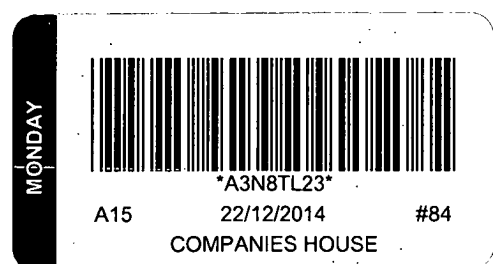


**VODAFONE SALES & SERVICES LIMITED**

**Company No: 06844137**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 March 2014**



**VODAFONE SALES & SERVICES LIMITED**  
**Company No: 06844137**

**STRATEGIC REPORT**

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

Vodafone Sales and Services Limited ("the Company") is a wholly owned Subsidiary of Vodafone Group Plc.

The Company's financial performance is mainly influenced by the services it provides to other Vodafone companies, associates and partners of the Vodafone Group.

The activities of the company are focussed on 4 main areas, namely Partner Markets, the Vodafone brand, Vodafone Money Transfer (M-Pesa) and Consumer Services.

The company works with local markets worldwide to understand our customers; develop, agree and execute activities; build the Vodafone brand; bring new products and services to market; simplify how we work; unlock efficiency and drive value for our customers.

Partner Markets has been operating for more than ten years and operates through strategic alliances with local mobile network operators to expand Vodafone's reach in geographies where it does not have operating companies. Our Partner Markets agreements vary from full Vodafone branding arrangements through to product branding, roaming and service resale agreements. Our partnerships provide our customers with simple and reliable connectivity when roaming, with access to familiar Vodafone services worldwide. It also provides our partners with access to Vodafone's scale in procurement and enterprise sales, as well as best practice and product innovation. As at 31 March 2014, the division had relationships with 31 Partner Markets that operated in 48 countries.

The Company continues to generate revenue through partnership agreements with local mobile operators for access to Vodafone Group products, services and our brand portfolio. The partnership enables a range of our global products and services to be marketed in that operator's territory. Under the terms of these partner market agreements we cooperate with our partners in the development and marketing of certain services and products. Partner Market revenues increased by 9% year on year in the year ended 31 March 2014 reflecting the impact of new partner market agreements entered into and improved market conditions. The Group continues to see Partner Markets as a key element of its global service strategy.

The company has the right to utilize the Vodafone brand rights around the world, and receives a return on these rights from the Group operating companies based upon revenues earned by these Vodafone companies.

Our brand strategy is about building a strong, coherent brand globally: one brand, united behind a single idea. The value of the Vodafone brand is focussed on delivering value to the customer through network performance that enables them to be confidently connected, an unmatched customer experience across all touch points and Integrated worry free solutions that meet our customer's communication needs. The company drives brand awareness and seeks to ensure that the Vodafone brand provides our customers both great innovations and incredible value.

The Company is responsible for the licensing of the brand to operating companies, affiliates and partner networks of the Vodafone Group. Turnover is derived from a royalty on the revenues of those businesses to whom it has licensed the use of the Vodafone brand.

Brand revenues earned by the company decreased by 4% year on year reflecting the impact of reduced service revenues reported in some Vodafone Group's operating companies to which the company charges brand fees.

## **VODAFONE SALES & SERVICES LIMITED**

**Company No: 06844137**

### **STRATEGIC REPORT (continued)**

Consumer Services manages Vodafone's portfolio of specialist new mobile business services (such as Vouchercloud, analytics and more) and important consumer services such as Cloud, mobile wallet and mobile money transfer including our hugely successful and popular M-PESA programme, which has revolutionised small business and local commerce in a number of developing markets since its launch in East Africa and other mobile applications. Consumer Services is also responsible for Vodafone roaming strategy, making it easy for our customers to take their mobile services with them overseas.

The Company provides services in relation to mobile money transfer to companies in the Vodafone Group and associated partners. The turnover element of this business unit is derived mainly from charges for software, hosting and support services. It also manages the operation and sale of mobile applications. Turnover for this business unit is derived from charges made to other companies in the Vodafone Group, who sell mobile applications to their Revenues earned from mobile money transfers and other mobile applications increased by 20% in the year.

