

VODAFONE GROUP PUBLIC LTD CO

Form 20-F

June 10, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 20-F**

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: March 31, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report: \_\_\_\_\_

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-10086

# VODAFONE GROUP PUBLIC LIMITED COMPANY

*(Exact name of Registrant as specified in its charter)*

**England**

*(Jurisdiction of incorporation or organization)*

**Vodafone House, The Connection, Newbury, Berkshire RG14 2FN, England**

*(Address of principal executive offices)*

**Rosemary Martin (Group General Counsel and Company Secretary)**

**tel +44 (0) 1635 33251, fax +44 (0) 1635 580 857**

**Vodafone House, The Connection, Newbury, Berkshire RG14 2FN, England**

*(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)*

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
See Schedule A	See Schedule A
Securities registered or to be registered pursuant to Section 12(g) of the Act:	

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 20 <sup>20</sup> / US cents each	26,439,960,221
7% Cumulative Fixed Rate Shares of £1 each	50,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

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Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

SCHEDULE A

Title of each class	Name of each exchange on which registered
Ordinary shares of 20 <sup>20</sup> / <sub>21</sub> US cents each American Depositary Shares (evidenced by American Depositary Receipts) each representing ten ordinary shares	NASDAQ Global Select Market* NASDAQ Global Select Market
Floating rate Notes due February 2016	New York Stock Exchange
5.625% Notes due February 2017	New York Stock Exchange
1.625% Notes due March 2017	New York Stock Exchange
1.25% Notes due September 2017	New York Stock Exchange
1.5% Notes due February 2018	New York Stock Exchange
4.625% Notes due July 2018	New York Stock Exchange
5.450% Notes due June 2019	New York Stock Exchange
4.375% Notes due March 2021	New York Stock Exchange
2.5% Notes due September 2022	New York Stock Exchange
2.95% Notes due February 2023	New York Stock Exchange
2.95% Notes due February 2023	New York Stock Exchange
7.875% Notes due February 2030	New York Stock Exchange
6.25% Notes due November 2032	New York Stock Exchange

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6.15% Notes due February 2037  
4.375% Notes due February 2043

New York Stock Exchange  
New York Stock Exchange

\* Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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**Vodafone Group Plc**

Annual Report on Form 20-F 2014

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## Additional information

### In this section:

Find out about our shares, history and development, regulatory matters impacting our business, an assessment of potential risks to the Company, and other statutory financial information.

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This constitutes the annual report on Form 20-F of Vodafone Group Plc (the Company) in accordance with the requirements of the US Securities and Exchange Commission (the SEC) for the year ended 31 March 2014 and is dated 10 June 2014. This document contains certain information set out within the Company's annual report in accordance with International Financial Reporting Standards (IFRS) and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS, dated 20 May 2014, as updated or supplemented if necessary. The content of the Group's website (www.vodafone.com) should not be considered to form part of this annual report on Form 20-F.

Unless otherwise stated references to year or 2014 mean the financial year ended 31 March 2014, to 2013 or previous year mean the financial year ended 31 March 2013, and to the fourth quarter or Q4 are to the quarter ended 31 March 2014. For other references please refer to page 45.

All amounts marked with an \* represent organic growth, which excludes the impact of foreign currency movements, acquisitions and disposals and certain other items, see definition on page 212. Definitions of terms used throughout the report can be found on pages 211 and 212.



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The terms Vodafone , the Group , we , our and us refer to the Company and, as applicable, its subsidiaries and/or interests in joint ventures and associates.

Website references are for information only and are not incorporated by reference into our Annual Report on Form 20-F.

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**Chief Financial Officer's review**

**Our financial performance**

**was mixed**

Our financial performance reflects continued strong growth in our emerging markets, partly offsetting competitive, regulatory and macroeconomic pressures in Europe. While we have seen declines in our revenue and adjusted EBITDA, we have met our financial guidance and increased the dividend per share.

**Overall performance**

The Group's emerging markets businesses have delivered strong organic growth this year, combining good local execution on marketing and distribution with leading network quality. In particular, data usage in emerging markets is really taking off, providing further growth potential for the Group. This has however been offset by significant ongoing pressures in our European operations, from a combination of a weak macroeconomic environment, regulatory headwinds, and stiff competition. We experienced revenue declines in all of our major European markets, and related pressure on margins, despite continuing measures to control costs.

Group revenue increased by 0.8% to £38.3 billion, with service revenue of £35.2 billion, an increase of 0.5%.

Group adjusted EBITDA decreased by 3.3% to £11.1 billion as the impact of steep revenue declines in Europe offset improving margins in AMAP, notably in India and Australia.

Group adjusted operating profit fell 22.9% year-on-year to £4.3 billion due to lower adjusted EBITDA and higher amortisation and depreciation due principally to the acquisition of KDG in October 2013.

**Verizon Wireless**

The profit contribution of Verizon Wireless is reported in our 2014 financial year results for five months to 2 September 2013, the date we announced its sale. Our share of Verizon Wireless' profits for this five month period amounted to £3.2 billion. The sale of the US group, whose principal asset was Verizon Wireless, led to a pre-tax gain on disposal of £45.0 billion.

### Impairment losses

We recorded impairment charges of £6.6 billion relating to our businesses in Germany, Spain, Portugal, Czech Republic and Romania. These were driven by lower projected cash flows within business plans, resulting from the tougher macroeconomic environment and heavy price competition.

### Financing costs and taxation

Net financing costs have decreased 6.4% primarily due to the recognition of mark-to-market gains, offset by a £99 million loss (2013: £nil) on the redemption of US\$5.65 billion bonds as part of the restructuring of the Group's financing arrangements following the disposal of Verizon Wireless and lower interest income on settlement of tax issues.

The statutory effective tax rate for the year ended 31 March 2014 was -33.4% compared to 77.2% in the prior year. The difference is primarily due to the gain on disposal of our interest in Verizon Wireless which did not result in any tax consequences and the recognition of significant deferred tax assets in Luxembourg and Germany.

### Adjusted earnings per share

Adjusted earnings per share<sup>1</sup> fell 12.8% to 17.54 pence, driven by lower adjusted operating profit, offset by a lower share count arising from the Group's share buyback programme. The Board is recommending a final dividend per share of 7.47 pence, to give total ordinary dividends per share for the year of 11.0 pence, up 8% year-on-year.

### Free cash flow

Free cash flow was £4.2 billion, down 24.0% from the prior year. The year-on-year decline reflects the relative strength of sterling against the South African rand and Indian rupee over the course of the year, partly offset by movements in the euro, as well as tough trading conditions. In addition to the free cash flow reported above, we received an income dividend of £2.1 billion from Verizon Wireless.

### Capital expenditure

Capital expenditure increased 19.3% to £6.3 billion, with the growth driven by the inclusion of CWW for 12 months, the inclusion of KDG from October 2013, the commencement of our fibre roll-out in Spain, and initial Project Spring investments in Germany and India. In addition, we acquired and renewed spectrum for £2.2 billion in India, Romania, New Zealand and the Czech Republic, with a cash cost of £0.9 billion during the year.

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**Group<sup>1</sup>**

	Restated <sup>1</sup>	
	2014	2013
	£m	£m
Revenue	38,346	38,041
Service revenue	35,190	34,999
Other revenue	3,156	3,042
Adjusted EBITDA <sup>2</sup>	11,084	11,466
<b>Adjusted operating profit<sup>2</sup></b>	<b>4,310</b>	<b>5,590</b>
Impairment loss	(6,600)	(7,700)
Restructuring costs and other	(355)	(311)
Amortisation of acquired customer bases and brand intangible assets	(551)	(249)
Other income/(expense)	(717)	468
<b>Operating loss</b>	<b>(3,913)</b>	<b>(2,202)</b>
Non-operating income and expense	(149)	10
Net financing costs	(1,208)	(1,291)
Income tax credit/(expense)	16,582	(476)
<b>Profit/(loss) for the financial year from continuing operations</b>	<b>11,312</b>	<b>(3,959)</b>
<b>Profit for the financial year from discontinued operations</b>	<b>48,108</b>	<b>4,616</b>
<b>Profit for the financial year</b>	<b>59,420</b>	<b>657</b>

Notes:

- 1 2014 results reflect average foreign exchange rates of £1: 1.19 and £1:US\$1.59 (2013: £1: 1.23 and £1:US\$1.58).
- 2 Adjusted EBITDA and adjusted operating profit have been restated to exclude restructuring costs . Adjusted operating profit has also been redefined to exclude amortisation of customer base and brand intangible assets. See page 201 for Non-GAAP financial information .

**Net debt**

Net debt decreased £11.7 billion to £13.7 billion as proceeds from the disposal of our US group, whose principal asset was its 45% stake in Verizon Wireless, positive free cash flow and favourable foreign exchange movements more than offset the acquisition of Kabel Deutschland, licences and spectrum payments and equity shareholder returns including equity dividends, the special distribution and share buybacks. In Q4, we paid £2.4 billion in relation to the expected

tax liability for the Verizon Wireless transaction, of which US\$3.3 billion (£2.0 billion) was paid to Verizon. We now expect this liability to total US\$3.6 billion (£2.2 billion).

### Performance against 2014 financial year guidance<sup>2</sup>

On 2 September 2013 we issued pro forma guidance for the 2014 financial year, which excluded VZW and included 100% of Vodafone Italy, both for the whole year. This pro forma guidance included Vodafone's remaining joint ventures (Australia, Fiji and Indus Towers), on an equity accounting basis, consistent with IFRS requirements.

Based on guidance foreign exchange rates, our pro forma adjusted operating profit for the 2014 financial year was £4.9 billion<sup>2</sup>, in line with the around £5.0 billion range set in September 2013. On the same basis our pro forma free cash flow was £4.8 billion<sup>2</sup>, in line with our guidance range of £4.5 – £5.0 billion.

### 2015 financial year guidance<sup>3</sup>

	Adjusted EBITDA	Free cash flow
	£bn	£bn
2015 financial year guidance	11.4 – 11.9	Positive

We expect adjusted EBITDA to be in the range of £11.4 billion to £11.9 billion.

We expect free cash flow to be positive after all capex, before the impact of M&A, spectrum purchases and restructuring costs. Total capex over the next two years is expected to be around £19 billion, after which we anticipate capital intensity normalising to a level of 13 – 14% of annual revenue.

/s/ Nick Read

### Nick Read

Chief Financial Officer

### Notes:

- \* All amounts in this document marked with an \* represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and movements in foreign exchange rates. See page 202 Non-GAAP financial information for further details.
- 1 Please see page 201 for Non-GAAP financial information.
- 2 Guidance foreign exchange rates for the year ended 31 March 2014 were £1: 1.17, £1=US\$1.52, £1:INR 84.9 and £1:ZAR 14.3.
- 3 We have based guidance for the 2015 financial year on our current assessment of the global macroeconomic outlook and assume foreign exchange rates of £1: 1.21, £1:INR 105.8 and £1:ZAR 18.4. It excludes the impact of licences and spectrum purchases, material one-off tax-related payments, restructuring costs and any fundamental structural change to the Eurozone. It also assumes no material change to the current structure of the Group. Actual foreign exchange rates may vary from the foreign exchange rate assumptions used. A 1% change in the euro to sterling exchange rate would impact adjusted EBITDA by £60 million and have no material impact on free cash flow. A 1% change in the Indian rupee to sterling exchange rate would impact adjusted EBITDA by £10 million and free cash flow by £5 million. A 1% change in the South African Rand to sterling exchange rate would impact adjusted EBITDA by £15 million and free cash flow by £5 million. Guidance for the year ending 31 March 2015

includes the results of Vodafone's remaining joint ventures (Australia, Fiji and Indus Towers) on an equity basis, consistent with IFRS requirements.



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**Operating results**

This section presents our operating performance, providing commentary on how revenue and adjusted EBITDA performance of the Group and its operating segments within the Europe and AMAP regions, together with Common Functions, have developed over the last year. These revenue and adjusted EBITDA amounts are extracted from note 2 to the Consolidated Financial Statements. See pages 171 to 175 for commentary on the 2013 financial year. The presentation of segmental revenues and adjusted EBITDA within note 2 to the Consolidated Financial Statements segment is under the management basis as this is assessed as being the most insightful presentation and is how the Group's operating performance is reviewed internally by management. See [Non-GAAP information](#) on page 201 for further information on the use of management basis measures and reconciliations between the management basis measures and the statutory (IFRS) basis.

Group level operating performance is discussed on pages 38, 39 and 97.

**Europe on a management basis**

	Germany	Italy	UK	Spain	Other Europe	Eliminations	Europe	Restated 2013	% change	
	£m	£m	£m	£m	£m	£m	£m	£m	£ Organic	
<b>Year ended 31 March 2014</b>										
Revenue	8,272	4,312	6,427	3,518	5,525	(57)	27,997	28,602	(2.1)	(9.3)
Service revenue	7,739	3,863	6,095	3,230	5,104	(54)	25,977	26,501	(2.0)	(9.1)
Other revenue	533	449	332	288	421	(3)	2,020	2,101	(3.9)	(10.8)
Adjusted EBITDA	2,698	1,536	1,418	787	1,736		8,175	9,099	(10.2)	(18.3)
Adjusted EBITDA margin	32.6%	35.6%	22.1%	22.4%	31.4%		29.2%	31.8%		

Foreign

	Organic change %	Other activity <sup>1</sup> pps	exchange pps	Reported change %
<b>Revenue Europe</b>	<b>(9.3)</b>	<b>4.7</b>	<b>2.5</b>	<b>(2.1)</b>
<b>Service revenue</b>				
Germany	(6.2)	9.0	3.6	6.4
Italy	(17.1)	2.2	3.1	(11.8)
UK	(4.4)	31.9		27.5
Spain	(13.4)	(0.7)	3.1	(11.0)
Other Europe	(7.1)	(17.5)	1.8	(22.8)
<b>Europe</b>	<b>(9.1)</b>	<b>4.6</b>	<b>2.5</b>	<b>(2.0)</b>
<b>Adjusted EBITDA</b>				
Germany	(18.2)	10.2	3.3	(4.7)
Italy	(24.9)	2.2	2.8	(19.9)
UK	(9.8)	26.9	0.1	17.2
Spain	(23.9)	(1.8)	2.8	(22.9)
Other Europe	(14.0)	(6.2)	2.1	(18.1)
<b>Europe</b>	<b>(18.3)</b>	<b>5.6</b>	<b>2.5</b>	<b>(10.2)</b>

## Note:

1 Other activity includes the impact of M&A activity and the revision to intra-group roaming charges from 1 April 2013. Refer to Organic growth on page 202 for further detail.

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**Germany**

Service revenue decreased 6.2%\*, with a slightly improving trend in Q4 compared to Q3. Performance for the year was driven by intense price competition in both the consumer and enterprise segments and an MTR cut effective from December 2012, with Vodafone particularly impacted due to our traditionally high ARPU. In a more competitive environment we launched both a more aggressive 3G price plan ( Smart ) and pushed otelo in the entry-level contract segment. Mobile in-bundle revenue increased 2.7%\* as a result of growth in integrated Vodafone Red offers, which was more than offset by a decline in mobile out-of-bundle revenue of 22.6%\*. We continue to focus on Vodafone Red and 4G where we had nearly 3.0 million customers and 891,000 consumer contract customers respectively at 31 March 2014.

Adjusted EBITDA declined 18.2%\*, with a 4.3\* percentage point decline in adjusted EBITDA margin, driven by lower service revenue and increased customer investment.

The roll-out of 4G services continued with a focus on urban areas, with overall outdoor population coverage of 70% at 31 March 2014, which combined with our ongoing network enhancement plan has resulted in a significant improvement in voice and data performance in the second half of the year.

Following its acquisition on 14 October 2013, KDG contributed £702 million to service revenue and £297 million to adjusted EBITDA in Germany. The domination and profit and loss transfer agreement was registered on 14 March 2014 and the integration of Vodafone Germany and KDG began on 1 April 2014.

**Italy**

Service revenue declined 17.1%\* driven by the effect of the summer prepaid price war penetrating the customer base and the negative impact of MTR cuts effective from January and July 2013. Mobile in-bundle revenue grew

15.2%\* driven by the take-up of integrated prepaid plans. Vodafone Red, which had nearly 1.5 million customers at 31 March 2014, continues to penetrate further into the base leading to improving churn in the contract segment.

Enterprise revenue growth, while still negative, showed signs of improvement during the year thanks to the success of Zero . Prepaid experienced a steep ARPU decline as a result of the market move to aggressive bundled offers. 4G services are now available in 202 municipalities and outdoor coverage has reached 35%.

Fixed line revenue declined 3.2%\* as a result of declining fixed voice usage, partly offset by continued broadband revenue growth supported by 77,000 net broadband customer additions during the year. Vodafone Italy now offers fibre services in 37 cities and is progressing well on its own fibre build plans.

