating factors
<i>Failure to protect customer information</i> We host increasing quantities and types of customer data in both enterprise and consumer segments and any failure to protect data adequately could affect our reputation and lead to legal action.	Hardware and software applications include security features which are reviewed by our technology and corporate security functions to ensure compliance with our policies and security standards.
<i>Regulation</i> We need to comply with an extensive range of regulatory requirements including the licensing, construction and operation of our networks and services that can lead to adverse impacts on our business.	We monitor market developments closely, identifying risks in our current and proposed commercial propositions, which are factored into our business planning process, competitive commercial pricing and product strategies. We also make interventions at a national and international level in respect of legislative, fiscal and regulatory proposals which we feel are not in the interest of the Company.
<i>Network or IT systems failure</i> Major failure or malicious attack on our network or IT systems may result in service interruption and consequential customer and revenue loss.	Specific back-up and resilience requirements are built into our networks combined with regularly tested business continuity and disaster recovery plans.
<i>Key suppliers</i> We depend on a limited number of suppliers for strategically important network and IT infrastructure and associated support services to operate and upgrade our networks and provide key services to our customers.	We periodically review the performance of key suppliers, including identifying and managing "suppliers at risk" and having business continuity plans in case of supplier failure.



D Gall

Director

16 December 2014

## **VODAFONE LIMITED**

**Company No: 01471587**

### **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2014.

#### **Results and dividends**

For the year ended 31 March 2014, the Company reported a loss on ordinary activities after taxation of £451.9 (2013: £59.0m loss). The profit and loss account set out on page 10 of the financial statements summarises the trading, interest and tax components of the loss for the year. The directors do not recommend the payment of a final dividend (2013: £nil).

#### **Future developments**

The future development of the business has been outlined in the Strategic Report.

#### **Directors**

The directors of the Company, who served throughout the year, unless otherwise indicated, are as follows:

J Laurence	Resigned	6 November 2013
J Campbell	Resigned	6 November 2013
D Galli		
HJ Hoencamp	Appointed	6 November 2013
H Lamprell	Appointed	6 November 2013

#### **Registered office**

The registered office of the Company is Vodafone House, The Connection, Newbury, Berkshire, RG14 2FN, England.

#### **Financial risk management**

The Company follows Group policy to manage its financial risks which include liquidity risk, market risk (interest rate management and foreign exchange management) and credit risk. The Group's treasury function provides a centralised service to the Group, including the Company, and follows a framework of policies and guidelines authorised and reviewed annually by the Group's management.

There has been no significant change during the financial year to the types of financial risks faced by the Company, or the Company's approach to the management of those risks.

Further details of the Group's policies can be found in the annual report and audited financial statements of Vodafone Group Plc.

## **VODAFONE LIMITED**

**Company No: 01471587**

### **REPORT OF THE DIRECTORS (continued)**

#### **Employee involvement and commitment**

Employee involvement and commitment is encouraged throughout the Company and is the responsibility of the Board of directors.

Regular contact and exchanges of information between managers and staff is maintained through team briefings, internal newsletters, company notices and informally via social functions.

The directors of the Company are committed to the principle of employee share participation and, accordingly, during the year have continued the Vodafone Group Plc 2008 Sharesave Plan and Vodafone Group Plc 1998 Sharesave Scheme. These schemes provide employees with the opportunity to acquire Vodafone Group Plc shares on an advantageous basis and they are operated with tax benefits under HM Revenue & Customs approved share scheme arrangements. There is a high level of employee participation.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the in-house newsletters and bulletins, briefing groups and the distribution of the quarterly financial results.

#### **Disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

## **VODAFONE LIMITED**

**Company No: 01471587**

### **REPORT OF THE DIRECTORS (continued)**

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information including that presented on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Indemnification of directors**

In accordance with the Company's articles of association and to the extent permitted by law, the directors may be granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the directors may not be indemnified, Vodafone Group Plc maintained a directors' and officers' liability insurance policy throughout the year. This policy is renewed annually in August. Neither the Company's indemnity nor the insurance provides cover in the event that the director is proven to have acted dishonestly or fraudulently.

**VODAFONE LIMITED**

**Company No: 01471587**

**REPORT OF THE DIRECTORS (continued)**

**Statement as to disclosure of information to auditor**

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditor is unaware, and the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The report of the directors was approved by the Board on 16 December 2014 and signed on its behalf by:



D Galli  
Director

16 December 2014



## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF**

### **VODAFONE LIMITED**

We have audited the financial statements of Vodafone Limited for the year ended 31 March 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the balance sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the annual report to identify any material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications on our report.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF**

### **VODAFONE LIMITED (continued)**

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Griffin FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, UK  
16 December 2014

**VODAFONE LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2014**

	Notes	2014 £m	2013 £m
Turnover	2,3	<u>6,969.2</u>	<u>5,062.5</u>
Operating profit	3	5.9	134.6
Loss on disposal of tangible assets		(15.7)	(26.5)
Net interest payable	6	<u>(295.0)</u>	<u>(292.4)</u>
Loss on ordinary activities before taxation		(304.8)	(184.3)
Tax (charge)/credit on loss on ordinary activities	7	(147.1)	125.3
Loss for the financial year	19	<u><u>(451.9)</u></u>	<u><u>(59.0)</u></u>

Please refer to note 19 for movements in reserves.

All results derived from continuing operations.

The accompanying notes are an integral part of these financial statements.