#### **Results**

The profit and loss account is set out on page 10 of the financial statements. For the year ended 31 March 2014 the Company recorded a profit on ordinary activities after taxation of €160 million (2013: profit of €173 million). The Company generated €677 million of revenues in the year which are analysed in note 2 to the accounts (2013: €677 million) and incurred costs of €459 million (2013: €452 million).

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

The Balance Sheet on page 12 of the financial statements shows the Company's financial position at the end of the year.

The Company had creditors of €146 million at 31 March 2014 (2013: €139 million), € 76 million of which was due to group companies, and debtors of €731 million (2013: €577 million). Debtors primarily consisted of €601 million of deposits with its parent undertaking (2013: €467 million). The net current asset position of the company increased from €438 million at 31 March 2013 to €585 million at 31 March 2014 reflecting the impact of the profits earned in the year.

For further details of amounts payable to and due from the parent company and fellow subsidiary undertakings see notes 11 and 12 of the financial statements.

The directors are of the opinion that the company's activities will continue on a similar basis for the foreseeable future.

**VODAFONE SALES & SERVICES LIMITED**  
**Company No: 06844137**

**STRATEGIC REPORT (continued)**

**Other key performance indicators**

Vodafone Group Plc includes within its Annual Report a detailed review of the results of operations and financial performance. As the Company's activities are directly and largely related to the provision of central management, technical and administrative and other key services to the Vodafone Group, the Company's directors believe that further key performance indicators are not necessary or appropriate for an understanding of the development or position of the business.

**Principal risks and uncertainties**

The Company's financial performance is mainly influenced by the services it provides to other Vodafone companies, associates and partners of the Vodafone Group.

The Company's principal business risks in relation to partner market activities include the ability of the Company to enter into new agreements or renew existing agreements with partners, the pricing thereof, and the ability of the Company to continue to provide services that are attractive to the Company's partners.

For its mobile money transfer services, the Company's principal business risks relate to any change in the strategy of the Vodafone Group or its partners in relation to the promotion of activities described above, the extent of use by their customers of mobile technology for the purposes of conducting money transfers and other services, and the development and availability to consumers of alternative technologies.

The key risk facing the Company in relation to its brand activities is that existing licensees of the Vodafone brand will cancel their brand licensing agreements and adopt an alternative brand (for example as the result of the termination of a partner network agreement between Vodafone Group Plc and an existing licensee, or the disposal of a Vodafone Group company). This activity is also subject to the business performance of the licensees (as the brand revenues are linked to it) and to revisions in the pricing of such licenses e.g. as a result of a tax dispute.

After reviewing the Company's budget for the next financial year, 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.

Business risks relating to the Group are disclosed in the Annual Report of Vodafone Group Plc for the year ended 31 March 2014, which does not form part of these financial statements.

**VODAFONE SALES & SERVICES LIMITED**  
**Company No: 06844137**

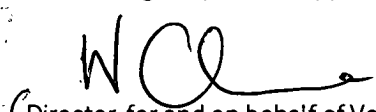
**STRATEGIC REPORT (continued)**

**Employees**

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

Every year all our employees participate in our Global People Survey which allows us to measure engagement trends and identify ways to improve how we do things. Consultation with employees takes place at all levels, to ensure that their views are taken into account when decisions are made that are likely to affect their interests and to ensure employees are aware of the financial and economic performance of their business area and the Group as a whole. Communication with all employees is regular including weekly bulletins, regular briefing groups and the sharing of quarterly financial performance.

The Strategic report was approved by the Board on 18 December 2014 and signed on its behalf by:

  
Winifred Chime  
(Director, for and on behalf of Vodafone Corporate Secretaries Limited)  
Company Secretary

**VODAFONE SALES & SERVICES LIMITED**  
**Company No: 06844137**

**DIRECTORS' REPORT**

The directors submit their annual report and audited financial statements for the year ended 31 March 2014.