Adjusted EBITDA declined 24.9%\*, with a 4.8\* percentage point decline in adjusted EBITDA margin, primarily driven by the lower revenue, partially offset by strong efficiency improvements delivered on operating costs which

fell 7.1%\*.

## UK

Service revenue decreased 4.4%\*, principally driven by declines in enterprise and prepaid and a 1.9 percentage point impact from MTR cuts, partially offset by consumer contract service revenue growth. Mobile in-bundle revenue increased 0.6%\* as the positive impact of contract customer growth and greater penetration of Vodafone Red plans into the customer base, with nearly 2.7 million customers at 31 March 2014, offset pricing pressures. Mobile out-of-bundle revenue declined 7.2%\*, primarily driven by lower prepaid revenue.

The activity to integrate the UK operations of CWW was accelerated successfully and we continue to deliver cash and capex synergies as planned. The sales pipeline is now growing, which we expect to materialise into revenue increases in the 2015 financial year.

The roll-out of 4G services continued following the launch in August 2013, with services now available in 14 cities and over 200 towns, with over 637,000 4G enabled plans (including Mobile Broadband) at 31 March 2014. We are making significant progress in network performance, particularly in the London area.

Adjusted EBITDA declined 9.8%\*, driven by lower revenue and a 1.0\* percentage point decline in the adjusted EBITDA margin as a result of higher customer investment.

## Spain

Service revenue declined 13.4%\*, as a result of intense convergence price competition, macroeconomic price pressure in enterprise and a MTR cut in July 2013. Service revenue trends began to improve towards the end of the year. As a result of a stronger commercial performance and lower customer churn from an improved customer experience, the contract customer base decline slowed during the year and the enterprise customer base remained broadly stable. Mobile in-bundle revenue declined 0.4%\* driven by the higher take-up of Vodafone Red plans, which continue to perform well, with over 1.2 million customers at 31 March 2014. We had 797,000 4G customers at 31 March 2014 and services are now available in all Spanish provinces, 227 municipalities and 80 cities.

Fixed line revenue declined 0.2%\* as we added 216,000 new customers during the year and added 276,000 homes to our joint fibre network with Orange. On 17 March 2014 we agreed to acquire Grupo Corporativo Ono, S.A. ( Ono ), the leading cable operator in Spain and the transaction is, subject to customary terms and conditions including anti-trust clearances by the relevant authorities, expected to complete in calendar Q3 2014.

Adjusted EBITDA declined 23.9%\*, with a 3.4\* percentage point decline in adjusted EBITDA margin, primarily driven by the lower revenue, partly offset by lower commercial costs and operating cost reductions of 9.4%\*.

## Other Europe

Service revenue declined 7.1%\* as price competition and MTR cuts resulted in service revenue declines of 5.6%\*, 8.4%\* and 14.1%\* in the Netherlands, Portugal and Greece respectively. However, Hungary and Romania returned to growth in H2, and all other markets apart from Portugal showed an improvement in revenue declines in Q4.

In the Netherlands mobile in-bundle revenue increased by 3.4%\*, driven by the success of Vodafone Red plans. In Portugal, the broadband customer base and fixed line revenues continued to grow as the fibre roll-out gained momentum in a market moving strongly towards converged offers, whilst in Greece the customer base grew due to the focus on data. In Ireland, contract growth remained good in a declining market.

Adjusted EBITDA declined 14.0%\*, with a 2.1\* percentage point reduction in the adjusted EBITDA margin, driven by lower service revenue, partly offset by operating cost efficiencies.

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Operating results (continued)

**Africa, Middle East and Asia Pacific on a management basis**

	India	Vodacom	Other AMAP	Eliminations	AMAP	Restated 2013	% change	
	£m	£m	£m	£m	£m	£m	£	Organic
<b>Year ended 31 March 2014</b>								
Revenue	4,394	4,718	5,860	(1)	14,971	15,413	(2.9)	8.4
Service revenue	3,927	3,866	5,295	(1)	13,087	13,729	(4.7)	6.1
Other revenue	467	852	565		1,884	1,684	11.9	27.4
Adjusted EBITDA	1,397	1,716	1,567		4,680	4,532	3.3	16.2
Adjusted EBITDA margin	31.8%	36.4%	26.7%		31.3%	29.4%		

	Organic change	Other activity <sup>1</sup>	Foreign exchange	Reported change
	%	pps	pps	%
<b>Revenue AMAP</b>	<b>8.4</b>	<b>0.7</b>	<b>(12.0)</b>	<b>(2.9)</b>
<b>Service revenue</b>				
India	13.0		(11.7)	1.3
Vodacom	4.1	(2.8)	(13.7)	(12.4)
Other AMAP	2.8	4.0	(9.4)	(2.6)
<b>AMAP</b>	<b>6.1</b>	<b>0.7</b>	<b>(11.5)</b>	<b>(4.7)</b>
<b>Adjusted EBITDA</b>				
India	26.4		(13.7)	12.7
Vodacom	6.6	0.2	(16.1)	(9.3)
Other AMAP	19.3	3.2	(10.7)	11.8
<b>AMAP</b>	<b>16.2</b>	<b>1.0</b>	<b>(13.9)</b>	<b>3.3</b>

Notes:

1 Other activity includes the impact of M&A activity and the revision to intra-group roaming charges from 1 April 2013. Refer to Organic growth on page 202 for further detail.

### **India**

Service revenue increased 13.0%\*, driven by continued customer growth and data usage as well as improved voice pricing. Mobile customers increased by 14.2 million during the year, yielding a closing customer base of 166.6 million at 31 March 2014.

Data usage grew 125% during the year, primarily resulting from a 39% increase in mobile internet users and a 67% increase in usage per customer. At 31 March 2014 active data customers totalled 52 million including seven million 3G customers.

We progressively rolled out M-Pesa across India over the year, reaching nationwide coverage by March 2014.

Adjusted EBITDA grew 26.4%\*, with a 3.3\* percentage point increase in adjusted EBITDA margin, driven by the higher revenue and the resulting economies of scale on costs.

In February, Vodafone India successfully bid for additional spectrum in 11 telecom circles in the Indian Government's 900MHz and 1800MHz spectrum auction, enabling the company to provide customers with enhanced mobile voice and data services across the country. Of the total £1.9 billion cost of these spectrum licences, £0.5 billion was paid during the financial year with the remainder payable in instalments starting in 2017.

### **Vodacom**

Service revenue grew 4.1%\*, driven by strong growth in Vodacom's mobile operations outside South Africa. In South Africa, organic service revenue increased 0.3%\*, despite the adverse impact of an MTR cut, due to the strong growth in data revenues of 23.5%\*, driven by higher smartphone penetration and the strong demand for prepaid bundles.

Vodacom's mobile operations outside South Africa delivered service revenue growth of

18.9%\* mainly from continued customer base growth. M-Pesa continued to perform well and is now operational in all of the Vodacom mobile operations outside of South Africa, with over 4.4 million customers actively using the service.

Adjusted EBITDA increased 6.6%\*, driven by revenue growth, optimisation in customer investment and efficiencies in South Africa operating costs. The adjusted EBITDA margin decline of 0.3\* percentage points is the result of higher sales of lower margin handsets.

On 14 April 2014, Vodacom announced the acquisition of the Vodacom customer base from Nashua, a mobile cellular provider for South African mobile network operators, subject to the approval of the Competition Authority.

On 19 May 2014 Vodacom announced that it had reached an agreement with the shareholders of Neotel Proprietary Limited (Neotel), the second largest provider of fixed telecommunications services for both enterprise and consumers in South Africa, to acquire 100% of the issued share capital in, and shareholder loans against, Neotel for a total cash consideration of ZAR 7.0 billion (£0.4 billion). The transaction remains subject to the fulfilment of a number of conditions precedent including applicable regulatory approvals and is expected to close before the end of the financial year.

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**Other AMAP**

Service revenue increased 2.8%\*, with growth in Turkey, Egypt, Qatar and Ghana being partially offset by declines in Australia and New Zealand.

Service revenue growth in Turkey was 7.9%\* after a 5.4 percentage point negative impact from voice and SMS MTR cuts effective from 1 July 2013. Mobile in-bundle revenue in Turkey grew 25.0%\* driven by higher smartphone penetration, the success of Vodafone Red plans and continued growth in enterprise.

In Egypt service revenue increased 2.6%\*, driven by the growth in the customer base, higher data usage and a successful pricing strategy. Service revenue growth in Qatar came as a result of strong net customer additions and the success of segmented commercial offers. In Ghana, service revenue grew 19.3%\*, driven by an increase in customers and higher data usage in both consumer and enterprise.

Adjusted EBITDA grew 19.3%\* with a 3.1\* percentage point improvement in adjusted EBITDA margin, with improvements in Turkey, Australia, Qatar and Ghana driven by the increase in scale and operating cost efficiencies, and with robust contribution from Egypt, partially offset by a decline in New Zealand.

Our joint venture in Australia experienced a service revenue decline of 9.0%\*. The turnaround plan remains on track, yielding improved levels of network performance, net promoter score and customer base management. The adjusted EBITDA margin was improved by 14.8\* percentage points, as a result of restructuring and stronger cost discipline.

Our associate in Kenya, Safaricom, increased service revenue by 17.2% driven by a higher customer base and continued growth in M-Pesa.

**Non-Controlled Interests on a management basis****Verizon Wireless<sup>1,2</sup>**

	2014	2013
	£m	£m
Revenue	9,955	21,972
Service revenue	9,000	19,697
Other revenue	955	2,275
Adjusted EBITDA	4,274	8,831
Interest	(20)	(25)
Tax <sup>2</sup>	(50)	13
Group's share of result in VZW	3,169	6,500



## Notes:

- 1 All amounts represent the Group's share based on its 45% partnership interest, unless otherwise stated. Results for the year ended 31 March 2014 only include results to 2 September 2013, the date the Group announced its intention to dispose of its 45% interest.
- 2 The Group's share of the tax attributable to VZW relates only to the corporate entities held by the VZW partnership and certain US state taxes which are levied on the partnership. The tax attributable to the Group's share of the partnership's pre-tax profit is included within the Group tax charge.

On 2 September 2013 Vodafone announced it had reached an agreement with Verizon Communications Inc. to dispose of its US group whose principal asset was its 45% interest in Verizon Wireless. The Group ceased recognising its share of results in Verizon Wireless on 2 September 2013, and classified its investment as a held for sale asset and the results as a discontinued operation. The transaction completed on 21 February 2014.

### Operating loss

Adjusted operating profit excludes certain income and expenses that we have identified separately to allow their effect on the present results of the Group to be assessed (see page 201). The items that are included in operating loss but are excluded from adjusted operating profit are discussed below.

Impairment losses of £6,600 million (2013: £7,700 million) recognised in respect of Germany, Spain, Portugal, Czech Republic and Romania. Further detail is provided in note 4 to the Group's consolidated financial statements.

Restructuring costs of £355 million (2013: £311 million) have been incurred to improve future business performance and reduce costs.

Amortisation of intangible assets in relation to customer bases and brands are recognised under accounting rules after we acquire businesses and amounted to £551 million (2013: £249 million). Amortisation charges increased in the year as a result of the acquisition of KDG and Vodafone Italy in the year.

Other income and expense comprises a loss of £0.7 billion arising largely from our acquisition of a controlling interest in Vodafone Italy. The year ended 31 March 2013 includes a £0.5 billion gain on the acquisition of CWV.

Including the above items, operating loss increased to £3.9 billion from £2.2 billion as lower impairment charges were offset by lower revenue, higher customer costs and higher amortisation.

### Net financing costs

	2014	2013
	£m	£m
Investment income	346	305
Financing costs	(1,554)	(1,596)
<b>Net financing costs</b>	<b>(1,208)</b>	<b>(1,291)</b>

Net financing costs have decreased 6.4% primarily due to the recognition of mark-to-market gains, offset by a £99 million loss (2013: £nil) on the redemption of US\$5.65 billion bonds as part of the restructuring of the Group's financing arrangements following the disposal of Verizon Wireless and lower interest income on settlement of tax issues.

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Operating results (continued)

**Taxation**

	2014	2013
	£m	£m
<b>Income tax expense:</b>		
Continuing operations before recognition of deferred tax	2,736	476
Discontinued operations	1,709	1,750
<b>Total income tax expense</b>	<b>4,445</b>	<b>2,226</b>
Recognition of additional deferred tax – continuing operations	(19,318)	
<b>Total tax (credit)/expense</b>	<b>(14,873)</b>	<b>2,226</b>

The recognition of the additional deferred tax assets, which arose from losses in earlier years, was triggered by the agreement to dispose of the US group whose principal asset was its 45% interest in VZW, which removes significant uncertainty around both the availability of the losses in Germany and the future income streams in Luxembourg. The Group expects to use these losses over a significant number of years; the actual use of these losses is dependent on many factors which may change, including the level of profitability in both Germany and Luxembourg, changes in tax law and changes to the structure of the Group.

	2014	2013
	£m	£m
<b>Total tax (credit)/expense</b>	<b>(14,873)</b>	<b>2,226</b>
<b>Profit before tax</b>		
Continuing operations	(5,270)	(3,483)
Discontinued operations	49,817	6,366
<b>Total profit before tax</b>	<b>44,547</b>	<b>2,883</b>
<b>Effective tax rate</b>	<b>-33.4%</b>	<b>77.2%</b>

The statutory effective tax rate for the year ended 31 March 2014 was -33.4% compared to 77.2% in the prior year. The difference is primarily due to the gain on disposal of our interest in Verizon Wireless which did not result in any tax consequences and the recognition of significant deferred tax assets in Luxembourg and Germany.

**Discontinued operations**

On 2 September 2013 the Group announced it had reached an agreement with Verizon Communications Inc. to dispose of its US group whose principal asset was its 45% interest in VZW. The Group ceased recognising its share of results in VZW on 2 September 2013, and classified its investment as a held for sale asset and the results as a discontinued operation. The transaction completed on 21 February 2014.

The table below sets out all of the elements relating to this discontinued operation within the consolidated income statement.

	2014	2013
	£m	£m
<b>Share of result in associate</b>	<b>3,191</b>	<b>6,422</b>
Net financing income/(costs)	27	(56)
<b>Profit before taxation</b>	<b>3,218</b>	<b>6,366</b>
Taxation relating to performance of discontinued operations	(1,709)	(1,750)
<b>Post-tax profit from discontinued operations</b>	<b>1,509</b>	<b>4,616</b>

The table below sets the gain on disposal of discontinued operations.

	2014	2013
	£m	£m
<b>Gain on disposal of discontinued operations before tax</b>	<b>44,996</b>	
Other items arising from the disposal	1,603	
<b>Net gain on disposal of discontinued operations</b>	<b>46,599</b>	
<b>Profit for the financial year from discontinued operations</b>	<b>48,108</b>	<b>4,616</b>

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**Earnings/(loss) per share**

We have redefined adjusted earnings per share to exclude amortisation of acquired customer base and brand-related intangible assets, restructuring costs and one-off items in relation to both the disposal of our interest in Verizon Wireless and the acquisition of the remaining 23% of Vodafone Italy. Comparatives have been restated consistently.

Adjusted earnings per share was 17.54 pence, a decrease of 12.8% year-on-year, reflecting lower adjusted operating profit primarily due to the cessation of equity accounting for VZW from 2 September 2013, partially offset by a reduction in shares in issue arising from the Group's share buyback programme.

Basic earnings per share from continuing operations increased to 42.10 pence (2013: loss of 15.66 pence) primarily due to the recognition of the additional deferred tax assets in the current year.

	Statutory basis	
	2014	2013
	£m	£m
<b>Profit attributable to equity shareholders</b>	<b>59,254</b>	<b>413</b>
Adjustments:		
Impairment loss	6,600	7,700
Amortisation of acquired customer base and brand intangible assets	551	249
Restructuring costs	355	311
Other income and expense	717	(468)
Discontinued and other items	(46,520)	
Non-operating income and expense	149	(10)
Investment income and financing costs	78	51
	<b>(38,070)</b>	<b>7,833</b>
Taxation	(17,511)	(150)
Removal of VZW trading results and tax after 2 September <sup>1</sup>	1,019	(2,669)
Non-controlling interests	(50)	(28)
<b>Adjusted profit attributable to equity shareholders</b>	<b>4,642</b>	<b>5,399</b>
	Million	Million
Weighted average number of shares outstanding basic	26,472	26,831
Weighted average number of shares outstanding diluted	26,682	26,831

Note:

1 The adjustment for the year ended 31 March 2014 primarily relates to the removal of tax in respect of our US group after 2 September 2013, whereas the adjustment for the year ended 31 March 2013 includes the removal of both profit contributions and tax for the period from 2 September 2012 to 31 March 2013.