**VODAFONE LIMITED**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 £m	2013 £m
Loss for the financial year		(451.9)	(59.0)
Actuarial gain in the value of defined benefit retirement plans	19, 23	79.0	-
Effect of pension asset limit	19, 23	(62.5)	-
Deferred tax attributable to actuarial gain	16, 19	(3.3)	-
Total recognised loss for the financial year		<u>(438.7)</u>	<u>(59.0)</u>

**VODAFONE LIMITED**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

**FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 £m	2013 £m
Total recognised gains and losses for the financial year		(438.7)	(59.0)
Net capital contribution to parent company in relation to share-based payments	18	(1.8)	(8.5)
Issue of new shares		-	2,605.2
Deemed distribution		-	(454.8)
Capital reduction		-	220.0
Net movement in shareholders' funds		<u>(440.5)</u>	<u>2,302.9</u>
Opening shareholders' funds		2,663.5	360.6
Closing shareholders' funds		<u>2,223.0</u>	<u>2,663.5</u>


## VODAFONE LIMITED

## BALANCE SHEET

AS AT 31 MARCH 2014

	Note	2014 £m	2013 £m
Fixed assets			
Intangible assets	8	3,881.0	4,292.7
Tangible assets	9	2,984.1	2,822.9
Investments	10	495.3	485.0
		<u>7,360.4</u>	<u>7,600.6</u>
Current assets			
Stocks	11	70.1	66.7
Debtors: amounts falling due within one year	12	4,669.3	4,979.1
Debtors: amounts falling due after more than one year	12	1,065.3	1,305.4
Cash at bank and in hand		61.1	81.9
		<u>5,865.8</u>	<u>6,433.1</u>
Creditors: amounts falling due within one year	13	(4,325.1)	(4,575.5)
NET CURRENT ASSETS		<u>1,540.7</u>	<u>1,857.6</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>8,901.1</u>	<u>9,458.2</u>
Creditors: amounts falling due after more than one year	14	(6,374.5)	(6,353.8)
Provisions for liabilities	15	(293.5)	(372.5)
Pension Deficit	23	(10.1)	(68.4)
NET ASSETS		<u>2,223.0</u>	<u>2,663.5</u>
CAPITAL AND RESERVES			
Called up share capital	17	-	-
Share-based payment reserve	18	(7.9)	(6.1)
Share Premium Account	19	2,605.2	2,605.2
Profit and Loss Account	19	(374.3)	64.4
TOTAL SHAREHOLDERS' FUNDS		<u>2,223.0</u>	<u>2,663.5</u>

The financial statements of Vodafone Limited (registered number 01471587) were approved and authorised for issue by the Board on 16 December 2014, and were signed on its behalf by:

  
 .....Director  
 D Galli

The accompanying notes are an integral part of these financial statements.

## **VODAFONE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 MARCH 2014**

##### **1. Statement of accounting policies**

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies adopted in respect of material items are described below. The accounting policies have been applied on a consistent basis during the current and the preceding year.

##### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK Accounting Standards.

After reviewing the Company's budget for the twelve months to 31 March 2015 and the latest forecast, taking into account reasonably possible changes in trading performance, and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

##### **Turnover**

Turnover, which excludes sales taxes, is in respect of telecommunications services provided to customers. In respect of the mobile business this includes monthly access charges, airtime usage, messaging and handset sales. In respect of the fixed line business this includes fixed line telecommunications services including data and voice services and information provision, revenue from the sale of equipment, including handsets.

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as turnover over the related access period. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Incentives are provided to customers, in various forms and are usually offered on signing a new contract or as part of a promotional offering. Where incentives are provided on connection of a new customer or the upgrade of an existing customer, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognised in line with Vodafone Limited's performance of its obligations relating to the incentive.

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the handset to an end customer by the intermediary or the expiry of the right of return.

## **VODAFONE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **FOR THE YEAR ENDED 31 MARCH 2014**

##### **1. Statement of accounting policies (continued)**

###### **Turnover (continued)**

Other turnover from mobile telecommunications primarily comprises equipment sales, which are recognised upon delivery to customers and customer connection revenues. Customer connection revenues are recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenues do not exceed the fair value of the equipment delivered to the customer. Any customer connection revenues not recognised together with related equipment revenues are deferred and recognised over the period in which services are expected to be provided to the customer.

Amounts payable by telecommunications operators for interconnection and transmission of content are recognised as the services are provided. Charges are negotiated separately and are subject to continual review. Revenue generated through the provision of these services is accounted for gross of any amounts payable to other telecommunications operators for interconnect fees. In certain instances the Company uses estimates to determine the amount of income receivable, and these estimates may be subject to retrospective adjustment. These estimates are periodically adjusted to reflect actual pricing or usage. These adjustments are recognised in the year in which the adjustments are made.

Revenue from data services and information provision is recognised when the Company has performed the related service and depending on the nature of the service is recognised either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

In revenue arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Company generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand alone basis, after considering volume discounts, where appropriate.

###### **Intangible assets**

Purchased intangible assets, including licence fees, are capitalised at cost and stated at cost less amortisation and provision for impairment.

Goodwill is calculated as the surplus of cost over fair value attributed to the net assets of businesses acquired. Goodwill is capitalised and amortised on a straight-line basis over its estimated useful economic life. The amortisation period for goodwill is typically between three and twenty years.

Licence fees are capitalised and amortised on a straight-line basis over its estimated useful economic life. The amortisation period for the 3G licence fees is 17.1 years. The amortisation period for the 4G licence fees is 20 years.

Acquired customer bases are capitalised and amortised, using the 'sum of digits' method.

## **VODAFONE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **FOR THE YEAR ENDED 31 MARCH 2014**

##### **1. Statement of accounting policies (continued)**

###### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairments.

Included within the cost of network infrastructure systems are materials awaiting installation which are valued at cost less a provision for excess and obsolete items. The materials are used in the construction and maintenance of new and existing infrastructure and, when issued, are charged either to the cost of specific infrastructure or to the profit and loss account.

The cost of tangible fixed assets includes directly attributable incremental costs incurred in their acquisition and installation.

###### **Depreciation of tangible fixed assets**

Depreciation is not provided on freehold land. Depreciation of other tangible fixed assets is charged so as to write off the cost of assets, other than assets under construction, using the straight-line method over their estimated useful lives, as follows:

Freehold buildings	40-50 years
Leasehold improvements	5-40 years
Plant and machinery	1-7 years
Motor vehicles	4 years
Furniture and fittings	5-10 years
Network infrastructure	5-40 years

###### **Website development costs**

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset, delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred.