**Future Developments**

Details of the business' activities are set out in the Strategic Report.

**Going concern**

The directors have a reasonable expectation that the Company has adequate resources to continue to operate in the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the annual financial statements.

**Financial risk management**

The Company follows Group policy to manage its principal 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 treasury service to the Company, and follows a framework of policies and guidelines authorised and reviewed annually by the Group's management.

The Group's internal auditors review the internal control environment regularly. 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.

**Directors**

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

	<b>Appointed</b>	<b>Resigned</b>
H Lamprell		6 February 2014
M Joseph		
R Takkar		31 March 2014
S Gastaut	11 April 2014	
B Haase		
S Parisse		
P Kerry	6 February 2014	
J Henriques		
R Mohindra	19 September 2014	

**VODAFONE SALES & SERVICES LIMITED**  
**Company No: 06844137**

**DIRECTORS' REPORT (continued)**

**Auditor**

Following the approval and signing of these financial statements, Pricewaterhouse Coopers LLP will be appointed as auditors for the 2015 financial year

**Registered office**

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

**Directors' responsibilities statement**

The directors are responsible for preparing the annual report and the 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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.

**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 financial 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 SALES & SERVICES LIMITED**  
**Company No: 06844137**

**DIRECTORS' REPORT (continued)**

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

Having made the requisite enquiries, so far as each of the directors is aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware, and each of the directors has 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 18 December 2014 and signed on its behalf by:



Winifred  
Chime

(Director, for and on behalf of Vodafone Corporate Secretaries Limited)  
Company Secretary



**INDEPENDENT AUDITOR'S REPORT**  
**TO THE MEMBERS OF**  
**VODAFONE SALES & SERVICES LIMITED**

We have audited the financial statements of Vodafone Sales & Services 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 Movement in Shareholder's Funds, the Balance Sheet, and the related notes 1 to 19. 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 in more detail in the Directors' responsibilities statement, 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 (APB'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 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 for our report.

**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF**  
**VODAFONE SALES & SERVICES LIMITED (continued)**

**Opinion on the 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 profit 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 Strategic Report and the Directors' 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.

18 December 2014

**VODAFONE SALES & SERVICES LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 MARCH 2014**

	<b>Note</b>	<b>2014</b> <b>€'000</b>	<b>2013</b> <b>€'000</b>
<b>TURNOVER</b>	<b>2</b>	<b>677,314</b>	<b>677,096</b>
Cost of sales		(458,830)	(452,464)
<b>GROSS PROFIT</b>		<b>218,484</b>	<b>224,632</b>
Other operating expense		(232)	(278)
<b>OPERATING PROFIT</b>	<b>3</b>	<b>218,252</b>	<b>224,354</b>
Interest receivable	<b>6</b>	779	1,022
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>219,031</b>	<b>225,376</b>
Tax charge on profit on ordinary activities	<b>7</b>	(58,710)	(52,710)
<b>PROFIT FOR THE YEAR</b>	<b>14</b>	<b>160,321</b>	<b>172,666</b>

The Company's results are derived from continuing operations.

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

**VODAFONE SALES & SERVICES LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 €'000	2013 €'000
Profit for the year		160,321	172,666
Profits on hedged items taken to equity (net of deferred taxation charge of €82,253 (2013: €155,000 charge))	17,14	275	474
Total recognised gains for the year		<u>160,596</u>	<u>173,140</u>

**RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS**  
**FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 €'000	2013 €'000
Opening shareholder's funds		477,890	104,637
Total recognised gains for the year		160,596	173,140
Proceeds from parent company in relation to the issue of new shares		-	200,000
Capital contribution – in respect of equity-settled share-based awards contribution from parent company in relation to share-based payments	14	196	305
Capital repayment – cash payments to parent company in respect of equity-settled share-based payments		-	(192)
Closing shareholder's funds		<u>638,682</u>	<u>477,890</u>