#### **Section 219 SEC filings of interest**

Vodafone Group Plc ( Vodafone ) does not have any subsidiaries, other equity investments, assets, facilities or employees located in Iran, and Vodafone has made no capital investment in Iran. To the best of its knowledge, no US persons, including any US affiliates of Vodafone, are involved in the activities described below. Except as specified below, Vodafone does not believe that it has provided any products, equipment, software, technology, information, support or services into Iran, directly or indirectly, or had any agreements, arrangements or other contacts with the government of Iran or entities controlled by the government of Iran.

#### **Roaming and interconnect**

Vodafone has wholesale roaming and interconnect arrangements with mobile and fixed line operators in Iran. Vodafone has, or has had, relationships with telecommunications operators in Iran in connection with such roaming and interconnect arrangements, some of which it believes are or may be government controlled entities. The approximate total gross revenues attributable to the arrangements mentioned above for the financial year ended 31 March 2014 were £992,000.

#### **Contract between Vodafone Global Enterprise ( VGE ) and Deutsche Post DHL ( DHL )**

VGE, a Vodafone division which serves multi-national corporate customers, had a contract with DHL to provide DHL with a managed Multi-Protocol Label Switching data network in a total of 67 countries across Eastern Europe, Africa and the Middle East. On 31 January 2013, Vodafone terminated all telecommunications commitments towards DHL in respect of Iran under this contract and there were no further revenues or profits attributable to this contract for the financial year ended 31 March 2014.

#### **EPEG Project**

On 27 July 2012, Vodafone acquired Cable & Wireless Worldwide Plc ( CWW ), which (through a subsidiary) is member of a consortium made up of Telecommunication Infrastructure Company of Iran ( TIC ) (an entity controlled by the government of Iran), Rostelecom and Omantel that is building a high speed cable network from a landing point in Oman, to Germany. Each member of the consortium is responsible for funding, building and maintaining its section of the cable, with CWW owning and being responsible for the segment from the Ukrainian border with Russia to Frankfurt, Germany. No capacity sales have been made on this high speed cable network yet; consequently there are no revenues or profits associated with the project.

#### **Intellectual Property**

Vodafone, through one of its subsidiaries, also makes some insignificant payments to Iran in order to register certain domain names, register and renew certain trademarks, and protect its brand globally. Vodafone paid annual registration fees of £48 to IRNIC for the registration of three domain names. Vodafone did not make any payments to Iran in order to register or renew any of its trade marks during the fiscal year ended 31 March 2014.

References to Q4 are to the quarter ended 31 March 2014 unless otherwise stated. References to the second half of the year are to the six months ended 31 March 2014 unless otherwise stated. References to the year or financial year are to the financial year ended 31 March 2014 and references to the prior financial year are to the financial year ended 31 March 2013 unless otherwise stated. References to the 2014 financial year, 2015 financial year, 2016 financial year, 2017 financial year and the 2019 financial year are to the financial years ending 31 March 2014, 2015, 2016, 2017 and 2019, respectively. References to calendar Q3 2014 are to the quarter ended 30 September 2014, unless otherwise stated.

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**Key risks**

**Network or IT systems failure**

Major failure or malicious attack on our network or IT systems may result in service interruption and consequential customer and revenue loss.

**Failure to protect customer information**

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.

**Competition**

We face intensifying competition where all operators are looking to secure a share of the potential customer base, leading to lower future revenues and profitability.

**Regulation**

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.

**Converged and over-the-top OTT services**



Some competitors offer converged services which we cannot either replicate or provide at a similar price point. Furthermore, advances in smartphone technology place more focus on applications, operating systems and devices rather than the services provided by operators, which could erode revenues.

### **Weak economic conditions**

Economic conditions in many markets, especially in Europe, continue to stagnate or show nominal levels of growth and remain impacted by austerity measures which could affect disposable incomes. This may result in customers moving to lower price plans or giving up their phones.

### **Health risks**

Concerns have been expressed that the electromagnetic signals emitted by mobile handsets and base stations may pose health risks. Authorities including the World Health Organization ( WHO ) agree there is no evidence that convinces experts that exposure to radiofrequency fields from mobile devices and base stations operated within guideline limits has any adverse health effects.

### **Integration of acquired businesses**

The price paid for acquired businesses is based upon current and future expected cash flows that are expected to be generated from benefits and synergies that being part of the Vodafone Group will generate.

### **Key suppliers**

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.

### **Tax disputes**

We operate in many jurisdictions around the world and from time to time have disputes on the amount of tax due, including an ongoing tax case in India where the Indian Government has introduced retrospective legislation that overturns a positive India Supreme Court decision.

### **Impairment assumptions**

Revisions to the assumptions used in assessing the recoverability of goodwill, including discount rates, estimated future cash flows or anticipated changes in operations, could lead to the impairment of certain Group assets.



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**Chairman's overview**

Businesses must ensure  
absolute integrity in their business  
activities and decision-making  
processes if they are to earn and  
retain public trust.

**Dear shareholder**

Effective corporate governance is integral to the successful delivery of business goals: for our many and diverse stakeholders, how we work is as important as what we do. Vodafone operates under a well-developed governance framework designed to foster transparency, honesty and an informed approach to risk management across our worldwide business. We have clear standards of behaviour we expect from everyone who works for Vodafone: further details of our mandatory Code of Conduct are set out on page 67.

The Board's role is to set the strategy for the Group, appoint the right leadership and ensure consistent implementation whilst monitoring business performance and ensuring the timely and effective assessment and management of business risk. Our goal is to build an enduring and profitable Vodafone business admired by customers and other stakeholders, whilst achieving strong returns for our shareholders. As I explain in my statement on page 2, this was a significant year for Vodafone, and your Board played a leading role in the conduct of the major transactions described in the Chief Executive's review on page 12. As the Group's strategy continues to evolve, the Board is focused on maintaining a strong alignment of the interests of management with long-term value creation. Central to this is our remuneration policy (explained on page 71) which for the first time will be put to a shareholder vote at our annual general meeting this year, in line with new regulations.

There were a number of changes to the Board during the year. Andy Halford has retired from the role of Group Chief Financial Officer after eight years, during which period he developed a track record of value creation for shareholders which few, if any, CFOs could hope to

match. Andy has been succeeded by the Chief Executive of the AMAP region, Nick Read, under whose leadership our emerging markets businesses have achieved strong rates of growth. In March 2014, it was announced that Anne Lauvergeon intended to stand down from the Board; Alan Jebson and Anthony Watson have also informed the Board they will not seek re-election at the annual general meeting. On behalf of the Board, I would like to express our gratitude to Andy, Anne, Alan and Tony for their contribution to Vodafone and wish them well for the future. Valerie Gooding joined the Board as a non-executive director in February 2014, and in May 2014 we announced that Sir Crispin Davis will join the Board on 28 July and Dame Clara Furse on 1 September, both as non-executive directors. I am delighted to welcome Valerie, Sir Crispin and Dame Clara to the Board.

I am fortunate as Chairman to be able to call on a broad and diverse range of skills and perspectives around the boardroom table. In their new composition, our Board consists of 13 Directors, drawn from six different nationalities with international leadership experience across more than ten different industrial sectors. With three female directors, I am pleased to say that from September we will be well on our way to achieving our intention that women will hold 25% of Board roles by the end of 2015. The recruitment of further female directors will continue to be a priority in future.

Whilst your Board is confident that Vodafone is well-placed to continue to reward shareholders for their support for our strategy, we expect operating conditions to remain challenging in a number of our key markets over the year ahead. We will remain focused on ensuring the Group maintains a rigorous and analytical approach to the management of risk whilst seeking to encourage the innovation and entrepreneurship necessary to drive growth across the portfolio.

/s/ Gerard Kleisterlee

**Gerard Kleisterlee**

Chairman

20 May 2014

[How have we complied with the UK Corporate Governance Code?](#)

Throughout the year ended 31 March 2014 and to the date of this document, we complied with the provisions and applied the Main Principles of the UK Corporate Governance Code (the Code), published in September 2012. The Code can be found on the FRC website (frc.org.uk). We describe how we have applied those Main Principles in this section of the annual report which includes our statement of internal control and risk management, together with the Directors remuneration section on pages 69 to 85.

**How have we complied with the corporate governance statement requirements?**

We comply with the corporate governance statement requirements pursuant to the FCA's Disclosure and Transparency Rules by virtue of the information included in this Governance section of the annual report together with information contained in the Shareholder information section on pages 182 to 189.

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**Board composition**

Our Board consists of 14 directors, 13 of whom served throughout the year. Valerie Gooding was appointed as a non-executive director with effect from 1 February 2014.

At 31 March 2014, in addition to the Chairman, Gerard Kleisterlee, there were three executive directors and ten non-executive directors. Andy Halford, the Chief Financial Officer, retired on 31 March 2014 and Nick Read was appointed to this role and as an executive director with effect from 1 April 2014. The executive and non-executive directors are equal members of the Board and have collective responsibility for the Company's direction. In particular, non-executive directors are responsible for:

- g bringing a wide range of skills and experience, including independent judgement on issues of strategy, performance and risk management;
- g constructively challenging the strategy proposed by the Chief Executive and executive directors;
- g scrutinising and challenging performance across the Group's business;
- g assessing risk and the integrity of the financial information and controls; and
- g determining the Company's broad policy for executive remuneration, and the remuneration packages for the executive directors and the Chairman.

The balance and independence of our Board is kept under review by our Nominations and Governance Committee, details of which can be found on pages 58 and 59.

**Tenure of non-executive directors**

The Code suggests that length of tenure is a factor to consider when determining the independence of non-executive directors. The table below shows the tenure and independence of each of our non-executive directors. We consider all of our non-executive directors to be independent.

	Date first elected by shareholders	Years from first election to 2014 AGM	Considered to be independent by the Board
Gerard Kleisterlee	July 2011	3	See note <sup>1</sup>
Valerie Gooding	To be put up for election July 2014	n/a	Yes
Renee James	July 2011	3	Yes
Alan Jebson	July 2007	7	Yes
Samuel Jonah	July 2009	5	Yes
Omid Kordestani	July 2013	1	Yes
Nick Land	July 2007	7	Yes
Anne Lauvergeon	July 2006	8	Yes
Luc Vandavelde	July 2004	10	Yes <sup>2</sup>
Anthony Watson	July 2006	8	Yes
Philip Yea	July 2006	8	Yes

Notes:

- 1 Considered to be independent on appointment.
- 2 Considered to be independent for the reasons given on page 59.

## Key roles and responsibilities

### The Chairman

#### Gerard Kleisterlee

The role of the Chairman is set out in writing and agreed by the Board. He is responsible for:

g the effective leadership, operation and  
governance of the Board;

g ensuring the effectiveness of the Board;

g setting the agenda, style and tone of

Board discussions; and

g ensuring the directors receive accurate,

timely and clear information.

### **The Senior Independent Director**

**Luc Vandevelde**

The Senior Independent Director is responsible for:

g acting as a sounding board for the

Chairman;

g serving as an intermediary for the other

directors;

g being available to shareholders if they

have concerns which they have not been able to resolve through the normal channels of the Chairman, Chief Executive or other executive directors or for which such contact is inappropriate; and

g conducting an annual review of the

performance of the Chairman and, in the event it should be necessary, convening a meeting of the non-executive directors.

### **The Chief Executive**

**Vittorio Colao**

The role of the Chief Executive is set out in writing and agreed by the Board. He is responsible for:

g management of the Group's business;

g implementation of the Company's

strategy and policies;

g maintaining a close working relationship

with the Chairman; and

g chairing the Executive Committee.

## **The Company Secretary**

**Rosemary Martin**

The Company Secretary acts as Secretary to the Board. In doing so she:

**g** assists the Chairman in ensuring that all directors have full and timely access to all relevant information;

**g** assists the Chairman by organising induction and training programmes;

**g** is responsible for ensuring that the correct Board procedures are followed and advises the Board on corporate governance matters; and

**g** administers the procedure under which directors can, where appropriate, obtain independent professional advice at the Company's expense.

Biographical details of the Chairman, Chief Executive and Senior Independent Director can be found on pages 50 and 51 or at [vodafone.com/board](http://vodafone.com/board). Biographical details of the Company Secretary can be found on page 53 or at [vodafone.com/exco](http://vodafone.com/exco). The appointment or removal of the Company Secretary is a matter for the Board as a whole.



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Corporate governance (continued)

**Board activities in the 2014 financial year**

Board activities are structured to assist the Board in achieving its goal to support and advise executive management on the delivery of the Group's strategy within a transparent governance framework.

The diagram below shows the key areas of focus for the Board which appear as items on the Board's agenda at relevant times throughout the year. Concentrated discussion of these items assists the Board in making the right decisions based on the long-term opportunities for the business and its stakeholders.

**Conflicts of interest**

The Board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the Company. The process for monitoring conflicts is as follows:

- g changes to the commitments of all directors are reported to the Board;
- g the directors are required to complete a conflicts questionnaire initially on appointment and annually thereafter;
- g any conflicts identified would be submitted to the Board (excluding the director to whom the potential conflict related) for consideration and, as appropriate, authorisation in accordance with the Companies Act 2006 and the articles of association;
- g where authorisation is granted, it would be recorded in a register of potential conflicts and reviewed periodically;  
and

g directors are responsible for notifying the Company Secretary if they become aware of actual or potential conflict situations or a change in circumstances relating to an existing authorisation.

No conflicts of interest have been identified during the year.

### **Board meetings**

Matters considered at all Board meetings include:

g the Chief Executive's report on strategic and business developments;

g the Chief Financial Officer's report which includes the latest available management accounts;

g an operations update (covering commercial, technology and operational matters);

g a report on potential changes to the Group's portfolio of corporate assets; and

g where applicable, reports from the Nominations and Governance Committee, Audit and Risk Committee and Remuneration Committee.

In addition to the standing agenda items, topics covered by the Board during the year included the disposal of the Company's interest in Verizon Wireless, the acquisition of the remaining interest in Vodafone Italy, the acquisition of Kabel Deutschland and the audit tender.

### **Board effectiveness**

Board effectiveness is reviewed every year. After last year's external performance evaluation the Board agreed:

g to develop further its approach to strategic planning and involve the directors earlier in the process of strategy development;

g to provide more opportunities for the directors to meet with executives to assist in succession planning; and

g to ensure the induction of new directors enables them rapidly to contribute fully to the Board.

Since then, the Chairman has introduced a number of improvements including: informing the Board regularly about possible Board appointments, trying to speed up the director appointment process, organising for senior executives to brief directors on various aspects of our business and increasing the number of opportunities available for senior

executives to meet with the Board, e.g. through informal meetings or mentoring, and improving the induction programme for new directors.

**Performance evaluation**

Board effectiveness is reviewed by an external performance evaluation every three years. As an external evaluation was conducted last year, this year the Board performed an internal performance evaluation.

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**What is the performance evaluation process?**

- g** This year the Chairman met with each director and with executives and advisors who interact with the Board. Interviewees were asked to consider and comment on the performance of the Board as a whole.
  
- g** The directors were also asked for their views on, amongst other things: Company strategy, key challenges for the business, the mix of skills, experience, independence, knowledge and diversity on the Board (including gender), effectiveness of the Board's engagement with shareholders and how well the Board operates.
  
- g** The Chairman reviewed the directors' contributions and the Senior Independent Director led the review of the performance of the Chairman.
  
- g** Each Board committee undertook a detailed self-assessment questionnaire.

**Output of the performance evaluation**

- g** The Chairman of each Board committee gave feedback on the evaluation of their committee to the Board at its March meeting.
  
- g** The Chairman prepared a report on the performance evaluation which was distributed to the directors, reviewed by the Nominations and Governance Committee, and discussed with the Board at the March Board meeting.
  
- g** This year's findings were that the Board was reasonably well balanced. Diversity had improved and it should continue on that path. The process for appointing directors needed to be speeded up. Board arrangements and information flows were generally satisfactory, but more focus could be given on market information and the changing regulatory and competitive environment. Some further refinement of the presentation of performance metrics was agreed. The Board was comfortable with the strong value system and control framework in the Company. Directors observed that executive succession planning had improved. Overall, the directors considered the right balance is struck between operational, strategic and governance matters and directors were positive about

the open atmosphere around the boardroom table allowing for a robust and constructive dialogue.

The Board will continue to review its procedures, its effectiveness and development in the financial year ahead.

### **Board induction**

The Chairman is responsible for ensuring that each director receives an induction on joining the Board and receives the training he or she requires. The Company Secretary organises the induction.

### **Director induction**

On appointment, directors receive a personalised induction programme covering amongst other things:

g the business of the Group;

g their legal and regulatory responsibilities as directors;

g briefings and presentations from relevant executives; and

g opportunities to visit business operations.

The induction programme is tailored to each new director, depending on his or her experience and background, and reviewed by the Nominations and Governance Committee.