###### **Investments**

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value. The performance of investments is reviewed annually at each year end to establish whether there has been a permanent diminution in the value of the investment which would necessitate a provision.



## **VODAFONE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **FOR THE YEAR ENDED 31 MARCH 2014**

##### **1. Statement of accounting policies (continued)**

###### **Stocks**

Stocks are valued at the lower of cost and estimated net realisable value.

Provision is made where stock is slow moving or obsolete to reduce cost to its net realisable value.

Provisions relating specifically to handset inventories are calculated using an appropriate methodology based on forecast handset sales. Four months after the introduction of a handset into the market, the full carrying value of all handset inventories in excess of the lower of the previous four months' historical sales and four months' forecast sales demand is provided for.

Provisions for accessories, data cards, returned handsets and other inventory items are calculated with reference to historic sales experience and forecast demand.

###### **Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Assets acquired under finance leases, which transfer substantially all the rights and obligations of ownership, are accounted for as though purchased outright. The fair value of the asset at the inception of the lease is included in tangible fixed assets and the capital element of the leasing commitment included in creditors. Finance charges are calculated on an actuarial basis and are allocated over each lease to produce a constant rate of charge on the outstanding balance.

###### **Trade debtors**

Trade debtors are stated at amounts invoiced as reduced by allowance for estimated irrecoverable amounts. Estimates are based on the ageing of the debt balances and historical experience. Debtors are written off when management deems them to be irrecoverable.

###### **Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid, or recovered, using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2014

##### 1. Statement of accounting policies (continued)

###### Share-based payments

Vodafone Group Plc issues equity-settled share awards to certain of the Company's employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using a binomial pricing model which is calibrated using a Black-Scholes option pricing framework. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where Vodafone Group Plc grants rights or share options over its shares to employees of the Company, the Company records this as a capital contribution directly in equity. Where the Company makes cash payments to its parent in respect of any rights or share options granted, such cash contributions are accounted for as a reduction in the capital contribution received, up to the fair value recorded for such right or share option granted (see note 18).

The adoption of this accounting policy is only applicable to share options granted after 7 November 2002.

###### Pensions

The asset or deficit recognised in the balance sheet in respect of the defined benefit plan represents the fair value of plan assets less the present value of the defined benefit obligations at the reporting date. Assets are recognised as the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Defined benefit obligations for the scheme are calculated annually by independent actuaries using the projected unit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid. The bonds used have terms to maturity approximating the terms of the related pension obligation.

The Company recognises actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, in the period in which they occur in the statement of total recognised gains and losses. Past service costs are recognised immediately in the profit and loss account, unless the changes to the pension plan are conditional on the employee remaining in service for a specified period of time (the vesting period). In these cases, the past service costs are amortised on a straight-line basis over the vesting period.

Current service costs and any past service costs, together with the unwinding of the discount on plan liabilities less the expected return on plan assets, are included within operating costs.

The Cable & Wireless Worldwide Retirement Plan and certain other pension schemes acquired with the former Cable & Wireless UK business on 31 March 2013 (see note 23) are treated in this manner.

It is not possible for Vodafone Limited to identify its share of the underlying assets and liabilities of the Vodafone Group Pension Scheme on a consistent and reasonable basis. Accordingly, as permitted by Financial Reporting Standard ("FRS") 17, the Company accounted for contributions to this scheme as if it were a defined contribution scheme.

Defined contribution pension costs charged to the profit and loss account represent contributions payable in respect of the year.

## **VODAFONE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **FOR THE YEAR ENDED 31 MARCH 2014**

##### **1. Statement of accounting policies (continued)**

###### **Cash flow statement**

In accordance with the provisions of FRS 1 (Revised), a cash flow statement has not been prepared since the Company is a wholly-owned subsidiary of Vodafone Group Plc, a company registered in England and Wales, which prepares consolidated financial statements that include a consolidated cash flow statement, and which are publicly available.

###### **Research and development**

It is Company policy that research and development expenditure is written off to the profit and loss account when incurred.

Fixed assets held in order to provide facilities for research and development activities are capitalised and depreciated over the period of their expected economic life, in accordance with normal accounting practice.

###### **Foreign currencies**

Transactions in currencies other than the entity's reporting currency are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period.

###### **Capital instruments**

Borrowings are initially stated at the amount of the net proceeds after deducting any issue costs. Issue costs together with finance costs are charged to the profit and loss account over the terms of the borrowings and represent a constant proportion of the balance of capital repayments outstanding. Accrued finance charges and issue costs are added to the carrying value of these borrowings. Accrued interest and finance charges that fall due within one year are included within current liabilities.

###### **Finance costs**

Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditure for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 2. Turnover

The Company operates in one class of business, being the supply of telecommunications voice and data products and services.

In both the current and prior years, turnover was generated predominantly by operations in the United Kingdom, as determined by the destination of turnover.

#### 3. Operating profit

	2014 £m	2013 £m
Turnover	6,969.2	5,062.5
Cost of Sales	(5,564.7)	(3,895.2)
Gross profit	<u>1,404.5</u>	<u>1,167.3</u>
Selling and distribution costs	(706.6)	(536.4)
Administrative expenses	(692.0)	(496.3)
	<u>(1,398.6)</u>	<u>(1,032.7)</u>
Operating profit	<u><u>5.9</u></u>	<u><u>134.6</u></u>

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 3. Operating profit (continued)

Operating profit is stated after charging/(crediting):	2014	2013
	£m	£m
Depreciation of owned tangible fixed assets	675.4	448.3
Payments under operating leases:		
Land and buildings	78.6	99.8
Other assets	90.2	33.1
Fees payable to the Company's auditor:		
Audit of the Company's financial statements	0.8	0.9
Amortisation of licence fees	374.2	348.8
Amortisation of goodwill and customer bases	37.5	12.8
Exchange gain	(8.8)	(2.0)

Costs in respect of assurance services other than the auditing of the Company's financial statements are included within the consolidated disclosure within the financial statements of Vodafone Group Plc.