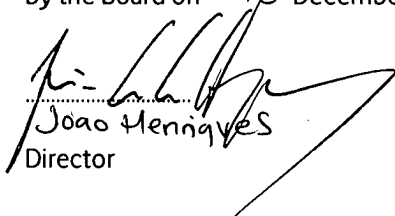
**VODAFONE SALES & SERVICES LIMITED**  
Company No: 06844137

**BALANCE SHEET**

**AS AT 31 MARCH 2014**

	Note	2014 €'000	2013 €'000
<b>FIXED ASSETS</b>			
Tangible assets	9	26,617	17,990
Investments	10	27,466	22,150
		<u>54,083</u>	<u>40,140</u>
<b>CURRENT ASSETS</b>			
Debtors	11	731,096	576,782
<b>CREDITORS:</b>			
amounts falling due within one year	12	(146,497)	(139,032)
<b>NET CURRENT ASSETS</b>		<u>584,599</u>	<u>437,750</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>638,682</u>	<u>477,890</u>
<b>NET ASSETS</b>		<u>638,682</u>	<u>477,890</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	13	-	-
Share premium account	14	250,000	250,000
Profit and loss account	14	388,231	227,910
Cash flow hedge reserve	14	(2)	(277)
Share-based payment reserve	14	453	257
<b>TOTAL SHAREHOLDER'S FUNDS</b>		<u>638,682</u>	<u>477,890</u>

The financial statements of Vodafone Sales & Services Limited (registered number 06844137) were approved by the Board on 18 December 2014 and were authorised for issue and signed on its behalf by:

  
Joao Henriques  
Director

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

## **VODAFONE SALES & SERVICES LIMITED**

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

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

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

The particular accounting policies adopted are described below. The accounting policies have been applied on a consistent basis during the current and preceding year.

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

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

The financial statements are prepared in euros as this is the most appropriate functional currency for the Company's operations.

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 has taken advantage of the Financial Reporting Standard ("FRS") 2 exemption to produce consolidated group financial statements.

##### **Turnover**

Turnover is recognised to the extent the Company has rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Turnover is measured at the fair value of the consideration received, excluding value added tax.

Brand revenues are recognised in respect of amounts billed to group companies for services provided during the period 1 April 2013 to 31 March 2014.

Partner Markets revenues are recognised based upon services provided to customers through strategic partners including mobile operators.

Mobile Applications service revenues are recognised on the basis of services provided during the period 1 April 2013 to 31 March 2014.

##### **Foreign currencies**

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of those transactions, adjusted for the effects of any hedging arrangements. Foreign currency monetary assets and liabilities are translated into euros at the year end rates with translation differences dealt with in the profit and loss account.

**VODAFONE SALES & SERVICES 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-based awards to some of the Company's employees. Equity-settled share-based awards 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 awards 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 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.

**Cash flow statement**

In accordance with the provisions of Financial Reporting Standard ("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 publicly available consolidated financial statements that include a consolidated cash flow statement, and which are publicly available.

**Pension costs**

The Vodafone Group Pension Scheme covers a number of UK-based employers within the 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 does not depend upon that employer's share of any such surplus or deficit.

As a result it is not possible for Vodafone Sales & Services 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 has accounted for contributions to the scheme as if it were a defined contribution scheme. The amount charged to the Company's profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## **VODAFONE SALES & SERVICES LIMITED**

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

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

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

###### **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 by 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 current tax rates and laws that are 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 years different from those 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.

###### **Investments**

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value. Earned income from the disposal of an investment is recognised when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

At each balance sheet date, the Company reviews the carrying amounts of its investments to determine whether there is any indication that those investments have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the investment is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account.

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

Tangible fixed assets are stated at cost, less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible assets at a rate calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer hardware, software and licences	2 - 5 years
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Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.



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

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

**Derivative financial instruments and hedge accounting**

The Company provides centralised functions on behalf of Vodafone Group and recharges service costs to the Group's subsidiaries. This activity exposes the Company to the financial risks of changes in foreign exchange rates. The Company co-ordinates and manages the related foreign exchange risk using foreign exchange forward and swap derivatives.