### **Information and professional development**

Keeping up-to-date with key business developments is essential for the directors to maintain and enhance their effectiveness. This is achieved as follows:

g from time to time the Board receives presentations from executives in our business on matters of significance. This year there were presentations on our Enterprise business, retail distribution, new products and the regional chief executives delivered presentations on their region's businesses, the Chief Commercial Officer and Chief Brand Director presented on brand status and evolution and the Group HR Director delivered a presentation on planned actions for improving talent, capability and effectiveness within the Company;

g financial plans, including budgets and forecasts, are regularly discussed at Board meetings;

g the directors have the opportunity to learn the views of major investors at planned events throughout the year (see How do we engage with our shareholders? on page 66);

- g our directors periodically visit different parts of the Group. In September 2013 the Board met with senior management in the Netherlands and in March 2014 the Board met with senior management in Portugal;
- g the non-executive directors are provided with briefings and information to assist them in performing their duties; and
- g the directors are regularly updated on the Group's businesses and the regulatory and industry specific environments in which we operate. Updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources.

As part of their annual performance evaluation, directors are given the opportunity to discuss training and development needs. Directors are expected to take responsibility for identifying their training needs and to take steps to ensure that they are adequately informed about the Company and their responsibilities as a director. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of a listed company. The Board recognises that there may be occasions when one or more of the directors feels it is necessary to take independent legal and/or financial advice at the Company's expense. There is an agreed procedure to enable them to do so which is managed by the Company Secretary. No such independent advice was sought in the 2014 financial year.

#### **Re-election of directors**

All the directors submit themselves for re-election at the AGM to be held on 29 July 2014 with the exception of Valerie Gooding, Dame Clara Furse, Nick Read and Sir Crispin Davis who will seek election for the first time in accordance with our articles of association and Anne Lauvergeon, Alan Jebson and Anthony Watson who will resign from the Board at the AGM. The Nominations and Governance Committee confirmed to the Board that the contributions made by the directors offering themselves for re-election at the AGM in July 2014 continue to be effective and that the Company should support their re-election.

#### **Indemnification of directors**

In accordance with our articles of association and to the extent permitted by the laws of England and Wales, directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In addition, we maintained a directors' and officers' liability insurance policy throughout the year. Neither our indemnity nor the insurance provides cover in the event that a director is proven to have acted dishonestly or fraudulently.

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Corporate governance (continued)

**Board committees**

The Board has a Nominations and Governance Committee, an Audit and Risk Committee and a Remuneration Committee. Further details of these committees can be found in their reports on pages 58 to 65. The terms of reference of each of these committees can be found on our website at [vodafone.com/governance](http://vodafone.com/governance).

The committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary or her delegate acts as secretary to the committees. The minutes of committee meetings are circulated to all directors.

The calendar for meetings of the Board and its committees is shown below.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	13	13	13	13	13	13	13	13	13	14	14	14
Board												
(scheduled meetings)												
Nominations and												
Governance Committee												
Audit and Risk												
Committee												
Remuneration												
Committee												

Directors unable to attend a Board meeting because of another engagement are provided with the briefing materials and can discuss issues arising in the meeting with the Chairman or the Chief Executive. In addition to scheduled Board meetings, there may be a number of other meetings to deal with specific matters. Each scheduled Board meeting is preceded by a meeting of the Chairman and non-executive directors.

**Attendance at scheduled meetings of the Board and its committees in the 2014 financial year**

	Nominations and Governance Board Committee	Audit and Risk Committee	Remuneration Committee
<b>Director</b>			
<b>Chairman</b>			
Gerard Kleisterlee <sup>1</sup>	7/7	3/3	
<b>Senior Independent Director</b>			
Luc Vandeveld <sup>2</sup>	7/7	3/3	5/5
<b>Chief Executive</b>			
Vittorio Colao	7/7		
<b>Executive directors</b>			
Andy Halford	7/7		
Stephen Pusey	7/7		
<b>Non-executive directors</b>			
Valerie Gooding <sup>3</sup>	1/1		
Renee James	7/7		4/5
Alan Jebson	7/7	4/4	
Samuel Jonah	7/7		4/5
Omid Kordestani	7/7		
Nick Land <sup>4</sup>	7/7	4/4	
Anne Lauvergeon	7/7	4/4	
Anthony Watson	7/7	3/3	4/4
Philip Yea	7/7	3/3	5/5
Notes:			

- 1 Chairman of the Nominations and Governance Committee.
- 2 Senior Independent Director and Chairman of the Remuneration Committee.
- 3 Appointed to the Board with effect from 1 February 2014.
- 4 Chairman and Financial Expert of the Audit and Risk Committee.

#### Key objective:

to make sure the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and to have oversight of all matters relating to corporate governance.

#### Responsibilities:

**g** leads the process for identifying and making recommendations to the Board regarding candidates for appointment as directors, giving full consideration to succession planning and the leadership needs of the Group;

**g** makes recommendations to the Board on the composition of the Board's committees;

**g** regularly reviews and makes recommendations in relation to the structure, size and composition of the Board including the diversity and balance of skills, knowledge and experience, and the independence of the non-executive directors;



- g** oversees the performance evaluation of the Board, its committees and individual directors (see pages 56 and 57);
- g** reviews the tenure of each of the non-executive directors; and
- g** is responsible for the oversight of all matters relating to corporate governance, bringing any issues to the attention of the Board.

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**Committee meetings**

No one other than a member of the Committee is entitled to be present at its meetings; however, other non-executive directors, the Chief Executive and external advisors may be invited to attend. In the event of matters arising concerning my membership of the Board, I would absent myself from the meeting as required and the Board's Senior Independent Director would take the chair.

**Main activities of the Committee during the year**

The Committee met four times during the year and considered executive and non-executive succession planning, refreshment of skills of the Board and the Board effectiveness review.

The Committee leads the process for appointments to the Board. There is a formal, rigorous and transparent procedure for the appointment of new directors. Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board, including gender.

Four external searches were commissioned during the year, using independent executive search firms, Korn Ferry and Egon Zehnder, neither of which has any other connection to the Company. The first search related to identification of non-executive director candidates with relevant City and/or marketing experience and was undertaken by Korn Ferry. Valerie Gooding was identified as a potential candidate and subsequently recommended to the Board by the Committee on the basis that she met the desired criteria having previously been leader of a branded consumer business.

Korn Ferry also undertook a search to identify a non-executive director with international business experience and chief executive officer experience. The search identified Sir Crispin Davis as a potential candidate and he was subsequently recommended to the Board by the Committee based on his international business experience as a former CEO of a global publishing company. A search was also conducted, again by Korn Ferry, to identify a non-executive director with international banking and finance experience as well as chief executive officer experience. This search identified Dame Clara Furse who was recommended by the Committee for appointment by the Board based on her significant banking and finance experience as former CEO of a number of financial institutions.

Egon Zehnder undertook an external search in respect of the role of Group Chief Financial Officer. Concurrent to this external search, an internal search was undertaken for this role and, following an extensive review of candidates, a preferred internal candidate was chosen with Nick Read being recommended for appointment by the Committee.

The Committee recognises that with the changes in Board composition, changes will be required on the Board's committees. The first of these changes will be to invite Omid Kordestani to join the Committee with effect from 28 July 2014. Changes will also take place to the Remuneration Committee and Audit and Risk Committee. With effect from 28 July 2014, Philip Yea will resign from the Remuneration Committee and Valerie Gooding will join the

Remuneration Committee. Also on 28 July 2014, Sir Crispin Davis, who will be appointed to the Board on this date, and Philip Yea will join the Audit and Risk Committee. Dame Clara Furse will also join the Audit and Risk Committee on her appointment to the Board on 1 September 2014.

The Board acknowledges that diversity extends beyond the boardroom and supports management in their efforts to build a diverse organisation. It endorses the Company's policy to attract and develop a highly qualified and diverse workforce; to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory. The boardroom diversity policy was introduced in February 2012 and reviewed by the Committee in March 2013 and March 2014. It acknowledges the importance of diversity, including gender, to the effective functioning of the Board and focuses on our aspiration to have a minimum of 25% female representation on the Board by 2015. With the appointment of Valerie Gooding on 1 February 2014 the Board has 21% female representation which will increase to 23% on the appointment of Dame Clara Furse on 1 September 2014. Subject to securing suitable candidates, when making appointments we will seek directors who fit the skills criteria and gender balance that is in line with the Board's aspiration. We continue to focus on encouraging diversity of business skills and experience, recognising that directors with diverse skills sets, capabilities and experience gained from different geographic and cultural backgrounds enhance the Board. Further information, including the proportions of women in senior management, is shown in 'Our people' on page 36 and within the organisation overall, is contained in our 2013-14 sustainability report, available at [vodafone.com/sustainability/report2014](http://vodafone.com/sustainability/report2014).

This year, when reviewing the re-election of directors at the AGM in July, the Committee took account of the fact that Luc Vandeveldel will have served 11 years as of 31 August 2014 and Philip Yea will have served nine years as of 1 September 2014. The Board has considered the matter carefully and believes that both these non-executive directors continue to demonstrate the qualities of independence and judgement in carrying out their roles, supporting the executive directors and senior management in an objective manner. Their length of service and resulting experience and knowledge of the Company is of great benefit to the Board and both directors will stand for re-election at the AGM. The subject of their independence will be kept under review.

In the year ahead the Committee will continue to assess what enhancements should be made to the Board's and committees' composition and will continue to monitor developments in corporate governance to ensure the Company remains at the forefront of good governance practices.

/s/ Gerard Kleisterlee

**Gerard Kleisterlee**

On behalf of the Nominations and Governance Committee

20 May 2014

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Corporate governance (continued)

**Key objective:**

the provision of effective governance over the appropriateness of the Group's financial reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditor and oversight over the Group's systems of internal control, business risks and related compliance activities.

**Responsibilities:**

- g** reviewing our financial results announcements and financial statements and monitoring compliance with relevant statutory and listing requirements;
- g** reporting to the Board on the appropriateness of our accounting policies and practices including those identified as critical and requiring further disclosure;
- g** advising the Board on whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- g** overseeing the relationship with the external auditor;
- g** reviewing the scope, resources, results and effectiveness of the activity of the Group internal audit department;
- g** monitoring our compliance efforts in respect of section 404 and section 302 of the US Sarbanes-Oxley Act;

g considering and making recommendations to the Board on the nature and extent of the significant risks the Group is willing to take in achieving its strategic objectives;

g overseeing the Group's compliance processes; and

g performing in-depth reviews of specific areas of financial reporting, risk and internal controls.

#### The Committee and its work

The membership of the Committee has been selected with the aim of providing the wide range of financial and commercial expertise necessary to meet its responsibilities. Given my recent and relevant financial experience, the Board has designated me as its financial expert on the Committee for the purposes of the US Sarbanes-Oxley Act and the UK Corporate Governance Code. There were no changes to the membership of the Committee during the year, all of whom are non-executive directors of the Company.

The Committee meets at least four times during the year as part of its standard processes, supplemented by additional meetings as necessary. The external auditor, Deloitte LLP, is also invited to each meeting together with the Chief Executive, the Chief Financial Officer, the Group Financial Controller, the Group Financial Reporting Director and the Group Audit Director. The work of the Committee is structured around its responsibilities set out above and its detailed terms of reference which are available at [vodafone.com/governance](http://vodafone.com/governance). In addition to these activities the Committee conducts a rolling programme of in-depth review sessions where the Group's senior management provide briefings on key issues and developments particularly in relation to aspects of risk management. A summary of the reviews undertaken during the year are set out within Risk management below.

The Committee also regularly meets separately with Deloitte LLP, the Chief Financial Officer and the Group Audit Director without others being present.

Meetings of the Committee generally take place just prior to a Board meeting to maximise the efficiency of interaction with the Board and I report to the Board, as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

Following the external review of the Committee's effectiveness in the previous year, I, together with the Committee's secretary, conducted an internal review of effectiveness involving the members of the Committee, Company management and the external auditor. This confirmed the Committee remained effective at meeting its objectives.

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**Main activities of the Committee during the year**

I have set out below a summary of the major activities of the Committee in the year categorised between; financial reporting and the related statutory audit; risk management; and the assessment of internal controls. In addition, the Committee conducted a tender for the statutory audit through the process summarised on page 63.

**Financial reporting and the related statutory audit**

The Committee's primary responsibility in relation to the Group's financial reporting is to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- g the quality and acceptability of accounting policies and practices;
- g the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- g any correspondence from regulators in relation to our financial reporting;
- g material areas in which significant judgements have been applied or there has been discussion with the external auditor; and
- g whether the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. As part of the Committee's assessment of the annual report, it draws on the work of the Group's disclosure committee and also has discussions with senior management. The Committee's overall assessment forms the basis of the advice given to the Board to assist them in making the statement required by the UK Corporate Governance Code.

The Committee is committed to the continuous improvement in the effectiveness and clarity of the Group's corporate reporting and has encouraged management to support and adopt initiatives by regulatory bodies which would enhance our reporting.

## External audit

At the start of the audit cycle for the new financial year we received from Deloitte LLP a detailed audit plan identifying their audit scope, planning materiality and their assessment of key risks, which were discussed and agreed with the Committee. Planning materiality was lower this year, primarily driven by the disposal of our interest in Verizon Wireless. The audit risk identification process is considered a key factor in the overall effectiveness of the external audit process. For the 2014 financial year, the key risks identified were a combination of those identified in the 2013 financial year, being those in relation to goodwill impairment, provisioning for current tax liabilities and deferred tax asset recognition, and revenue recognition as these areas continue to require inherent management judgement, and three new specific risks identified in relation to (i) the accounting for the disposal of our interest in Verizon Wireless and the related acquisition of the remaining 23% interest in Vodafone Italy, (ii) the accounting for our acquisition of Kabel Deutschland and (iii) provisioning for legal and regulatory claims. The latter risk factor was added specifically in response to the reduction in audit materiality.

At each meeting of the Committee, these risks are reviewed and both management's primary areas of judgement and the external auditor's key areas of audit focus, are challenged. As a Committee, we support the professional scepticism, particularly in the areas of key judgement and accounting disclosure, displayed by Deloitte LLP.

We hold private meetings with the external auditor at each Committee meeting to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the external auditor's assessment of business risks and management activity thereon, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, independence of their audit and how they have exercised professional scepticism. I also meet with the external lead audit partner outside the formal Committee process throughout the year.

## External audit process effectiveness

We use an audit quality framework to assess the effectiveness of the external audit process. This involves detailed questioning of management at an operating company and Group level and also the members of the Committee. We also considered the firm-wide audit quality inspection report issued by the FRC in May 2013 and Deloitte LLP's response to the findings. The observations from this assessment for the 2014 financial year were presented and discussed at the May 2014 meeting. Management concluded that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be satisfactory. The Committee concurred with this view. The Committee has identified the 2015 financial year as a potential period of increased risk given the transition of the statutory auditor and will focus closely on this matter throughout the year.

## Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. Our work here was driven primarily by the Group's assessment of its principal risks and uncertainties, as set out on pages 196 to 200. We receive reports from the Group Audit Director on the Group's risk evaluation process and review changes to significant risks identified at both operating entity and Group levels.

In addition, the Committee also conducts a rolling programme of in-depth reviews into specific financial, operational and regulatory areas of the business. During the 2014 financial year, in-depth reviews were undertaken in the areas of:

g corporate treasury management;

- g legal intercept and related data management;
- g competition law and anti-bribery law compliance;
- g the management of risk within the supply chain;
- g information security;
- g risk management within the IT platform standardisation programme in Vodafone UK; and
- g the control environment in Vodafone Ghana.

In addition, the Committee received an update on Group legal compliance matters.

These reviews are critical to the role of the Committee, as they allow us to meet key business leaders responsible for these areas and provide independent challenge to their activities.



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Corporate governance (continued)

**Significant issues**

The Committee discussed with management the critical accounting judgements and key sources of estimation uncertainty outlined in note 1 Basis of preparation. The significant areas of focus considered by the Committee in relation to the 2014 accounts, and how these were addressed, are outlined below:

**Matter considered****Goodwill impairment testing**

This continued to represent a significant area of focus for the Committee given the materiality of the Group's goodwill balances (£23.3 billion at 31 March 2014) and the inherent subjectivity in impairment testing. The judgements in relation to goodwill impairment continue to relate primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the long-term business plan and the macroeconomic and related modelling assumptions underlying the valuation process.

**Action**

The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made. Areas of focus were the achievability of the business plans, assumptions in relation to terminal growth in the businesses at the end of the plan period, particularly in Europe where adverse trends in financial performance have been experienced, and discount rates, which have been subject to volatility given the current macroeconomic conditions.

This remains a prime area of audit focus and Deloitte LLP provided detailed reporting on these matters to the Committee including sensitivity testing.

**Taxation**

The Group is subject to a range of tax claims and related legal actions across a number of jurisdictions where it operates. The most material claim is from the Indian tax authorities in relation to our acquisition of Vodafone India

The Group Tax Director presented management's view of both the provisioning and disclosure of tax contingencies and deferred tax asset recognition at the May 2014 meeting of the Committee. In respect of tax

Limited from Hutchison Telecommunications International Limited group in 2007, for the amount of INR 142 billion (£1.4 billion) including interest. Further details of this claim are described in note 30 Contingent liabilities .