#### 4. Employees

The average number of persons directly employed by the Company (including directors) during the year was:

	2014	2013
	Number	Number
Selling and distribution	5,459	3,880
Administration	6,695	3,078
	<u>12,154</u>	<u>6,958</u>

The costs incurred in respect of employees (including directors) were:

	2014	2013
	£m	£m
Wages and salaries	463.4	282.0
Social security costs	55.3	34.4
Other pension costs	17.1	31.1
Cost of employee share schemes	13.7	10.1
	<u>549.5</u>	<u>357.6</u>

**VODAFONE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2014**

**5. Directors' remuneration**

	2014 £'000	2013 £'000
Emoluments	2,080	2,822
Company payments to defined contribution pension schemes	<u>77</u>	<u>85</u>
	<u>2,157</u>	<u>2,907</u>

The emoluments shown are those earned by the directors in performing qualifying services for the Company during the year.

	2014 Number	2013 Number
Number of directors in the year who:		
Are members of a defined benefit pension scheme:	3	3
Are members of a defined contribution pension scheme:	<u>3</u>	<u>3</u>
	2014 £'000	2013 £'000
Highest paid director's remuneration	<u>981</u>	<u>1,931</u>

There were no amounts accrued at 31 March 2014 for the pension of the highest paid director (2013: £26,571).

All directors of the Company participate in Vodafone Group Plc share plans which are described in note 22. Four directors exercised share options during the year.

**VODAFONE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2014**

**6. Net interest payable**

	2014 £m	2013 £m
Interest receivable and similar income:		
Vodafone Group Plc companies	17.1	13.2
Other	-	1.3
	<u>17.1</u>	<u>14.5</u>
Interest payable and similar charges:		
Vodafone Group Plc companies	(304.3)	(303.7)
Other	(7.8)	(3.2)
	<u>(312.1)</u>	<u>(306.9)</u>
	<u>(295.0)</u>	<u>(292.4)</u>

**7. Tax (charge)/credit on loss on ordinary activities**

	2014 £m	2013 £m
UK Corporation Tax at 23% (2013: 24%)	87.2	31.5
Adjustment for under/(over) provisions in prior years	8.5	(63.8)
Total current tax credit/(charge)	<u>95.7</u>	<u>(32.3)</u>
Deferred taxation (charge)/credit - current year	(175.4)	69.3
Deferred taxation (charge)/credit - prior year	(67.4)	88.3
Total tax (charge)/credit	<u>(147.1)</u>	<u>125.3</u>

The elements of deferred taxation are shown in note 16 to the financial statements.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 7. Tax (charge)/credit on loss on ordinary activities (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 23% (2013: 24%). The actual tax credit/(charge) for the current and previous year differs from the tax credit/(charge) at the standard rate for the reasons set out in the following reconciliation:

	2014 £m	2013 £m
Loss on ordinary activities before tax	<u>(304.8)</u>	<u>(184.3)</u>
Tax on loss on ordinary activities before tax at standard rate of 23% (2013: 24%)	70.1	44.2
Factors affecting tax credit/(charge) for the year:		
Accelerated capital allowances	21.1	(2.9)
Permanent differences	3.7	4.8
Other short-term timing differences	7.4	1.6
Expenditure not deductible and other items	(15.1)	(16.2)
Adjustments to tax credit/(charge) in respect of previous periods	8.5	(63.8)
Current tax credit/(charge) for the year	<u>95.7</u>	<u>(32.3)</u>



**VODAFONE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2014**

**8. Intangible assets**

	Goodwill £m	Licence Fees £m	Customer Bases £m	Total £m
<b>Cost</b>				
As at 1 April 2013 and 31 March 2014	1,619.1	6,826.9	25.1	8,471.1
<b>Amortisation</b>				
As at 1 April 2013	(1,226.8)	(2,941.4)	(10.2)	(4,178.4)
Charge for the year	(32.2)	(374.2)	(5.3)	(411.7)
As at 31 March 2014	(1,259.0)	(3,315.6)	(15.5)	(4,590.1)
<b>Net book value</b>				
As at 31 March 2014	360.1	3,511.3	9.6	3,881.0
As at 31 March 2013	392.3	3,885.5	14.9	4,292.7

VODAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2014

9. Tangible assets

	Freehold land & buildings and Leasehold Improvements	Plant Machinery and Motor Vehicles	Furniture and fittings	Network Infrastructure	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
Cost						
As at 1 April 2013	415.8	2,614.9	238.9	6,315.6	648.2	10,233.4
Additions	0.1	78.5	-	166.8	638.4	883.8
Transfers	10.0	262.7	2.6	486.9	(762.2)	-
Disposals	(31.3)	(15.7)	(1.7)	(55.6)	-	(104.3)
As at 31 March 2014	394.6	2,940.4	239.8	6,913.7	524.4	11,012.9
Accumulated depreciation						
As at 1 April 2013	297.6	2,102.1	163.0	4,847.8	-	7,410.5
Charge for the year	13.5	251.7	15.5	394.7	-	675.4
Transfers	-	(3.3)	-	3.3	-	-
Disposals	(1.7)	(15.7)	(1.4)	(38.3)	-	(57.1)
As at 31 March 2014	309.4	2,334.8	177.1	5,207.5	-	8,028.8
Net book value						
As at 31 March 2014	85.2	605.6	62.7	1,706.2	524.4	2,984.1
As at 31 March 2013	118.2	512.8	75.9	1,467.8	648.2	2,822.9

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 9. Tangible assets (continued)

Included in tangible assets is Freehold Land with a cost of £11.2m (2013: £11.6m). Freehold land is not depreciated.

The net book value of Plant, Machinery and Motor Vehicles includes £41.4m (2013: £67.4m) in respect of assets held under hire purchase contracts.