The use of foreign exchange forward and swap derivatives is governed by Vodafone Group Plc's policies approved by its board of directors, which provide written principles on the use of financial derivatives consistent with Vodafone Group Plc's risk management strategy.

In accordance with Financial Reporting Standard ("FRS") 26, Financial Instruments: Recognition and Measurement, derivative financial instruments are initially measured at fair value on the contract date, and are subsequently re-measured to fair value at each reporting date. The Company uses cash flow hedge accounting to minimise profit and loss volatility on foreign exchange forward and swap derivatives.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item affects profit or loss.

When a hedging instrument matures or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The directors have elected to take the exemption from the disclosure requirements of FRS 29 Financial Instruments: Disclosures, on the basis that the Company is a wholly owned subsidiary included within the publicly available consolidated financial statements of Vodafone Group Plc, which includes the disclosure requirements of FRS 29.

# VODAFONE SALES & SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 2. Turnover

All turnover originated within the UK. Turnover, by country of destination, is as follows:

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
United Kingdom	6,771	43,584
Rest of Europe	413,532	417,214
Rest of the World	257,011	216,298
<b>TOTAL</b>	<b>677,314</b>	<b>677,096</b>

Turnover by business unit is as follows:

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Brand	487,203	506,271
Partner Markets	152,918	139,608
Mobile money transfer	33,585	29,002
Mobile applications	3,608	2,215
<b>TOTAL</b>	<b>677,314</b>	<b>677,096</b>

#### 3. Operating profit

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Depreciation of tangible fixed assets	7,909	8,881
Auditor's remuneration - audit of the financial statements	12	11
Loss on disposal of tangible fixed assets	-	1,108
Foreign exchange (gain) / loss	232	(278)

## VODAFONE SALES & SERVICES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2014

##### 4. Employees

The average monthly number of employees, including directors, during the year was 93 (2013: 82). All employees are engaged in the provision of services to other Group companies and third parties.

The cost incurred in respect of these employees:

	2014 €'000	2013 €'000
Wages and salaries	9,664	10,118
Social security costs	2,450	1,398
Pension - normal contributions (see note 15)	887	918
	<u>13,001</u>	<u>12,434</u>

The Company incurred recharges of staff costs from other Vodafone Group companies for employees of the Vodafone Group totalling €2,321,000 (2013: €9,968,000). Employee costs have been amended for 2013.

##### 5. Directors

The directors are employees of other companies within the Vodafone Group Plc group of companies. It is not practical to allocate their remuneration between their services to other companies and their services as directors of the Company.

##### 6. Interest receivable

	2014 €'000	2013 €'000
Interest receivable and similar income	<u>779</u>	<u>1,022</u>

**VODAFONE SALES & SERVICES LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2014**

**7. Tax charge on profit on ordinary activities**

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
United Kingdom corporation tax charge at 23% (2013: 24%)	49,074	54,218
Double tax relief	(20,373)	(25,270)
Adjustments in respect of prior years	1,320	(6,531)
Overseas tax charge	29,122	31,339
Total current tax charge	59,143	53,756
Deferred taxation credit - origination and reversal of timing differences	(433)	(1,046)
Total tax charge	58,710	52,710

The standard rate of tax for the financial year, based on the UK standard rate of corporation tax, is 23 % (2013: 24 %).

The actual tax charge for the current and previous years differs from the current tax charge at the standard rate for the reasons set out in the following reconciliation:

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Profit on ordinary activities before tax	219,031	225,376
Tax charge on profit on ordinary activities before tax at standard rate of 23% (2013: 24%)	50,377	54,090
Accelerated capital allowances	74	1,110
Short-term timing differences	42	51
Foreign tax	29,122	31,339
Relief for overseas tax	(20,373)	(25,270)
Expenditure not deductible for tax purposes and other items	(1,419)	(1,033)
Adjustments in respect of prior years	1,320	(6,531)
Current tax charge for the year	59,143	53,756

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

**8. Deferred Tax**

The following elements of deferred taxation are provided within the balance sheet as current assets:

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Accelerated capital allowances	1,830	2,045
Share-based payments	90	82
Other timing differences	640	83
Deferred tax asset (note 11)	<u>2,560</u>	<u>2,210</u>

With effect from 1 April 2014 the UK corporation tax rate is 21%, and from 1 April 2015 the UK corporation tax rate will be 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 the asset at the 21% rate during the year ended 31 March 2015.