Further, the Group has extensive accumulated tax losses as outlined in note 6 Taxation , and a key management judgement is whether a deferred tax asset should be recognised in respect of these losses. As at 31 March 2014 the Group had recognised a £21.2 billion deferred tax asset in respect of these tax losses.

### Liability provisioning

The Group is subject to a range of claims and legal actions from a number of sources including competitors, regulators, customers, suppliers, and on occasion fellow shareholders in Group subsidiaries. The level of provisioning for contingent and other liabilities is an issue where management and legal judgements are important and accordingly an area of Committee focus. The most material claim is from Telecom Egypt in relation to allegations of breach of non-discrimination provisions within an interconnect agreement. Details of the claim are outlined in note 30 Contingent liabilities .

### Revenue recognition

The timing of revenue recognition, the recognition of revenue on a gross or net basis, the treatment of discounts, incentives and commissions and the accounting for multi-element arrangements are complex areas of accounting.

### Acquisitions and disposals

The Group made a number of highly material business acquisitions and disposals during the year including the disposal of Verizon Wireless, and the acquisition of interests in Kabel Deutschland and Vodafone Italy. This gave rise to a number of complex accounting and disclosure requirements in the financial statements.

### IT controls in relation to privileged user access

The Group's IT infrastructure platform hosts a number of financial reporting related applications. An issue was identified in respect of privileged user access controls within part of the IT infrastructure platform which could

contingencies, including the India case noted opposite, this involved a discussion of the extent and strength of professional advice received from external legal and advisory firms. In relation to the recognition of the deferred tax assets, management's plans and expectations for future taxable profits were critically reviewed.

This is also an area of higher audit risk and accordingly, the Committee receives detailed oral and written reporting from Deloitte LLP on these matters.

The Committee received a presentation from the Group's General Counsel and Company Secretary in May 2014 on management's assessment of the most material claims, including relevant legal advice received and the level of provision held against each. Deloitte LLP also reviews these matters, forming an independent view that is discussed with the Committee.

Deloitte LLP outlined to the Committee their approach to the audit of revenue, as part of their presentation of the detailed audit plan. The Committee also considered any observations made by the auditors as part of their reporting to the Committee.

Management outlined the key accounting and disclosure impacts in relation to these transactions. The Committee requested and received detailed reporting from Deloitte LLP on their assessment of the accounting and disclosures made by management in both the half-year and annual financial statements.

Management outlined tested alternative controls in place which provided assurance over the completeness and accuracy of the information derived from the impacted financial reporting related applications.

have had an adverse impact on certain of the Group's controls and financial systems.

Deloitte LLP extended their controls and substantive testing to obtain assurance over both the compensating controls and the completeness and accuracy of the management information derived from these applications.

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**Assessment of internal control**

We reviewed the process by which the Group evaluated its control environment. Our work here was driven primarily by the Group Audit Director's reports on the effectiveness of internal controls, significant identified frauds and any identified fraud that involved management or employees with a significant role in internal controls. I meet privately with the Group's Audit and Compliance Directors outside the formal committee process as necessary.

Oversight of the Group's compliance activities in relation to section 404 of the Sarbanes-Oxley Act also falls within the Committee's remit.

**Internal audit**

Monitoring and review of the scope, extent and effectiveness of the activity of the Group Internal Audit department is an agenda item at each Committee meeting. Reports from the Group Audit Director usually include updates on audit activities, progress of the Group audit plan, the results of any unsatisfactory audits and the action plans to address these areas, and resource requirements of the Internal Audit department. I play a major role in setting the Group Audit Director's annual objectives.

**Fraud and whistle-blowing**

We review the channels in place to enable employees to raise concerns about possible irregularities in financial reporting or other issues such as breaches of the Code of Conduct and for those matters to be investigated. Further, we receive summaries of investigations into known or suspected fraudulent activities by both third parties and employees.

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Corporate governance (continued)

**Governance of the External Audit relationship**

The Committee considers the reappointment of the external auditor and also assesses their independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Group audit every five years and the year ended 31 March 2014 will be the current lead audit partner's fifth year. Accordingly, and in compliance with the provisions outlined in the UK Corporate Governance Code and the notes on best practice issued by the Financial Reporting Council in July 2013, the Committee decided to put the audit for the 2015 financial year out to tender in November 2013.

The tender process and the Committee's involvement in that process is outlined in the diagram on page 63. All of the big 4 audit firms were invited to participate in the tender. Deloitte LLP withdrew at a preliminary stage noting the longevity of their appointment, having been the Group's auditors since its stock market listing in 1988.

Having concluded the process in February 2014, the Committee recommended to the Board that PricewaterhouseCoopers LLP be appointed as the Group's statutory auditor for the 2015 financial year. Accordingly, a resolution proposing the appointment of PricewaterhouseCoopers LLP as our auditor will be put to the shareholders at the 2014 AGM. There are no contractual obligations restricting the Committee's choice of external auditor and we do not indemnify our external auditor.

The Committee will continue to review the auditor appointment and the need to tender the audit, ensuring the Group's compliance with the UK Corporate Governance Code and any reforms of the audit market by the UK Competition Commission and the European Union.

In its assessment of the independence of the auditor and in accordance with the US Public Company Accounting Oversight Board's standard on independence, the Committee receives details of any relationships between the Company and Deloitte LLP that may have a bearing on their independence and receives confirmation that they are independent of the Company within the meaning of the securities laws administered by the US Securities & Exchange Commission (SEC).

During the year, Deloitte LLP and related member firms charged the Group £9 million (2013: £8 million, 2012: £7 million) for statutory audit services. The Committee approved these fees following review of audit scope changes for the 2014 financial year, including the impact of business acquisitions and disposals which were primarily in relation to Kabel Deutschland, the disposal of Verizon Wireless and the acquisition of the remaining 23% interest in Vodafone

Italy. The Committee also received assurance from Deloitte LLP that the fees were appropriate for the scope of the work required.

### **Non-audit services**

As a further measure to protect the objectivity and independence of the external auditor, the Committee has a policy governing the engagement of the external auditor to provide non-audit services. This precludes Deloitte LLP from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that Deloitte should only be engaged for non-audit services where there is no legal or practical alternative supplier. No material changes have been made to this policy during the financial year.

For certain specific permitted services, the Committee has pre-approved that Deloitte LLP can be engaged by management, subject to the policies set out above, and subject to specified fee limits for individual engagements and fee limits, for each type of specific service. For all other services or those permitted services that exceed the specified fee limits, I, as Chairman, or in my absence another member, can pre-approve permitted services.

In addition to the statutory audit fee, Deloitte LLP and related member firms charged the Group £4 million (2013: £1 million) for audit-related and other assurance services. These fees were materially higher than in prior years as Deloitte acted as the Reporting Accountant in relation to a number of shareholder and regulatory filings in connection with the disposal of our interest in Verizon Wireless and the related acquisition of the remaining 23% interest in Vodafone Italy. Further details of the fees paid, for both audit and non-audit services, can be found in note 3 to the consolidated financial statements.

For a number of years, PricewaterhouseCoopers LLP has provided the Group with a wide range of consulting and assurance services. Following the decision to appoint them as auditors for the 2015 financial year, it was agreed by the Committee that any existing permitted non-audit service engagements which were not in line with the Group's non-audit services policy should cease by 30 June 2014. This decision was made to allow a timely transition of these services and minimise the impact on the business. From 1 April 2014, PricewaterhouseCoopers LLP will only be engaged for non-audit services which are in line with the Group's non-audit services policy.

/s/ Nick Land

**Nick Land**

On behalf of the Audit and Risk Committee

20 May 2014

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Corporate governance (continued)

**How do we engage with our shareholders?**

We are committed to communicating our strategy and activities clearly to our shareholders and, to that end, we maintain an active dialogue with investors through a planned programme of investor relations activities.

**Investor relations programme**

The programme includes:

**g** formal presentations of full-year and

half-year results, and interim management statements (see [vodafone.com/investor](http://vodafone.com/investor) for more information);

**g** briefing meetings with major institutional

shareholders in the UK, the United States and Europe after the full-year and half-year results; (a graph showing the geographical analysis of investors is shown on this page);

**g** regular investor relations meetings with

investors in other geographies;

**g** formal presentations around significant

acquisitions and disposals, e.g. the acquisition of Kabel Deutschland and the Verizon Wireless transaction;

**g** regular meetings between institutional

investors and analysts, and the Chief Executive and Chief Financial Officer, to discuss business performance, growth strategy and address any issues of concern;

**g** meetings between major shareholders

and the Chairman on an ongoing basis including roadshows in London and Edinburgh to obtain feedback and consider corporate governance issues;

**g** analysing and approaching new

geographies to actively market the business to new investors;

g dialogue between the Remuneration

Committee and shareholders. Go to pages 70 and 71 for more information;

g hosting investors and analysts sessions

at which senior management from relevant operating companies are present;

g attendance by senior executives across

the business at relevant meetings and conferences throughout the year;

g responding daily to enquiries from

shareholders and analysts through our Investor Relations team;

g hosting webinars to highlight key areas of

the business such as M-Pesa and money payment services, Vodafone Turkey, Vodafone Netherlands and 4G; and

g a section dedicated to shareholders and

analysts on our website at [vodafone.com/investor](http://vodafone.com/investor), including specific sections for any material transactions or shareholder events, e.g. the Verizon Wireless transaction.

The Chairman has overall responsibility for ensuring that there is effective communication with investors, and that the Board understands the views of major shareholders on matters such as governance and strategy. The Chairman makes himself available to meet shareholders for this purpose. The Senior Independent Director and other members of the Board are also available to meet major investors on request. The Board receives a regular report from the Investor Relations team and feedback from meetings held between executive management, or the Investor Relations team and institutional shareholders, is also communicated to the Board.

## What happens at our AGM?

Who attends?

g All of our directors.

g Executive Committee members.

g Our shareholders.

What is the format?

g A summary presentation of results is given before the Chairman deals with the formal business.

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**g** All shareholders present can question the Chairman, the Chairmen of the Committees and the rest of the Board both during the meeting and informally afterwards.

**g** The Board encourages participation of investors, including individual investors, at the AGM.

### AGM broadcast

**g** The AGM is broadcast live on our website at [vodafone.com/agm](http://vodafone.com/agm).

**g** A recording can subsequently be viewed on our website.

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Resolutions

**g** Voting on all resolutions at the AGM is on a poll. The proxy votes cast, including details of votes withheld, are disclosed to those in attendance at the meeting and the results are published on our website and announced via the Regulatory News Service.

A summary of our share and control structures is set out in [Shareholder information](#) on pages 182 to 189.

**How do we deal with internal control**

**and risk management?**

The Board has overall responsibility for the system of internal control. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established procedures that implement in full the Turnbull Guidance [Internal Control: Revised Guidance for Directors on the Combined Code](#) for the year under review and to the date of this annual report. These procedures, which are subject to regular review, provide an ongoing process for identifying, evaluating and managing the significant risks we face. See page 89 for management's report on internal control over financial reporting.

**Monitoring and review activities**

There are clear processes for monitoring the system of internal control and reporting any significant control failings or weaknesses together with details of corrective action. These include:

**g** the local Chief Executive and Chief Financial Officer of each operating business formally certifying the operation of their control systems each year and highlighting any weaknesses. These results are reviewed by regional management, the Audit and Risk Committee, and the Board;

**g** local Chief Executives certifying compliance with high risk policies in their companies, with Group Compliance reviewing evidence of compliance;

- g the Group's Disclosure Committee reviewing the appropriateness of disclosures and providing an annual report to the Group's Chief Executive and the Chief Financial Officer on the effectiveness of the Group's disclosure controls and procedures;
- g maintaining disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure; and
- g the Group Internal Audit department periodically examining business processes on a risk basis throughout the Group and reporting to the Audit and Risk Committee.

In addition, the Board reviews any reports from the external auditor presented to the Audit and Risk Committee and management in relation to internal financial controls.

- g evaluating the risks we face in achieving our objectives;
- g determining the risks that are considered acceptable to bear;
- g assessing the likelihood of the risks concerned materialising;
- g identifying our ability to reduce the incidence and impact on the business of risks that do materialise; and
- g ensuring that the costs of operating particular controls are proportionate to the benefit.

### **Risk management**

Although many risks remain outside of our direct control, a range of activities are in place to mitigate the primary risks identified including those set out on pages 196 to 200. The framework for identifying and managing our risks is set out on page 46. A range of mitigations for risks faced by the Group are included on page 90.

### **Review of effectiveness**

The Board and the Audit and Risk Committee have reviewed the effectiveness of the internal control system including financial, operational and compliance controls, and risk management in accordance with the Code for the period from 1 April 2013 to 20 May 2014 (the date of this annual report). No significant failings or weaknesses were identified during this review. However, had there been any such failings or weaknesses, the Board confirms that necessary actions would have been taken to remedy them.

The directors, the Chief Executive and the Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures and, based on that evaluation, have concluded that the disclosure controls and procedures were effective at the end of the period covered by this report.

**What is our approach to other governance matters?**

### **Group policy compliance**

Each Group policy is owned by a member of the Executive Committee so that there is clear accountability and authority for ensuring the associated business risk is adequately managed. Regional chief executives and the senior leadership team member responsible for each Group function have primary accountability for ensuring compliance with all Group policies by all our markets and entities. Our Group Compliance team and policy champions support the policy owners and local markets in implementing policies and monitoring compliance.

### **Code of Conduct**

All of the key Group policies have been consolidated into the Vodafone Code of Conduct. This is a central ethical and policy document applicable to all employees and those who work for or on behalf of Vodafone. It sets out the standards of behaviour expected in relation to areas such as insider dealing, bribery and raising concerns through the whistle-blowing process (known internally as *Speak Up* ).

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Corporate governance (continued)

**What are our US listing requirements?**

As Vodafone's American depositary shares are listed on the NASDAQ Stock Market LLC (NASDAQ), we are required to disclose a summary of any material differences between the corporate governance practices we follow and those of US companies listed on NASDAQ. Vodafone's corporate governance practices are primarily based on UK requirements but substantially conform to those required of US companies listed on NASDAQ. The material differences are as follows:

**Independence**

Different tests of independence for Board members are applied under the Code and the NASDAQ listing rules. The Board is not required to take into consideration NASDAQ's detailed definitions of independence as set out in the NASDAQ listing rules.

In accordance with the Code, the Board has carried out an assessment based on the independence requirements of the Code and has determined that, in its judgement, all of Vodafone's non-executive directors (who make up the majority of the Board) are independent within the meaning of those requirements.

**Committees**

The NASDAQ listing rules require US companies to have a nominations committee, an audit committee and a compensation committee, each composed entirely of independent directors, with the nominations committee and the audit committee each required to have a written charter which addresses the committee's purpose and responsibilities, and the compensation committee having sole authority and adequate funding to engage compensation consultants, independent legal counsel and other compensation advisors.

Our Nominations and Governance Committee is chaired by the Chairman of the Board and its other members are independent non-executive directors. Our Remuneration Committee is composed entirely of independent non-executive directors.

The Audit and Risk Committee is composed entirely of non-executive directors, each of whom (i) the Board has determined to be independent based on the independence requirements of the Code and (ii) meets the independence requirements of the Exchange Act. We have terms of reference for our Nominations and Governance Committee,

Audit and Risk Committee and Remuneration Committee, each of which complies with the requirements of the Code and is available for inspection on our website ([vodafone.com/governance](http://vodafone.com/governance)). These terms of reference are generally responsive to the relevant NASDAQ listing rules but may not address all aspects of these rules.

### Code of Conduct

Under the NASDAQ listing rules, US companies must adopt a code of conduct applicable to all directors, officers and employees that complies with the definition of a code of ethics set out in section 406 of the Sarbanes-Oxley Act. We have adopted a Code of Ethics that complies with section 406 which is applicable only to the senior financial and principal executive officers, and which is available on our website ([vodafone.com/governance](http://vodafone.com/governance)). We have also adopted a separate Code of Conduct which applies to all employees.

### Quorum

The quorum required for shareholder meetings, in accordance with our articles of association, is two shareholders, regardless of the level of their aggregate share ownership, while US companies listed on NASDAQ are required by the NASDAQ listing rules to have a minimum quorum of 33.33% of the shareholders of ordinary shares for shareholder meetings.

### Related party transactions

In lieu of obtaining an independent review of related party transactions for conflicts of interests in accordance with the NASDAQ listing rules, we seek shareholder approval for related party transactions that (i) meet certain financial thresholds or (ii) have unusual features in accordance with the Listing Rules issued by the FCA in the United Kingdom (the Listing Rules), the Companies Act 2006 and our articles of association.