Network Infrastructure comprises:

	Freehold Premises £m	Short- term Leasehold Premises £m	Plant and Machinery £m	Total £m
At 31 March 2014				
Cost	21.4	207.1	6,685.2	6,913.7
Accumulated depreciation	(1.0)	(78.7)	(5,127.8)	(5,207.5)
Net book value	<u>20.4</u>	<u>128.4</u>	<u>1,557.4</u>	<u>1,706.2</u>
At 31 March 2013				
Net book value	<u>20.2</u>	<u>135.7</u>	<u>1,311.9</u>	<u>1,467.8</u>

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**10. Investments**

	£m
Cost and net book value:	
At 1 April 2013	485.0
Additions	10.3
	<hr/>
At 31 March 2014	495.3
	<hr/>

The companies in which Vodafone Limited has an interest exceeding 20% at the year end are as follows:

Investment held	Principal activity	Holding and Voting Rights %
Cornerstone Telecommunications Infrastructure Limited	Network passive infrastructure management	50
Weve Limited	Mobile payment technology	33
Talk Mobile Limited	Telecommunications services	100
Mobile By Sainsbury's Limited	Telecommunications services	50

All shareholdings are in ordinary shares and investments in companies registered in England and Wales.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 11. Stocks

	2014 £m	2013 £m
Finished goods held for resale	<u>70.1</u>	<u>66.7</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

#### 12. Debtors: amounts falling due within one year

	2014 £m	2013 £m
<i>Debtors: amounts falling due within one year</i>		
Trade debtors	404.8	490.3
Amounts owed by group undertakings	3,592.3	3,730.0
Amounts owed by associated undertakings of Vodafone Group Plc	0.7	0.7
Group relief receivable	92.8	31.6
Other debtors	10.5	15.9
Prepayments and accrued income	568.2	710.6
	<u>4,669.3</u>	<u>4,979.1</u>
<i>Debtors: amounts falling due after more than one year</i>		
Prepayments and accrued income	100.8	94.8
Deferred tax (note 16)	964.5	1,210.6
	<u>5,734.6</u>	<u>6,284.5</u>

#### 13. Creditors: amounts falling due within one year

	2014 £m	2013 £m
Trade creditors	375.5	505.0
Amounts due to group undertakings	2,627.1	2,719.2
Net obligations under finance leases	5.4	23.8
Taxation payable	25.8	-
Other taxes and social security costs	101.7	109.8
Other creditors	7.3	4.9
Accruals and deferred income	1,182.3	1,212.8
	<u>4,325.1</u>	<u>4,575.5</u>

The Company participates in the Group's centralised banking arrangements.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 14. Creditors: amounts falling due after more than one year

	2014	2013
	£m	£m
Other payables due after more than one year	87.2	55.9
Loan note due to group undertakings	6,285.0	6,285.0
Net obligations under finance leases	2.3	12.9
	<u>6,374.5</u>	<u>6,353.8</u>

The maturity of creditors falling due after more than one year is as follows:

	2014	2013
	£m	£m
Between 2 and 5 years	89.5	68.8
After 5 years	6,285.0	6,285.0
	<u>6,374.5</u>	<u>6,353.8</u>

The unsecured loan note due to group undertakings matures on 31 December 2021 and bears interest at 4.82% per annum. Interest is payable on 30 November each year.

#### 15. Provisions for liabilities

	Total £m
As at 1 April 2013	372.5
Amount charged to profit and loss account	13.8
Released in the year	(65.4)
Utilised in the year	(31.2)
Transfer to other group undertakings	3.8
As at 31 March 2014	<u>293.5</u>

The provisions balance includes amounts for asset retirement, property rentals and dilapidations where onerous, disputes with other operators, reorganisation and legal activities. Property provisions relate to onerous leases which are provided for over the life of the lease.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 16. Deferred taxation

	2014 £m	2013 £m
The elements of deferred taxation which have been recognised as assets in the balance sheet are as follows:		
Accelerated capital allowances	944.2	1,165.5
Share based payments	(1.2)	(1.1)
Other timing differences	21.5	46.2
	<u>964.5</u>	<u>1,210.6</u>

Deferred tax assets and liabilities have not been discounted.

The movements in the deferred taxation balances were as follows:

	2014 £m	2013 £m
Asset at beginning of year	1,210.6	21.0
Amount (charged)/credited to profit and loss account	(242.8)	157.6
Amount charged to statement of total recognised gains and losses	(3.3)	-
Transferred from group companies	-	1,032.0
Asset at end of year	<u>964.5</u>	<u>1,210.6</u>

A deferred tax asset of £5.4m (2013: £ nil) has not been recognized in respect of tax losses as it is not certain that suitable taxable profits will be available against which these losses could be utilised.

With effect from 1 April 2014 the UK corporation tax rate is 21% and from 1 April 2015 the UK corporation tax rate is 20%. The rate of 20% (2013: 23%) has been used to calculate the above deferred tax asset, with an adjustment being made for the expected movement in asset at the 21% rate during the year ended 31 March 2015. An amount of £138.4m was charged to the profit and loss account in respect of this rate reduction.