An amount of €363,213 was charged to the profit and loss account in respect of this rate reduction.

Deferred tax assets and liabilities have not been discounted. The movement in the deferred taxation balances are as follows:

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Opening deferred tax asset	2,210	1,319
Amount credited/(charged) to profit and loss account prior year	704	1,069
Amount (charged)/credited to profit and loss account current year	(271)	(23)
Amount charged to statement of total recognised gains and losses	<u>(83)</u>	<u>(155)</u>
Closing deferred tax asset	<u>2,560</u>	<u>2,210</u>

**VODAFONE SALES & SERVICES LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2014**

**9. Tangible fixed assets**

	Computer hardware, software and licences	Assets in the course of construction	Total
	€'000	€'000	€'000
<b>Cost</b>			
1 April 2013	28,733	5,938	34,671
Additions	67	16,469	16,536
Transfers from assets in the course of construction	3,768	(3,768)	-
31 March 2014	32,568	18,639	51,207
<b>Accumulated depreciation</b>			
1 April 2013	16,681	-	16,681
Charge in year	7,909	-	7,909
31 March 2014	24,590	-	24,590
<b>Net book value</b>			
<b>31 March 2014</b>	<b>7,978</b>	<b>18,639</b>	<b>26,617</b>
Net book value			
31 March 2013	12,052	5,938	17,990

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

**10. Investments**

**€'000**

Shares in other fixed asset investments - cost

As at 1 April 2013	22,150
Additions	5,316
<b>As at 31 March, 2014</b>	<b>27,466</b>

During the financial year 31 March 2014 Vodafone Sales & Services Limited participated in a capital injection of €5.3m in Invitation Digital Limited increasing its stake to 71.06%.

The Company had the following investments at 31 March 2014

<b>Company Name</b>	<b>Country of Incorporation or Principal Business Address</b>	<b>Principal Activity</b>	<b>Holding</b>	<b>%</b>
Invitation Digital Limited	UK	Delivery of third party promotions on mobiles and internet	56,991 Preference shares 189,822 Ordinary shares	71.06

**VODAFONE SALES & SERVICES LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2014**

**11. Debtors**

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Debtors	17,426	15,798
Deferred tax (note 8)	2,560	2,210
WHT repayable	1,028	-
Amounts owed by parent undertaking	6,521	-
Amounts owed by fellow subsidiary undertakings	85,513	73,929
Amounts owed by associated undertakings of the Vodafone Group	1,600	1,633
Deposits with parent undertaking	600,754	467,489
Prepayments and accrued income	15,694	15,723
	<u>731,096</u>	<u>576,782</u>

Deferred tax included €526,563 (2013: €1,669,426) which is expected to be recovered after more than one year.

**12. Creditors: amounts falling due within one year**

	<b>2014</b>	<b>2013</b>
	<b>€'000</b>	<b>€'000</b>
Bank overdrafts	105	2,621
Trade creditors	2,789	7,442
Amounts owed to fellow subsidiary undertakings	23,994	69,087
Amounts owed to fellow parent undertaking	52,218	10,690
Amounts owed to associated undertakings	(39)	-
Group relief payable	28,701	22,407
Accruals and deferred income	38,729	26,785
	<u>146,497</u>	<u>139,032</u>



**VODAFONE SALES & SERVICES LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2014**

**13. Called-up share capital**

	<b>2014</b>	<b>2013</b>
	<b>€</b>	<b>€</b>
Allotted, called-up and fully paid:		
10 ordinary shares of €1	<u>10</u>	<u>10</u>