Further, we use the definition of a transaction with a related party as set out in the Listing Rules, which differs in certain respects from the definition of related party transaction in the NASDAQ listing rules.

### Shareholder approval

We comply with the NASDAQ listing rules and the Listing Rules, when determining whether shareholder approval is required for a proposed transaction.

Under the NASDAQ listing rules, whether shareholder approval is required for a transaction depends on, among other things, the percentage of shares to be issued or sold in connection with the transaction. Under the Listing Rules, whether shareholder approval is required for a transaction depends on, among other things, whether the size of a transaction exceeds a certain percentage of the size of the listed company undertaking the transaction.



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**Directors remuneration**

**Letter from the Remuneration Committee Chairman**

**Luc Vandevelde**

Chairman of the Remuneration Committee

Dear fellow shareholder

I am pleased to present you with Vodafone's remuneration report for 2014.

This year will be the first time we will ask shareholders to vote on our remuneration policy in addition to the rest of the remuneration report. With the new remuneration disclosure regulations in mind we have changed the structure of our report to present first our policy and then detail its implementation. Apart from some changes which I outline below, our policy and practice remain essentially unchanged.

As always we have tried to ensure that the remuneration policy and practice at Vodafone drive behaviours that are in the long-term interests of the Company and its shareholders. The Remuneration Committee continues to be mindful of the considerable interest that exists in executive compensation and we are very conscious of the many and varied concerns.

**Our remuneration principles**

Our remuneration principles, which our detailed policy supports, are as follows:

- g we offer competitive and fair rates of pay and benefits to attract and retain the best people;
- g our policy and practices aim to drive behaviours that support our Company strategy and business objectives;
- g our pay for performance approach means that our incentive plans only deliver significant rewards if and when they are justified by performance; and
- g our approach to share ownership is designed to help maintain commitment over the long-term, and to ensure that the interests of our senior management team are aligned with those of shareholders.

## Pay for performance

Pay for performance continues to be an important principle for Vodafone when setting remuneration policy.

A high proportion of total reward is awarded through short-term and long-term performance related remuneration. At target around 70% of the package is delivered in the form of variable pay, which rises to around 85% if maximum payout is achieved.

We ensure our incentive plans only deliver significant rewards if and when they are justified by performance. For the Remuneration Committee this means two things:

g ensuring the targets we set for incentive plans are suitably challenging (as can be seen by the historic levels of achievement for both short-and long-term incentive plans shown on page 82); and

g if needed, exercising discretion. The Committee reviews all incentive plans before any payments are made to executives and has full discretion to adjust payments downwards if it believes circumstances warrant it.

## Company performance and the link to incentives

During the 2014 year our emerging markets businesses have delivered strong organic revenue growth along with good cash flow and adjusted EBITDA performance. However, this has been offset by significant ongoing competitive, regulatory and macroeconomic pressures in our European operations where revenue has declined. Taken in the round this led to slightly below target performance which is reflected in our annual bonus payout of 88.5% of target. More details can be found on page 78.

Over the last three years our adjusted free cash flow performance, although strong in our emerging markets, has been below our target levels in Europe for similar reasons to those described above. However, we have taken significant strategic steps which have led to strong growth in the share price and Total Shareholder Return ( TSR ) which, when combined with adjusted free cash flow, result in a payout for the executive directors long-term incentive awards of 37.2% of maximum. More details can be found on page 79. Strategic initiatives include:

g the sale of our 45% stake in Verizon Wireless;

g the record US\$85 billion return to shareholders;

g the announcement of Project Spring the acceleration of our capital investment to strengthen further our network and customer experience;

g the acquisition of a leading cable operator in Germany as well as fixed line businesses such as CWW and TelstraClear;

g launching Vodafone Red which is now available in 20 markets; and

g developing our M-Pesa footprint.

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Directors remuneration (continued)

**Letter from the Remuneration Committee Chairman (continued)**

**Key decisions on executive remuneration**

The Remuneration Committee considers every decision around executive director remuneration very carefully. Some of the major decisions made this year were as follows:

- g** Nick Read was promoted to Chief Financial Officer during the year and we determined his new remuneration package. Our decision to give Nick a base salary of £675,000 was made in the context of the existing executive directors remuneration levels and reviewed against the external market;
- g** the Remuneration Committee considered the impact of the Verizon Wireless transaction and Project Spring on executive remuneration and decided to remove the impact of Project Spring on pre-existing long-term incentive awards to ensure an appropriate comparison to the original targets that were set. Please see page 84 for more details;
- g** we decided to reduce the maximum vesting level of our long-term incentive opportunity for our Executive Committee. For the 2015 long-term incentive awards, the maximum vesting level will reduce from three times to two and a half times the target vesting level. We have also introduced a mandatory holding period where 50% of the post-tax shares are released after vesting, a further 25% after the first anniversary of vesting, and the remaining 25% will be released after the second anniversary;
- g** following a review of the pension levels in the context of pension provision for our broader employee population, from November 2015 pension levels for our Executive Committee will reduce from 30% of salary to 24% of salary. This brings our Executive Committee pension level in line with our UK senior management; and

g the Remuneration Committee took account of business performance, salary increases for other UK employees and external market information when deciding to increase the annual base salaries of the Chief Executive (Vittorio Colao) and the Chief Technology Officer (Stephen Pusey) by 3.6% and 4.3% respectively from 1 July 2014. This is the first salary increase that either individual has received for three years.

### Assessment of risk

One of the activities of the Remuneration Committee is to continually be aware and mindful of any potential risk associated with our reward programmes. Vodafone seeks to provide a structure of rewards that encourages acceptable risk taking and high performance through optimal pay mix, performance metrics and calibration, and timing. With that said, it is prudent practice to ensure that our reward programmes achieve this and do not encourage excessive or inappropriate risk taking. The Committee has considered the risk involved in the incentive schemes and is satisfied that the design elements and governance procedures mitigate the principal risks.

### Share ownership

For many years Vodafone has had demanding share ownership goals for our executive directors. These goals, and our achievement against the goals, are set out on page 80. We are delighted that, collectively, our Executive Committee own shares with a value of over £50 million. We are proud that the high level of shareholding by our Executive Committee has been maintained despite the Verizon Wireless transaction and the associated share consolidation. After the transaction our Executive Committee members individually elected to reinvest the vast majority of their post-tax proceeds from the transaction back into Vodafone shares. Owning shares is part of our culture and each year we expect the number of shares owned by our Executive Committee members to grow. This level of ownership by management clearly shows their alignment with shareholders but also indicates their belief in the long-term value creation opportunities of our shares.

### Consultation with shareholders

The Remuneration Committee continues to have dialogue with our shareholders. The views of all shareholders are taken seriously, and letters and emails are replied to promptly. In addition, during the year we invited our largest shareholders to meet with me in person and the resulting meetings were very helpful for us to better understand our shareholders' viewpoint. We were delighted that last year the remuneration report received a 96.36% vote in favour. This compares with 96.44% support in the prior year. We sincerely hope to receive your continued support at the AGM on 29 July 2014.

/s/ Luc Vandeveld

### Luc Vandeveld

Chairman of the Remuneration Committee

20 May 2014

### Contents of the remuneration report

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The remuneration policy table	Page 72	Remuneration Committee	Page 77
Chairman and non-executive directors remuneration	Page 76	2014 remuneration	Page 78
		2015 remuneration	Page 84



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**Remuneration policy**

In this forward-looking section we describe our remuneration policy for the Board. This includes our considerations when determining policy, a description of the elements of the reward package and an indication of the potential future value of this package for each of the executive directors. In addition we describe our policy applied to the Chairman and non-executive directors.

We will be seeking shareholder approval for our remuneration policy at the 2014 AGM and we intend to implement at that point. We do not envisage making any changes to our policy over the next three years, however, we will review it each year to ensure that it continues to support our Company strategy. If we feel it is necessary to make a change to our policy within the next three years, we will seek shareholder approval.

**Considerations when determining remuneration policy**

Our remuneration principles which are outlined on page 69 are the context for our policy. Our principal consideration when determining remuneration policy is to ensure that it supports our Company strategy and business objectives.

The views of our shareholders are also taken into account when determining executive pay. In advance of asking for approval for the remuneration policy we have consulted with our major shareholders. We invited our top 20 shareholders to comment on remuneration at Vodafone and several meetings between shareholders and the Remuneration Committee Chairman took place. The main topics of consultation were as follows:

- g new share plan rules for which we will seek shareholder approval at the 2014 AGM;
- g changes to executive remuneration arrangements (reduction of maximum long-term incentive vesting levels and pension provision); and
- g impact of Project Spring on Free Cash Flow performance under the global long-term incentive plan ( GLTI ).

We have not consulted with employees on the executive remuneration policy nor is any fixed remuneration comparison measurement used. However, when determining the policy for executive directors, we have been mindful of the pay and employment conditions of employees in Vodafone Group as a whole, with particular reference to the market in which the executive is based. Further information on our remuneration policy for other employees is given on page 74.

## **Performance measures and targets**

Our Company strategy and business objectives are the primary consideration when we are selecting performance measures for our incentive plans. The targets within our incentive plans that are related to internal financial measures (such as revenue, profit and cash flow) are typically determined based on our budgets. Targets for strategic and external measures (such as competitive performance and Total Shareholder Return ( TSR )) are set based on Company objectives and in light of the competitive marketplace. The threshold and maximum levels of performance are set to reflect minimum acceptable levels at threshold and very stretching but achievable levels at maximum.

As in previous remuneration reports we will disclose the details of our performance targets for our short and long-term incentive plans. However, our annual bonus targets are commercially sensitive and therefore we will only disclose our targets in the remuneration report following the completion of the financial year. We will disclose the targets for each long-term award in the remuneration report for the financial year preceding the start of the performance period.

At the end of each performance period we review performance against the targets, using judgement to account for items such as (but not limited to) mergers, acquisitions, disposals, foreign exchange rate movements, changes in accounting treatment, material one-off tax settlements etc. The application of judgement is important to ensure that the final assessments of performance are fair and appropriate.

In addition, the Remuneration Committee reviews the incentive plan results before any payments are made to executives or any shares vest and has full discretion to adjust the final payment or vesting downwards if they believe circumstances warrant it. In particular, the Committee may use discretion to clawback any unvested share award (or vested but unexercised options) as it sees appropriate, in which case the award may lapse wholly or in part, may vest to a lesser extent than it would otherwise have vested or vesting may be delayed.



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Directors remuneration (continued)

**Remuneration policy (continued)**  
**The remuneration policy table**

The table below summarises the main components of the reward package for executive directors.

Base salary	Purpose and link to strategy	Operation
	<p><b>g</b> To attract and retain the best talent.</p>	<p><b>g</b> Salaries are usually reviewed annually</p> <p>and fixed for 12 months commencing 1 July. Decision is influenced by:</p> <p><b>g</b> level of skill, experience and scope of responsibilities of individual;</p> <p><b>g</b> business performance, scarcity of talent, economic climate and market conditions;</p>

g increases elsewhere within the Group;

and

g external comparator groups (which are

used for reference purposes only) made up of companies of similar size and complexity to Vodafone.

g Executive directors may choose to

participate in the defined contribution pension scheme or to receive a cash allowance in lieu of pension.

Pension

g To remain competitive within the

marketplace.

Benefits

g To aid retention and remain competitive within the marketplace.

g Travel related benefits. This may include

(but is not limited to) company car or cash allowance, fuel and access to a driver where appropriate.

g Private medical, death and disability

insurance and annual health checks.

g In the event that we ask an individual to

relocate we would offer them support in line with Vodafone's relocation or international assignment policies. This may cover (but is not limited to) relocation, cost of living allowance, housing, home leave, education support, tax equalisation and advice.

g Legal fees if appropriate.

g Other benefits are also offered in line with

the benefits offered to other employees for example, all-employee share plans, mobile phone discounts, maternity/paternity benefits, sick leave, paid holiday, etc.

Annual Bonus

g To drive behaviour and communicate

Global Short-

the key priorities for the year.

Term Incentive

g Bonus levels and the appropriateness of

measures and weightings are reviewed annually to ensure they continue to support our strategy.

Plan ( GSTIP )

g To motivate employees and incentivise

delivery of performance over the one year operating cycle.

g Performance over the financial year is

measured against stretching financial and non-financial performance targets set at the start of the financial year.

g The financial metrics are designed to

both drive our growth strategies whilst also focusing on improving operating efficiencies. Measuring competitive performance with its heavy reliance on net promoter score ( NPS ) means providing a great customer experience remains at the heart of what we do.

g The annual bonus is usually paid in cash

in June each year for performance over the previous financial year.

<p>Long-Term Incentive Global Long-Term Incentive Plan ( GLTI ) base awards and co-investment awards (further details can be found in the notes that follow this table)</p>	<p><b>g</b> To motivate and incentivise delivery of sustained performance over the long term.</p>	<p><b>g</b> Award levels and the framework for determining vesting are reviewed annually to ensure they continue to support our strategy.</p>
<p></p>	<p><b>g</b> To support and encourage greater shareholder alignment through a high level of personal financial commitment.</p>	<p><b>g</b> Long-term incentive base awards consist of performance shares which are granted each year.</p>
<p></p>	<p><b>g</b> The use of free cash flow as the principal performance measure ensures we apply prudent cash management and rigorous capital discipline to our investment decisions, whilst the use of TSR along with a performance period of not less than three years means that we are focused on the long-term interests of our shareholders.</p>	<p><b>g</b> Individuals must co-invest in Vodafone shares and hold them in trust for at least three years in order to receive the full target award.  <b>g</b> All awards vest not less than three years after the award based on Group operational and external performance.</p>
<p></p>	<p></p>	<p><b>g</b> Dividend equivalents are paid in cash after the vesting date.</p>

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**Opportunity**

**g** Average salary increases for existing Executive Committee members (including

executive directors) will not normally exceed average increases for employees in other appropriate parts of the Group. Increases above this level may be made in specific situations. These situations could include (but are not limited to) internal promotions, changes to role, material changes to the business and exceptional company performance.

**g** The pension contribution or cash payment is equal to 30% of annual gross salary.

In light of pension levels elsewhere in the Group we have decided to reduce the pension benefits level from 30% to no more than 24% from November 2015.

**g** Benefits will be provided in line with appropriate levels indicated by local market

practice in the country of employment.

**g** We expect to maintain benefits at the current level but the value of benefit may

fluctuate depending on, amongst other things, personal situation, insurance premiums and other external factors.

**Performance metrics**

None.

None.

None.

**g** Bonuses can range from 0 200% of base salary, with 100% paid for on-target

performance. Maximum is only paid out for exceptional performance.

**g** Performance over each financial year

is measured against stretching targets set at the beginning of the year.

**g** The performance measures normally

comprise of a mix of financial and strategic measures. Financial measures may include (but are not limited to) profit, revenue and cash flow with a weighting of no less than 50%. Strategic measures may include (but are not limited to) competitive performance metrics such as net promoter score and market share.

**g** The basic target award level is 137.5% of base salary for the Chief Executive

(110% for other executive directors).

**g** Performance is measured against

stretching targets set at the beginning of the performance period.

**g** The target award level may increase up to 237.5% of base salary for the Chief

Executive (or 210% for others) if the individual commits to a co-investment in shares equal in value to their base salary.

**g** Vesting is determined based on a

matrix of two measures:

**g** Minimum vesting is 0% of target award level, threshold vesting is 50% and

maximum vesting is 250% of the target award level.

**g** adjusted free cash flow as our

operational performance  
measure; and

**g** Maximum long-term incentive face value at award of 594% of  
base salary for the

Chief Executive (237.5% x 250%) and 525% for others.

**g** relative TSR against a peer

group of companies as our  
external performance measure.

**g** The awards that vest accrue cash dividend equivalents over the  
three year

vesting period.

**g** Awards vest to the extent performance conditions are satisfied.  
There is a

mandatory holding period where 50% of the post-tax shares are  
released after vesting, a further 25% after the first anniversary of  
vesting, and the remaining 25% will be released after the second  
anniversary.

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Directors remuneration (continued)

**Remuneration policy (continued)**

**Notes to the remuneration policy table**

**Existing arrangements**

We will honour existing awards to executive directors, and incentives, benefits and contractual arrangements made to individuals prior to their promotion to the Board. This will last until the existing incentives vest (or lapse) or the benefits or contractual arrangements no longer apply.

**Long-Term Incentive ( GLTI )**

When referring to our long-term incentive awards we use the financial year end in which the award was made. For example, the 2013 award was made in the financial year ending 31 March 2013. The awards are usually made in the first half of the financial year (the 2013 award was made in July 2012).

The extent to which awards vest depends on two performance conditions:

g underlying operational performance as measured by adjusted free cash flow; and

g relative Total Shareholder Return ( TSR ) against a peer group median.