**VODAFONE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**FOR THE YEAR ENDED 31 MARCH 2014**

**17. Called-up share capital**

	2014 £	2013 £
Allotted, issued and fully paid:		
1,400 ordinary shares of £1 each	1,400	1,400

**18. Share-based payment reserve**

	£m
Balance at 1 April 2013	(6.1)
Credit to equity for Share-Based Payments	12.5
Payments in the year in respect of vestings	(14.3)
Balance at 31 March 2014	(7.9)



# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 19. Reserves

	Share Premium Account £m	Profit & Loss Account £m
Balance at 1 April 2013	2,605.2	64.4
Loss for the financial year	-	(451.9)
Actuarial gain on the value of defined benefit retirement plans	-	79.0
Effect of pension asset limit	-	(62.5)
Deferred tax attributable to statement of total recognised gains and losses	-	(3.3)
Balance at 31 March 2014	<u>2,605.2</u>	<u>(374.3)</u>

#### 20. Capital commitments

	2014 £m	2013 £m
Contracted for but not provided	<u>114.6</u>	<u>172.7</u>

#### 21. Operating leases

Annual commitments under non-cancellable operating leases expiring are as follows:

	2014	2014	2013	2013
	Land and Buildings £m	Other Assets £m	Land and Buildings £m	Other Assets £m
In respect of leases expiring:				
Within one year	13.4	16.4	14.3	14.9
Between two to five years	34.0	12.4	37.9	18.0
After five years	<u>35.1</u>	<u>20.6</u>	<u>37.8</u>	<u>2.0</u>
	<u>82.5</u>	<u>49.4</u>	<u>90.0</u>	<u>34.9</u>

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2014

#### **22. Share-based payments**

The Company currently uses a number of equity-settled share plans to grant options and shares in Vodafone Group Plc, the ultimate parent of the Company, to its directors and employees.

The Company has applied the exemption permitted by FRS 20 that allows the measurement of this expense to be calculated only on share awards and share options granted after 7 November 2002. FRS 20 requires that equity-settled share-based payments issued to the Company's employees are measured at fair value and that this value is expensed over the vesting period.

##### Share options

##### Vodafone Group executive plans

No share options have been granted to any directors or employees under the Company's discretionary share option plans in the year ended 31 March 2014.

There are options outstanding under two plans: the Vodafone Group 1998 Company Share Option Scheme (which is UK HM Revenue and Customs approved) and the Vodafone Group 1998 Executive Share Option Scheme (which is unapproved).

The Vodafone Group 1999 Long-Term Stock Incentive Plan and the Vodafone Global Incentive Plan are discretionary plans under which both share option grants and share awards may be made.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 22. Share-based payments (continued)

##### Vodafone Group Sharesave Plan

The Vodafone Group 2008 Sharesave Plan and its predecessor, the Vodafone Group 1998 Sharesave Scheme enables UK staff to acquire shares of Vodafone Group Plc through monthly savings of up to £250 over a three or five year period, at the end of which they also receive a tax free bonus. The savings and bonus may then be used to purchase shares at the option price, which is set at the beginning of the invitation period and usually at a discount of 20% to the then prevailing market price of Vodafone Group Plc's shares.

##### Share plans

##### Vodafone Group executive plans

Under the Vodafone Global Incentive Plan awards of shares are granted to directors and certain employees. The release of these shares is conditional upon continued employment and for some awards achievement of certain performance targets measured over a three year period.

##### Vodafone Share Incentive Plan

The Vodafone Share Incentive Plan enables staff to acquire shares in Vodafone Group Plc through monthly purchases of up to £125 per month or 5% of salary, whichever is lower. For each share purchased by the employee, the Vodafone Group Plc provides a free matching share.

##### Movements in ordinary share options

	<u>2014</u>		<u>2013</u>	
	Options millions	Weighted average exercise price £	Options millions	Weighted average exercise price £
1 April	12.5	1.30	17.6	1.14
Granted during the year	8.6	1.49	4.3	1.44
Forfeited during the year	(0.4)	1.36	(0.4)	1.19
Exercised during the year	(3.0)	1.19	(7.3)	1.05
Expired during the year	(1.3)	1.38	(1.7)	1.10
31 March	<u>16.4</u>	<u>1.41</u>	<u>12.5</u>	<u>1.30</u>

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 22. Share-based payments (continued)

##### Summary of options outstanding at 31 March:

	<u>2014</u>		<u>2013</u>	
	Options millions	Weighted average remaining contractual life Months	Options millions	Weighted average remaining contractual life Months
Vodafone Group Savings Related and Sharesave Scheme				
Exercise Price:				
£0.01 - £1.00	1.3	5	1.5	23
£1.01 - £2.00	13.9	30	8.5	30
	<u>15.2</u>		<u>10.0</u>	
Vodafone Group 1999 Long Term Stock Incentive Plan				
Exercise Price:				
£1.01 - £2.00	1.2	15	2.5	27
	<u>1.2</u>		<u>2.5</u>	
31 March	<u>16.4</u>		<u>12.5</u>	

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 22. Share-based payments (continued)

Of the total outstanding share options at year end of 16.4m (2013: 12.5m), the total exercisable was 1.3m (2013: 2.5m) at a weighted average exercise price of £1.58 (2013: £1.42).

The average share price in the year was £2.12 (2013: £1.73), and the weighted average grant-date fair value of options granted was £0.29 (2013: £0.23).

#### Fair value of ordinary share options granted in the year

	2014	2013
Expected life of option (years)	3-5	3-5
Expected share price volatility	22.5-22.4%	22.9-23.8%
Dividend yield	5.0%	7.49%
Risk free rates	0.4-0.7%	0.1-0.5%
Exercise price	£1.49	£1.45

The fair value of the options is estimated at the date of grant using a lattice-based option valuation model (i.e. binomial model) that uses the assumptions noted in the above table. Lattice-based option valuation models incorporate ranges of assumptions for inputs and those ranges are disclosed above. The executive options have a market-based performance condition attached.

Vodafone Group Plc uses historical data to estimate option exercise and employee termination within the valuation model. The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different behaviour. Expected volatilities are based on implied volatilities as determined by a simple average of no less than three international banks excluding the highest and lowest numbers. The risk-free rates for periods within the contractual life of the option are based on the UK gilt yield in effect at the time of grant.

The expense recognised in the period arising from transactions accounted for as equity-settled share-based payment transactions is £12.5m (2013: £10.1m). The total share-based payment reserve is a deficit of £7.9m (2013: £6.1m deficit).

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2014

#### 23. Pensions

Many of the employees of the Company are members of the Vodafone Group Pension Scheme (the "Scheme"), operated by Vodafone Group Plc, the ultimate parent company of Vodafone Limited. This is a registered defined benefit scheme, the assets of which are held in an external trustee-administered fund. On 31 March 2010 the Company closed the scheme to future accrual. In addition, there is an internally funded unapproved defined benefit plan in place for a small number of former senior executives. The pension cost for these defined benefit arrangements is included in the summary information shown below.