**14. Reserves**

	<b>Share premium account</b>	<b>Profit and loss account</b>	<b>Cash flow hedge reserve</b>	<b>Share- based payment reserve</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
1st April 2013	250,000	227,910	(277)	257
Capital contribution – in respect of equity-settled share-based awards contribution from parent company in relation to share-based awards	-	-	-	196
Total recognised gains for the year	<u>-</u>	<u>160,321</u>	<u>275</u>	<u>-</u>
31 March 2014	<u>250,000</u>	<u>388,231</u>	<u>(2)</u>	<u>453</u>

# VODAFONE SALES & SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

#### 15. Pensions

The Vodafone Group has operated a number of different types of pension schemes for the benefits of its UK employees, which have been provided through defined contribution arrangements. Defined contribution schemes offer employees individual funds that are converted into benefits at the time of retirement.

The total amount charged to the profit and loss account is as follows:

	2014 €'000	2013 €'000
<i>Defined contribution schemes:</i>		
Vodafone UK Defined Contribution Pension Plan		
– normal contributions	887	918
Total amount charged to the profit and loss account (see note 4)	887	918

#### Defined contribution schemes

##### *Vodafone UK Defined Contribution Pension Plan*

The Company operates a registered defined contribution arrangement (the Vodafone UK Defined Contribution Pension Plan) which all employees are eligible to join.

The funded status of the Vodafone Group Pension Scheme is reported at the beginning of this note. The funding policy 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.

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

**16. 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**

**(a) 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 in 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. Invitations to participate in this scheme are usually made annually.

# VODAFONE SALES & SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

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

##### Share Plans

##### (a) Vodafone Share Incentive Plan

The Share Incentive Plan enables UK 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 Company provides a free matching share.

##### (b) Vodafone Group Global AllShares

The AllShares scheme was discontinued from 1 April 2010, so no shares were awarded in the year ended 2014, or the previous year.

#### Movements in ordinary share options outstanding relating to Company employees

	2014		2013	
	Options	Weighted average price	Options	Weighted average price
	million	£	million	£
1 April	0.1	1.28	0.1	1.13
Granted during the year	0.1	1.49	-	1.44
Exercised during the year	-	1.19	-	0.97
Expired during the year	-	-	-	1.25
31 March	0.2	1.33	0.1	1.28

#### Summary of options outstanding at 31 March 2014

	2014		2013	
	Options	Weighted average remaining contractual life	Options	Weighted average remaining contractual life
	million	months	million	months
Vodafone Group Savings Related and Sharesave Scheme:				
£0.01 - £1.00	-		-	35
£1.01 - £2.00	0.2	25	0.1	46
	0.2	25	0.1	44

# VODAFONE SALES & SERVICES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2014

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

Of the total outstanding share options at year end of 0.2 million (2013: 0.1 million), the total exercisable was nil million (2013: nil million).

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

Fair Value	Ordinary Share Options	
	Other 2014	Other 2013
Expected life of option (years)	3-5	3-5
Expected share price volatility	22.4-22.5%	22.9% - 23.8%
Dividend yield	5.00%	7.49%
Risk-free rates	0.4-0.7%	0.1% - 0.5%
Exercise price	£1.49	£1.45

The fair value of options is estimated at the date of grant using a lattice-based option valuation model, which incorporates ranges of assumptions for inputs as disclosed above.

The Group uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes. 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 years within the contractual life of the option are based on the UK gilt yield curve in effect at the time of grant, as the shares are traded in sterling not euros.

The expense recognised in the year arising from transactions accounted for as equity-settled share-based payment transactions is €279,000 (2013: €305,000). The total amount of the share-based payments reserve at 31 March 2014 is €453,000 (2013: €257,000).

## **VODAFONE SALES & SERVICES LIMITED**

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

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

##### **17. Cash flow hedges**

An explanation of the policies for hedge accounting is set out in the Directors' Report and accounting policies note.

There were no open contracts at the year end.

##### **18. Related party disclosures**

The Company is a wholly owned subsidiary of Vodafone Group Plc and 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 or interests of the Group who are related parties.

##### **19. Ultimate parent company**

The immediate and ultimate parent company and controlling entity of Vodafone Sales & Services 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 which is incorporated in United Kingdom and 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.