**Adjusted free cash flow**

The free cash flow performance is based on the cumulative adjusted free cash flow figure over the performance period. The detailed targets and the definition of adjusted free cash flow are determined each year as appropriate. The target adjusted free cash flow level is set by reference to our long-range plan and market expectations. We consider the targets to be critical to the Company's long-term success and its ability to maximise shareholder value, and to be in



line with the strategic goals of the Company. The Remuneration Committee sets these targets to be sufficiently demanding with significant stretch where only outstanding performance will be rewarded with a maximum payout.

The cumulative adjusted free cash flow vesting levels as a percentage of target are shown in the table below (with linear interpolation between points):

Performance	Vesting percentage
Below threshold	0%
Threshold	50%
Target	100%
Maximum	125%

#### **TSR outperformance of a peer group median**

We have a limited number of appropriate peers and this makes the measurement of a relative ranking system volatile. As such, the outperformance of the median of a peer group is felt to be the most appropriate TSR measure. The peer group for the performance condition is reviewed each year and amended as appropriate.

The relative TSR position determines the performance multiplier. This will be applied to the adjusted free cash flow vesting percentage. There will be no multiplier until TSR performance exceeds median. Above median, the following table will apply (with linear interpolation between points):

	Multiplier
Median	No increase
Percentage outperformance of the peer group median equivalent to 65th percentile	1.5 times
Percentage outperformance of the peer group median equivalent to 80th percentile	2.0 times

In order to determine the percentages for the equivalent outperformance levels above median, the Remuneration Committee seeks independent external advice.

#### **Combined vesting matrix**

The combination of the two performance measures gives a combined vesting matrix as follows (with linear interpolation between points):

	TSR outperformance		
	Up to	65th percentile	80th percentile
Adjusted free cash flow measure	Median	equivalent	equivalent
Below threshold	0%	0%	0%
Threshold	50%	75%	100%
Target	100%	150%	200%
Maximum	125%	187.5%	250%

The combined vesting percentages are applied to the target number of shares granted.

#### **Outstanding awards**

For the awards made in the 2013 and 2014 financial years (vesting in July 2015 and June 2016 respectively) the award structure is as set out above, except that the maximum vesting percentage for cumulative adjusted free cash flow was 150% leading to an overall maximum of 300% of target award.

### Remuneration policy for other employees

While our remuneration policy follows the same fundamental principles across the Group, packages offered to employees reflect differences in market practice in the different countries, role and seniority.

For example, the remuneration package elements for our executive directors are essentially the same as for the other Executive Committee members, with some small differences, for example higher levels of share awards. The remuneration for the next level of management, our senior leadership team, again follows the same principles but with differences such as local and individual performance aspects in the annual bonus targets and performance share awards. They also receive lower levels of share awards which are partly delivered in restricted shares.

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**Estimates of total future potential remuneration from 2015 pay packages**

The tables below provide estimates of the potential future remuneration for each of the executive directors based on the remuneration opportunity granted in the 2015 financial year. Potential outcomes based on different performance scenarios are provided for each executive director.

The assumptions underlying each scenario are described below.

Fixed	<p>Consists of base salary, benefits and pension. Base salary is at 1 July 2014. Benefits are valued using the figures in the total remuneration for the 2014 financial year table on page 78 (of the 2014 report) and on a similar basis for Nick Read (promoted to the Board on 1 April 2014). Pensions are valued by applying cash allowance rate of 30% of base salary at 1 July 2014.</p>																									
	<table border="0"> <thead> <tr> <th></th> <th style="text-align: center;">Base</th> <th style="text-align: center;">Benefits</th> <th style="text-align: center;">Pension</th> <th style="text-align: center;">Total fixed</th> </tr> <tr> <th></th> <th style="text-align: center;">(£ 000)</th> <th style="text-align: center;">(£ 000)</th> <th style="text-align: center;">(£ 000)</th> <th style="text-align: center;">(£ 000)</th> </tr> </thead> <tbody> <tr> <td>Chief Executive</td> <td style="text-align: center;">1,150</td> <td style="text-align: center;">38</td> <td style="text-align: center;">345</td> <td style="text-align: center;">1,533</td> </tr> <tr> <td>Chief Financial Officer</td> <td style="text-align: center;">675</td> <td style="text-align: center;">23</td> <td style="text-align: center;">203</td> <td style="text-align: center;">901</td> </tr> <tr> <td>Chief Technology Officer</td> <td style="text-align: center;">600</td> <td style="text-align: center;">21</td> <td style="text-align: center;">180</td> <td style="text-align: center;">801</td> </tr> </tbody> </table>		Base	Benefits	Pension	Total fixed		(£ 000)	(£ 000)	(£ 000)	(£ 000)	Chief Executive	1,150	38	345	1,533	Chief Financial Officer	675	23	203	901	Chief Technology Officer	600	21	180	801
	Base	Benefits	Pension	Total fixed																						
	(£ 000)	(£ 000)	(£ 000)	(£ 000)																						
Chief Executive	1,150	38	345	1,533																						
Chief Financial Officer	675	23	203	901																						
Chief Technology Officer	600	21	180	801																						
On target	<p>Based on what a director would receive if performance was in line with plan. The target award opportunity for the annual bonus ( GSTIP ) is 100% of base salary. The target award opportunity for the long-term incentive ( GLTI ) is 237.5% of base salary for the Chief Executive and 210% for others. We assumed that TSR performance was at median.</p>																									
Maximum	<p>Two times the target award opportunity is payable under the annual bonus ( GSTIP ). The maximum levels of performance for the long-term incentive ( GLTI ) are 250% of target award opportunity. We assumed that TSR performance was at or above the 80th percentile equivalent.</p>																									
All scenarios	<p>Each executive is assumed to co-invest the maximum allowed under the long-term incentive ( GLTI ), 100% of salary, and the long-term incentive ( GLTI ) award reflects this. Long-term incentives consist of share awards only which are measured at face value i.e. no assumption for increase in share price or cash dividend equivalents payable.</p>																									

**Recruitment remuneration**

Our approach to recruitment remuneration is to pay no more than is necessary and appropriate to attract the right talent to the role.

The remuneration policy table (pages 72 and 73) sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an executive director. Any new director's remuneration package would include the same elements, and be subject to the same constraints, as those of the existing directors performing similar roles. This means a potential maximum bonus opportunity of 200% of base salary and long-term incentive maximum face value of opportunity at award of 594% of base salary.

When considering the remuneration arrangements of individuals recruited from external roles to the Board, we will take into account the remuneration package of that individual in their prior role. We only provide additional compensation to individuals for awards foregone. If necessary we will seek to replicate, as far as practicable, the level and timing of such remuneration, taking into account also any remaining performance requirements applying to it. This will be achieved by granting awards of cash or shares that vest over a timeframe similar to those forfeited and if appropriate based on performance conditions. A commensurate reduction in quantum will be applied where it is determined that the new awards are either not subject to performance conditions or subject to performance conditions that are not as stretching as those of the awards forfeited.

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Directors remuneration (continued)

**Remuneration policy (continued)**

**Service contracts of executive directors**

After an initial term of up to two years executive directors' contracts have rolling terms and are terminable on no more than 12 months' notice.

The key elements of the service contract for executives relate to remuneration, payments on loss of office (see below), and restrictions during active employment (and for 12 months thereafter). These restrictions include non-competition, non-solicitation of customers and employees etc.

Additionally, all of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control to the extent that any performance condition has been satisfied and pro-rated to reflect the acceleration of vesting.

**Payments for departing executives**

In the table below we summarise the key elements of our policy on payment for loss of office. We will of course, always comply both with the relevant plan rules and local employment legislation.

Provision	Policy
Notice period and compensation for loss of office in service contracts	<p><b>g</b> 12 months' notice from the Company to the executive director.</p> <p><b>g</b> Up to 12 months' base salary (in line with the notice period). Notice period payments will either be made as normal (if the executive continues to work during the notice period or is on gardening leave) or they will be made as monthly payments in lieu of notice (subject to mitigation if alternative employment is obtained).</p> <p><b>g</b></p>

Treatment of annual bonus ( GSTIP ) on termination under plan rules	<p>The annual bonus will be pro-rated for the period of service during the financial year and will reflect the extent to which Company performance has been achieved.</p> <p><b>g</b> The Remuneration Committee has discretion to reduce the entitlement to an annual bonus to reflect the individual s performance and the circumstances of the termination.</p>
Treatment of unvested long-term incentive awards ( GLTI ) and co-investment awards on termination under plan rules	<p><b>g</b> An executive director s award will vest in accordance with the terms of the plan and satisfaction of performance conditions measured at the normal completion of the performance period, with the award pro-rated for the proportion of the vesting period that had elapsed at the date of cessation of employment.</p> <p><b>g</b> The Remuneration Committee has discretion to vary the level of vesting as deemed appropriate, and in particular to determine that awards should not vest in the case of a bad leaver which may include, at their absolute discretion, departure in case of poor performance, departure without the agreement of the Board, or detrimental competitive activity.</p>
Pension and benefits	<p><b>g</b> Generally pension and benefit provisions will continue to apply until the termination date.</p> <p><b>g</b> Where appropriate other benefits may be receivable, such as (but not limited to) payments in lieu of accrued holiday and legal fees or tax advice costs in relation to the termination.</p> <p><b>g</b> Benefits of relative small value may continue after termination where appropriate, such as (but not limited to) mobile phone provision.</p>

In exceptional circumstances, an arrangement may be established specifically to facilitate the exit of a particular individual albeit that any such arrangement would be made within the context of minimising the cost to the Group. We will only take such a course of action in exceptional circumstances and where it is considered to be in the best interests of shareholders.

### **Chairman and non-executive directors remuneration**

Our policy is for the Chairman to review the remuneration of non-executive directors annually following consultation with the Remuneration Committee Chairman. Fees for the Chairman are set by the Remuneration Committee.

Element	Policy
Fees	<p><b>g</b> We aim to pay competitively for the role including consideration of the time commitment required. We benchmark the fees against an appropriate external comparator group. We pay fees to our</p>

Chairman and Senior Independent Director that include fees for chairmanship of any committees. We pay a fee to each of our other non-executive directors and they receive an additional fee if they chair a committee. Non-executive fee levels are set within the maximum level as approved by shareholders as part of our articles of association.

Allowances

**g** An allowance is payable each time a non-Europe-based non-executive director is required to travel to attend Board and committee meetings to reflect the additional time commitment involved.

Incentives

**g** Non-executive directors do not participate in any incentive plans.

Benefits

**g** Non-executive directors do not participate in any benefit plans. The Company does not provide any contribution to their pension arrangements. The Chairman is entitled to the use of a car and a driver whenever and wherever he is providing his services to or representing the Company. We have been advised that for non-executive directors, certain travel and accommodation expenses in relation to attending Board meetings should be treated as a taxable benefit therefore we also cover the tax liability for these expenses.

**Non-executive director service contracts**

Non-executive directors are engaged on letters of appointment that set out their duties and responsibilities. The appointment of non-executive directors may be terminated without compensation. Non-executive directors are generally not expected to serve for a period exceeding nine years. For further information refer to the Nomination and Governance Committee section of the annual report (page 59).

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**Annual report on remuneration****Remuneration Committee**

In this section we give details of the composition of the Remuneration Committee and activities undertaken over the 2014 financial year. The Committee is comprised to exercise independent judgement and consists only of the following independent non-executive directors:

**Chairman:** Luc Vandeveldel

**Committee members:** Renee James; Samuel Jonah; Philip Yea

The Committee regularly consults with Vittorio Colao, the Chief Executive, and Ronald Schellekens, the Group HR Director, on various matters relating to the appropriateness of awards for executive directors and senior executives, though they are not present when their own compensation is discussed. In addition, Adrian Jackson, the Group Reward and Policy Director, provides a perspective on information provided to the Committee, and requests information and analyses from external advisors as required. Rosemary Martin, the Group General Counsel and Company Secretary, advises the Committee on corporate governance guidelines and acts as secretary to the Committee.

**External advisors**

The Remuneration Committee seeks and considers advice from independent remuneration advisors where appropriate. The two appointed advisors were selected through a thorough process led by the Chairman of the Remuneration Committee and were appointed by the Committee. The Chairman of the Remuneration Committee has direct access to the advisors as and when required, and the Committee determines the protocols by which the advisors interact with management in support of the Committee. The advice and recommendations of the external advisors are used as a guide, but do not serve as a substitute for thorough consideration of the issues by each Committee member. Advisors attend Committee meetings occasionally, as and when required by the Committee.

Pricewaterhouse Coopers LLP ( PwC ) and Towers Watson are both members of the Remuneration Consultants Group and, as such, voluntarily operate under the Remuneration Consultants Group Code of Conduct in relation to executive remuneration consulting in the UK. This is based upon principles of transparency, integrity, objectivity, competence, due care and confidentiality by executive remuneration consultants. PwC and Towers Watson have confirmed that they adhered to that Code of Conduct throughout the year for all remuneration services provided to Vodafone and therefore the Committee are satisfied that they are independent and objective. The Remuneration Consultants Group Code of Conduct is available at [remunerationconsultantsgroup.com](http://remunerationconsultantsgroup.com).



Advisor	Appointed by	Services provided to the	Fees for services	Other services provided to
	Remuneration	Committee	provided to the	the Company
Pricewaterhouse	Committee in 2007	Advice on market practice; Governance;	£63	International mobility; Finance;
Coopers LLP ( PwC )	Committee in 2007	Performance analysis; Plan design		Technology; Tax; Operations; Compliance
Towers Watson	Remuneration Committee in 2007	Advice on market practice; Governance; Provide market data on executive and non-executive reward; Reward consultancy; Performance analysis	£25	Pension and benefit administration; Reward consultancy

Note:

1 Fees are determined on a time spent basis

PwC have been appointed as our auditors from April 2014 and therefore no longer advise the Remuneration Committee. Towers Watson continue to act as independent remuneration advisors.

Philip Yea sat on an advisory board for PwC until 14th January 2014. In light of PwC's role as advisor to the Remuneration Committee on remuneration matters up until April 2014, the Remuneration Committee considered his position and determined that there was no conflict or potential conflict arising.

## 2013 AGM

The 2013 remuneration report received a 96.36% vote in favour of a total of 31,950,649,494 votes cast (3.64% votes against and 436,513,724 votes were withheld).

## Meetings

The Remuneration Committee had six formal meetings during the year. Outside these meetings there are frequent discussions usually by conference call. The principal agenda items at the formal meetings were as follows:

Meeting	Agenda items	
May 2013	g 2013 annual bonus achievement and 2014 targets and ranges.	g 2013 directors remuneration report.
	g 2011 long-term incentive award vesting and 2014 targets and ranges.	g Review of the effectiveness of the Committee.
July 2013	g 2014 long-term incentive awards.	g Large local market CEO remuneration.
September 2013	g Impact of the Verizon Wireless transaction on reward arrangements.	
November 2013	g 2015 reward strategy.	g Impact of the Verizon transaction and
	g 2014 long-term incentive awards, share ownership levels, accounting costs and dilution levels.	Project Spring on incentives.
	g	g New share plan rules.
		g

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	Reduction of maximum leverage on future long-term incentive awards from 300% to 250% of target.	New remuneration reporting regulations.
	<a href="#">g</a> Reduction of pension levels from November 2015 from 30% to 24% of base salary.	<a href="#">g</a> Remuneration package for Nick Read and departure arrangements for Andy Halford.
January 2014	<a href="#">g</a> 2015 annual bonus framework.	<a href="#">g</a> Feedback from shareholder consultation.
	<a href="#">g</a> Non-executive director fee levels.	<a href="#">g</a> Committee advisors for 2015.
March 2014	<a href="#">g</a> 2015 reward packages for the Executive Committee and Chairman's fees.	<a href="#">g</a> 2014 directors' remuneration report.
	<a href="#">g</a> Risk assessment.	<a href="#">g</a> 2015 long-term incentive awards.
		<a href="#">g</a> Committee's effectiveness and terms of reference.

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Directors remuneration (continued)

**Annual report on remuneration (continued)****2014 remuneration**

In this section we summarise the pay packages awarded to our executive directors for performance in the 2014 financial year versus 2013. Specifically we have provided a table that shows all remuneration that was earned by each individual during the year and computed a single total remuneration figure for the year. The value of the annual bonus ( GSTIP ) was earned during the year but will be paid out in cash in the following year and the value of the long-term incentive ( GLTI ) shows the share awards which will vest in June 2014 as a result of the performance through the three year period ended at the completion of our financial year on 31 March 2014.

The Remuneration Committee reviews all incentive awards prior to payment and has full discretion to reduce awards if it believes this is appropriate. The decision need not be on objective grounds. It should be noted that the Remuneration Committee did not exercise discretion in determining the annual bonus ( GSTIP ) payout for this year or in deciding the final vesting level of the long-term incentive awards ( GLTI ).