The Company also operates a registered defined contribution arrangement (the Vodafone UK Defined Contribution Pension Plan) which all new employees are eligible to join together with main scheme members from 31 March 2010.

On 31 March 2013 the company received certain trade and net assets from group companies, including Cable and Wireless UK, as part of a group legal entity rationalisation. Included in this transfer were the assets and liabilities of various Cable and Wireless UK defined benefit pension schemes. The company also took on the operation of the former Cable and Wireless UK defined contribution scheme.

On 30 November 2013 the Cable & Wireless Worldwide Retirement Plan (CWWRP) was closed to future accrual; members of the CWWRP were invited to join the Vodafone UK Defined Contribution Pension Plan. The THUS Group plc Pension Scheme was also closed to future accrual for certain members, who were similarly invited to join the Vodafone UK Defined Contribution Pension Plan.

A description of these schemes is set out below:

##### Vodafone Group PLC Scheme

The main scheme is subject to quarterly funding updates by independent actuaries and to formal actuarial valuations at least every three years. As at 31 March 2014 the scheme's assets were valued at £1,343m, and its liabilities at £1,677m. This represents a funding ratio of 80% and a deficit of £334m.

As the main scheme closed to future accrual from 31 March 2010 there have been no further ongoing contributions. The funding position on an FRS 17 basis was calculated to be a deficit of £329m (2013:£318m) representing a funding ratio of 80% at 31 March 2014 (2013: 81%). The company made contributions to amend this position after the balance sheet date. See note 27 for further details.

##### Cable & Wireless Worldwide Retirement Plan

The Cable & Wireless Worldwide Retirement Plan (CWWRP) provides defined benefit and defined contribution arrangements for current and former employees of Cable & Wireless UK. The CWWRP has been closed to new defined benefit members since its inception in 2010. No new defined benefit members have entered the predecessor scheme (Cable & Wireless Superannuation Fund), from which the CWWRP was established since 1998.

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2014**

**23. Pensions (continued)**

Other schemes

The Company operates the THUS Group plc Pension Scheme and two further small schemes.

The following disclosures are made in accordance with FRS 17.

The Vodafone Group Pension Scheme covers a number of UK-based employers within the Vodafone Group. Individual companies' contributions, including the impact of any surplus or deficit overall within the scheme, are set at a common level as a percentage of the pensionable payroll of each individual employer, and do not depend upon that employer's share of any such surplus or deficit. As a result it is not possible for Vodafone Limited to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. Accordingly as permitted by FRS 17, the Company accounted for contributions to the scheme as if it were a defined contribution scheme. The full disclosures in respect of the defined benefit scheme are available in the Vodafone Group plc financial statements.

The Company did not make any contributions for the deficit correction for the Scheme in the year (2013: £5.5m).

The funding policy for the UK scheme is reviewed on a systematic basis in consultation with the independent scheme actuary in order to ensure that the funding contributions from sponsoring employers are appropriate to meet the liabilities of the scheme over the long term.

Defined contribution pension costs charged to the profit and loss account were £22.9m (2013: £25.6m). There was no amount accrued but not paid in respect of pension schemes at 31 March 2014 (2013: £0.1m).

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 23. Pensions (continued)

##### FRS 17 valuation – CWWRP and other schemes

FRS 17 valuations of the defined benefit pension schemes operated by the Company have been updated to 31 March 2014 by qualified independent actuaries, Mercer LLP.

	2014				2013			
	CWWRP		THUS and other		CWWRP		THUS and other	
	Assets £m	Assumption %	Assets £m	Assumption %	Assets £m	Assumption %	Assets £m	Assumption %
RPI Inflation		3.45		3.45		3.45		3.45
CPI Inflation		2.45		2.45		2.45		2.45
Salary increases		3.95		3.95		3.95		3.95
Pension increases		3.30 - 3.45		3.30 - 3.45		2.15 - 3.45		3.45
Discount rate		4.35 - 4.40		4.35 - 4.40		4.35		4.35
Long term expected rate of return on assets								
Equity instruments	646.1	7.55	79.7	4.4	598.6	-	87.7	-
Debt instruments	430.8	3.53	47.9	4.4	418.3	-	38.6	-
Property	17.9	7.55	6.8	4.4	31.3	-	0.2	-
Cash and swaps	700.0	4.12	1.5	4.4	778.7	-	2.0	-
	<b>1,794.8</b>		<b>135.9</b>		<b>1,826.9</b>		<b>128.5</b>	

The assumptions regarding mortality in retirement for the CWWRP as at 31 March 2014 use the S1NA tables with a -1.0 year age rating, subject to improvements in line with the CMI 2009 projections with a long term rate of improvement of 1.5% per annum for both males and females.

Based on these assumptions, the life expectancy of pensioners aged 65 are as follows:

	On 31 March 2014	On 31 March 2039
Male	24.3	27.0
Female	25.7	28.6

A one year increase in the life expectancy assumptions would have increased the CWWRP liabilities by approximately £41m as at 31 March 2014. A 0.5% per annum decrease in the discount rate used to value the scheme liabilities would have increased the liabilities by around £205m.



# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2014

### 23. Pensions (continued)

The assets and liabilities of the defined benefit pension schemes are presented below:

	CWWRP THUS & Other pension schemes		TOTAL
	£m	£m	£m
Total market value of assets	1,794.8	135.9	1,930.7
Present value of scheme liabilities	(1,732.3)	(142.9)	(1,875.2)
Excess of liabilities of funded obligations	62.5	(7.0)	55.5
Present value of unfunded obligations	-	(3.1)	(3.1)
Derecognition of plan asset	(62.5)	-	(62.5)
<b>Net pension deficit</b>	-	(10.1)	(10.1)

Changes in the present value of scheme liabilities are as follows:

	2014			2013		
	CWWRP	THUS & Other	Total	CWWRP	THUS & Other	Total
	£m	£m	£m	£m	£m	£m
Opening scheme liabilities	1,874.0	146.9	2,020.9	-	-	-
Service cost	8.0	2.1	4.1	-	-	-
Interest cost	80.8	6.2	87.0	-	-	-
Actuarial gain	(176.0)	(4.4)	(180.4)	-	-	-
Employee contributions	0.3	0.4	0.7	-	-	-
Benefits paid	(35.3)	(2.3)	(37.6)	-	-	-
Expenses paid	(2.5)	-	(2.5)	-	-	-
Plan curtailments	(17.0)	(6.0)	(17.0)	-	-	-
Liabilities transferred from group undertakings	-	-	-	1,874.0	146.9	2,020.9
Closing scheme liabilities	1,732.3	142.9	1,875.2	1,874.0	146.9	2,020.9

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 23. Pensions (continued)

Changes in fair value of scheme assets are as follows:

	2014			2013		
	CWWRP	THUS & Other	Total	CWWRP	THUS & Other	Total
	£m	£m	£m	£m	£m	£m
Opening scheme assets	1,826.9	128.5	1,955.4	-	-	-
Expected return on plan assets	90.7	5.5	96.2	-	-	-
Actuarial (loss)/gain	(104.2)	2.8	(101.4)	-	-	-
Employee contributions	0.3	0.4	0.7	-	-	-
Benefits paid	(35.3)	(2.3)	(37.6)	-	-	-
Employer contributions	18.9	1.6	20.5	-	-	-
Expenses paid	(2.5)	(0.6)	(3.1)	-	-	-
Assets transferred from group undertakings	-	-	-	1,826.9	128.5	1,955.4
Closing scheme assets	1,794.8	135.9	1,930.7	1,826.9	128.5	1,955.4

Amounts recognised in the profit and loss account are as follows:

	2014			2013		
	CWWRP	THUS & Other	Total	CWWRP	THUS & Other	Total
	£m	£m	£m	£m	£m	£m
Current service cost	(8.0)	(2.1)	(4.1)	-	-	-
Interest cost	(80.8)	(6.2)	(87.0)	-	-	-
Expected return on plan assets	90.7	5.5	96.2	-	-	-
Curtailment gain recognised	17.0	6.0	17.0	-	-	-
Total net credit	18.9	3.2	22.1	-	-	-

The best estimate of contributions for the year ended 31 March 2015 is:

	CWWRP	THUS & Other
Employer contributions	40.0	0.7
Employee contributions	-	0.1

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 23. Pensions (continued)

Experience gains for the year are as follows:

	2013/14	2012/13	2011/12	2010/11	2009/10
	£m	£m	£m	£m	£m
Scheme liabilities	(1,875.2)	(2,020.9)	-	-	-
Scheme assets	1,930.7	1,955.4	-	-	-
Present value of unfunded obligations	(3.1)	(2.9)	-	-	-
Derecognition of scheme asset	(62.5)	-	-	-	-
Pension deficit	(10.1)	(68.4)	-	-	-
Experience (losses)/gains on scheme liabilities	(104.1)	-	-	-	-
Experience gains/(losses) on scheme assets	(76.7)	-	-	-	-

Actual return on plan assets was a loss of £5.2m (2013: nil).

Net actuarial gains of £79.0 million (2013: nil) have been recognised directly in equity and are presented in the statement of recognised gains and losses.

#### 24. Financial risk management

The Company follows Group policy to manage its financial risks which include liquidity risk, market risk (interest rate management and foreign exchange management) and credit risk. The Group's treasury function provides a centralised service to the Group, and follows a framework of policies and guidelines authorised and reviewed annually by the Group's management.

There has been no significant change during the financial year to the types of financial risks faced by the Company, or the Company's approach to the management of those risks.

Further details of the Group's policies can be found in the Annual Report and Financial Statements of Vodafone Group Plc for the year ended 31 March 2014, which does not form part of this report.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 25. Related party disclosures

The Company has taken advantage of the exemption granted by paragraph 3(c) of FRS 8, Related Party Disclosures, not to disclose transactions with Vodafone Group Plc group companies. Transactions with companies which are not wholly owned subsidiaries in the Vodafone Group Plc group are as follows:

	Cornerstone Telecommunications Infrastructure Limited	Weve Limited	Mobile By Sainsbury's Limited
	£'000	£'000	£'000
Sales to related party	-	1,016	1,660
Purchases from related party	143,276	89	-
Amounts due from related party as at 31 March 2014	47,928	-	1,199
Amounts payable to related party as at 31 March 2014	43,596	-	-

#### 26. Ultimate parent company

The immediate parent company of Vodafone Limited, company number 01471587, is Vodafone Mobile Network Limited, a company registered in England and Wales. The ultimate parent company and controlling entity of Vodafone Limited, and the smallest and largest Group which prepares consolidated financial statements and of which the Company forms a part, is Vodafone Group Plc, a company registered in England and Wales.

A copy of the financial statements of Vodafone Group Plc for the year ended 31 March 2014 may be obtained from the company's website [www.vodafone.com](http://www.vodafone.com) or from The Company Secretary, Vodafone Group Plc, Vodafone House, The Connection, Newbury, Berkshire, RG14 2FN, England.

#### 27. Post Balance Sheet Events

On 1 April 2014 the Company made special one-off contributions of £325 million payable into the Vodafone UK plan and £40 million into the CWWRP in April 2014. These one-off contributions represent accelerated funding amounts that would have been due for each scheme over the period to 31 March 2020.

On 15th September 2014, Phones4u, a significant dealer selling phones and arranging connections to the Company's network, entered administration. The Company has agreed with the administrator to take on 140 of the Phones4u stores together with the store employees. There was no financial impact of this event on the accounts of the Company for the year ended 31 March 2014.