**Total remuneration for the 2014 financial year**

	<b>Vittorio Colao</b>		<b>Andy Halford<sup>1</sup></b>		<b>Stephen Pusey</b>	
	2013					
	<b>2014</b>		<b>2014</b>	2013	<b>2014</b>	2013
	<b>£ 000</b>	£ 000	<b>£ 000</b>	£ 000	<b>£ 000</b>	£ 000
Salary/fees	1,110	1,110	700	700	575	575
Taxable benefits <sup>2</sup>	38	39	47	45	21	21
Annual bonus: GSTIP (see below for further detail)	982	731	620	461	509	379
Total long-term incentive <sup>3</sup> :	6,464	8,886	2,424	5,164	2,164	2,842
GLTI vesting during the year <sup>4</sup>	5,630	7,573	2,111	4,401	1,885	2,422

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Cash in lieu of GLTI dividends <sup>5</sup>	834	1,313	313	763	279	420
Cash in lieu of pension	333	333	210	210	173	173
<b>Total</b>	<b>8,927</b>	<b>11,099</b>	<b>4,001</b>	<b>6,580</b>	<b>3,442</b>	<b>3,990</b>

Notes:

- 1 Andy Halford retired on 31 March 2014.
- 2 Taxable benefits include amounts in respect of: Private healthcare (2014: £1,734; 2013: £1,500); Cash car allowance £19,200 p.a.; Travel (2014: Vittorio Colao £17,155; Andy Halford £13,848; 2013 (restated): Vittorio Colao £17,921; Andy Halford £24,626; and Stephen Pusey £408); and Payment in lieu of holiday at retirement (2014: Andy Halford £11,936).
- 3 Excludes shares acquired under Vodafone's Share Incentive Plan (SIP). Andy Halford is the only director who participated and the annual value of the matching shares is £1,500.
- 4 The value shown in the 2013 column is the award which vested on 28 June 2013 and is valued using the execution share price on 28 June 2013 of 188.03 pence. Please note that the values disclosed in this table in 2013 are slightly different as the value was based on a share price at 31 March 2013 of 186.60 pence. The value shown in the 2014 column is the award which vests on 28 June 2014 and is valued using an average of the closing share price over the last quarter of the 2014 financial year of 234.23 pence. More details are included below.
- 5 Participants also receive a cash award, equivalent in value to the dividends that would have been paid during the vesting period on any shares that vest. The cash in lieu of dividend value shown in 2013 relates to the award which vested on 28 June 2013, and the value for 2014 relates to the award which vests on 28 June 2014.

**2014 annual bonus ( GSTIP ) payout**

In the table below we disclose our achievement against each of the performance measures and targets in our annual bonus ( GSTIP ) and the resulting total annual bonus payout level for the year ended 31 March 2014 of 88.5%. This is applied to the target bonus level of 100% of base salary for each executive.

Performance measure	Payout at target performance	Payout at maximum performance	Target performance level	Actual performance level <sup>1</sup>	Actual performance level <sup>1</sup>	Commentary
	100%	200%	%	£bn	£bn	
Service revenue on a management basis	25%	50%	15.6%	39.4	38.7	Below target performance in Europe
Adjusted EBITDA	25%	50%	12.4%	12.7	12.3	Below target performance in Europe partially offset by AMAP
Adjusted free cash flow	25%	50%	45.1%	4.2	4.7	Strong performance in AMAP
Competitive performance assessment	25%	50%	15.4%	Compilation of market-by-market assessment		Consolidated performance below target although the number of markets where net promoter score ( NPS ) ranks #1 increased
<b>Total annual bonus payout level</b>	<b>100%</b>	<b>200%</b>	<b>88.5%</b>			

Note:

- 1 These figures are adjusted to include the removal of the impact of M&A, foreign exchange movements and any changes in accounting treatment.

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2015 annual bonus ( GSTIP ) amounts	Base salary	Target bonus % of base salary	2014 payout	
			% target	Actual payment ( 000)
Vittorio Colao	1,110,000	100%	88.5%	£982
Andy Halford	700,000	100%	88.5%	£620
Stephen Pusey	575,000	100%	88.5%	£509

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**Long-term incentive ( GLTI ) award vesting in June 2014**

The 2012 long-term incentive ( GLTI ) awards which were made in June 2011 will partially vest in June 2014. The performance conditions for the three year period ending in the 2014 financial year are as follows:

Adjusted free cash flow measure	£bn	TSR outperformance		
		0% (Up to median)	4.5% (65th percentile equivalent)	9% (80th percentile equivalent)
Below threshold	<16.7	0%	0%	0%
Threshold	16.7	50%	75%	100%
Target	19.2	100%	150%	200%
Maximum	21.7	200%	300%	400%
TSR peer group				
BT Group		Telecom Italia		
Deutsche Telekom		Telefónica		
Orange				
Emerging market composite (consists of the average TSR performance of Bharti, MTN and Turkcell)				

Adjusted free cash flow for the three-year period ended on 31 March 2014 was £17.9 billion which compares with a threshold of £16.7 billion and a target of £19.2 billion.

The chart to the right shows that our TSR performance against our peer group for the same period resulted in an outperformance of the median by 22.3% a year.

Using the combined payout matrix above, this performance resulted in a payout of 148.8% of target (37.2% of the maximum).

The combined vesting percentages are applied to the target number of shares granted as shown below.

2012 GLTI performance share awards vesting in June 2014	Adjusted free cash flow performance payout			Overall vesting		Number of shares vesting	Value of shares vesting ( 000)
	Maximum number of shares	Target number of shares	% of target	TSR multiplier	% of target <sup>1</sup>		
Vittorio Colao	6,461,396	1,615,349	74.4%	2 times	148.8%	2,403,638	£5,630
Andy Halford	2,643,290	660,822	74.4%	2 times	136.4%	901,361	£2,111
Stephen Pusey	2,162,990	540,747	74.4%	2 times	148.8%	804,632	£1,885

Notes:

- 1 Andy Halford retired on 31 March 2014. His award has been prorated for the 33 months he served during the 36 month vesting period.
- 2 Valued using an average of the closing share prices over the last quarter of the 2014 financial year of 234.23 pence. These shares will vest on 28 June 2014. The adjusted free cash flow performance is audited by Deloitte LLP and approved by the Remuneration Committee. The performance assessment in respect of the TSR outperformance of the peer group median is undertaken by Towers Watson. Dividend equivalents will also be paid in cash after the vesting date as shown on page 78. Details of how the plan works can be found on pages 72 to 74.

### Long-term incentive ( GLTI ) awarded during the year

The 2014 long-term incentive awards made in July 2013 under the Global Long-Term Incentive Plan ( GLTI ) were made in line with the 2014 policy as disclosed in our 2013 remuneration report. The performance conditions are a combination of adjusted free cash flow and TSR performance as follows:

Adjusted free cash flow measure	£bn	TSR outperformance		
		0% (Up to median)	4.5% (65th percentile equivalent)	9% (80th percentile equivalent)
Below threshold	<12.4	0%	0%	0%
Threshold	12.4	50%	75%	100%
Target	14.4	100%	150%	200%
Maximum	16.4	150%	225%	300%
TSR peer group				
AT&T		Orange		
BT Group		Telecom Italia		
Deutsche Telekom		Telefónica		
Emerging market composite (consists of the average TSR performance of Bharti, MTN and Turkcell)				

The combined vesting percentages are applied to the target number of shares granted.

In order to participate fully in this award, executives had to co-invest personal shares worth 100% of salary. The resulting awards to executive directors were as follows:

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	Number of shares awarded	Face value of shares awarded	Proportion of maximum award	Performance period
4 GLTI performance share awards made in July 2013	Maximum vesting level	Target vesting level	Target vesting level	Performance period
Antonio Colao	1,395,123	4,185,370	£ 2,636,249	£ 7,908,748 1/6th 31 Mar 20
Andy Halford	772,981	2,318,945	£ 1,469,998	£ 4,409,998 1/6th 31 Mar 20
Stephen Pusey	634,948	1,904,846	£ 1,207,497	£ 3,622,495 1/6th 31 Mar 20

Note:

1 Face value calculated based on the share prices at the dates of grant of 180.2 pence and 202.5 pence. Dividend equivalents on the shares that vest are paid in cash after the vesting date.



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Directors remuneration (continued)

**Annual report on remuneration (continued)**

**All-employee share plans**

The executive directors are also eligible to participate in the UK all-employee plans.

Summary of plans

**Sharesave**

The Vodafone Group 2008 Sharesave Plan is an HM Revenue & Customs ( HMRC ) approved scheme open to all staff permanently employed by a Vodafone Company in the UK as of the eligibility date. Options under the plan are granted at up to a 20% discount to market value. Executive directors participation is included in the option table on page 81.

**Share Incentive Plan**

The Vodafone Share Incentive Plan ( SIP ) is an HMRC approved plan open to all staff permanently employed by a Vodafone Company in the UK. Participants may contribute up to a maximum of £125 per month (or 5% of salary if less) which the trustee of the plan uses to buy shares on their behalf. An equivalent number of shares are purchased

with contributions from the employing company. UK-based executive directors are eligible to participate.

## Pensions

Vittorio Colao, Andy Halford and Stephen Pusey received a cash allowance of 30% of base salary in lieu of pension contributions during the 2014 financial year. No executive directors accrued benefits under any defined contribution pension plans during the year.

The executive directors are provided benefits in the event of death in service. They also have an entitlement under a long-term disability plan from which two-thirds of base salary, up to a maximum benefit determined by the insurer, would be provided until normal retirement date (aged 60).

Andy Halford retired on 31 March 2014 aged 55. Until 2010, he participated in a legacy defined benefit pension plan into which no additional contributions were payable in 2014. On 31 March 2010 he took the opportunity to take early retirement from this pension scheme due to the closure of the scheme (aged 51 years). In accordance with the scheme rules, his accrued pension at this date was reduced with an early retirement factor for four years to reflect the fact that his pension is being paid before age 55 and is therefore expected to be paid out for a longer period of time. In addition, he exchanged part of his early retirement pension at 31 March 2010 for a tax-free cash lump sum of £118,660. The pension in payment at 31 March 2010 was £17,800 per year. The pension increased on 1 April 2011, 1 April 2012 and 1 April 2013 by 5%, in line with the scheme rules, to £20,605 per year from 1 April 2013.

## Alignment to shareholder interests

All of our executive directors have shareholdings in excess of their goals. Current levels of ownership by the executive directors, and the date by which the goal should be or should have been achieved, are shown below. The values are calculated using an average share price over the six months to 31 March 2014 of 229.32 pence. These values do not include the value of the shares that will vest in June 2014.

	Goal as a % of salary	Current % of salary held	% of goal achieved	Number of shares <sup>1</sup>	Value of shareholding (£m)	Date for goal to be achieved
At 31 March 2014						
Vittorio Colao	400%	1,875%	469%	9,077,302	20.8	July 2012
Andy Halford (ownership position at retirement on 31 March 2014)	300%	755%	252%	2,305,059	5.3	July 2010
Stephen Pusey	300%	630%	210%	1,579,543	3.6	June 2014

Note:

1 During the year the Verizon transaction and a share consolidation took place.

Collectively the Executive Committee including the executive directors own more than 22 million Vodafone shares, with a value of over £50 million.

## Directors' interests in the shares of the Company

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A summary of interests in shares and scheme interests of the directors who served during the year is given below. More details of the performance shares and options follows.

	Unvested GLTI Shares		Share plans	Shares options
	Total	(with	Share Incentive Plan	SAYE
	number	out	(with	unvested without
	of interests	performance	performance	performance
	in shares <sup>1</sup>	conditions)	conditions)	conditions)
At 31 March 2014				
<b>Executive directors</b>				
Vittorio Colao	24,251,716	15,157,846		16,568
Andy Halford (position at retirement on 31 March 2014)	8,561,152	6,249,860	17,014	6,233
Stephen Pusey	7,719,776	6,140,233		
<b>Total</b>	<b>40,532,644</b>	<b>27,547,939</b>	<b>17,014</b>	<b>22,801</b>

Note:

1 Includes shares in the share incentive plan (SIP), interests of connected persons, unvested share awards and share options. During the year the Verizon transaction and a share consolidation took place.

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	Total number of interests in shares <sup>1</sup>
At 31 March 2014	
<b>Non-executive directors</b>	
Valerie Gooding	4,038
Renee James	27,272
Alan Jebson	44,912
Samuel Jonah	30,190
Gerard Kleisterlee	59,755
Omid Kordestani	
Nick Land	32,090
Anne Lauvergeon	17,151
Luc Vandeveldde	54,880
Anthony Watson	62,727
Philip Yea	33,408
Note:	

<sup>1</sup> During the year the Verizon transaction and a share consolidation took place.

During the period from 1 April 2014 to 20 May 2014, the directors' total number of interests in shares did not change.

**Performance shares**

The maximum number of outstanding shares that have been awarded to directors under the long-term incentive ( GLTI ) plan are currently as follows:

GLTI performance share awards	2012 award	2013 award	2014 award
	Awarded: June 2011	Awarded: July 2012	Awarded: June 2013 and September 2013 <sup>1</sup>
	Performance period ending: March 2015	Vesting date: July 2015	Performance period ending: March 2016
	Performance period ending: March 2014		
	Vesting date: June 2014	Share price at grant: 179.4 pence	Vesting date: June 2016

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	Share price at grant: 163.2 pence	Share price at grant: 180.2 pence and 202.5 pence	
Vittorio Colao	6,461,396	4,511,080	4,185,370
Andy Halford	2,643,290	1,287,625	2,318,945
Stephen Pusey	2,162,990	2,072,397	1,904,846

Note:

1 Due to a close period, executive directors were not able to make co-investment commitments at the time of the main award in June 2013 and therefore part of the award was made in September 2013.

For details of the performance conditions please see page 74.

### Share options

No share options have been granted to directors during the year. The following information summarises the executive directors' options under the Vodafone Group 2008 Sharesave Plan ( SAYE ) and the Vodafone Group Incentive Plan ( GIP ). HMRC approved awards may be made under both of the schemes mentioned. No other directors have options under any schemes.

Options under the Vodafone Group 2008 Sharesave Plan were granted at a discount of 20% to the market value of the shares at the time of the grant. No other options may be granted at a discount.

	Grant date	Options granted during 1 April the 2013 or date of appointment	Options exercised during the financial year	Options held at 31 March 2014	Option price Pence <sup>1</sup>	Date from which exercisable	Expiry date	Market price on exercise Pence	Gain on exercise
<b>Vittorio Colao</b>									
GIP <sup>2</sup>	Jul 2007	3,003,575	(3,003,575)		167.80	Jul 2010	Jul 2017	213.16	£ 1,362,503
SAYE	Jul 2009	16,568		16,568	93.85	Sep 2014	Feb 2015		
<b>Total</b>		<b>3,020,143</b>	<b>(3,003,575)</b>	<b>16,568</b>					
<b>Andy Halford</b>									
GIP <sup>2</sup>	Jul 2007	2,295,589	(2,295,589)		167.80	Jul 2010	Jul 2017	213.16	£ 1,041,392
SAYE	Jul 2012	6,233		6,233	144.37	Sep 2015	Feb 2016		
<b>Total</b>		<b>2,301,822</b>	<b>(2,295,589)</b>	<b>6,233</b>					
<b>Stephen Pusey</b>									
GIP <sup>3</sup>	Sep 2006	1,034,259	(1,034,259)		113.75	Sep 2009	Aug 2016	212.80	£ 1,024,417
GIP <sup>2</sup>	Jul 2007	947,556	(947,556)		167.80	Jul 2010	Jul 2017	231.64	£ 604,888
<b>Total</b>		<b>1,981,815</b>	<b>(1,981,815)</b>						

Notes:

1

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The closing trade share price on 31 March 2014 was 220.25 pence. The highest trade share price during the year was 252.3 pence and the lowest price was 180.23 pence.

- 2 The performance condition on the options granted in July 2007 was a three year cumulative growth in adjusted earnings per share. The options vested at 100% in July 2010.
- 3 The performance condition on the options granted in September 2006 was a three year cumulative growth in adjusted earnings per share. The options vested at 100% in September 2009.

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Directors' remuneration (continued)

**Annual report on remuneration (continued)**

**Loss of office payments**

Andy Halford retired on 31 March 2014. As per his contract Andy had a 12 month notice period which commenced on 1 October 2013. He worked six months of his notice period until the end of the financial year. We will be making payments in lieu of notice each month for the remainder of Andy's notice period (1 April 2014 - 30 September 2014). The total of these payments will be a maximum of £350,000 (six months' salary) subject to mitigation if Andy were to start a new executive role at another organisation.

Andy has worked for the full 2014 financial year and so he will receive his annual bonus payment in June 2014 (as detailed on page 78).

The 2012, 2013 and 2014 GLTI awards (made in June 2011, July 2012, June 2013 and September 2013) will be pro-rated on a time worked basis. These awards will vest, subject to performance, at their normal vesting date, in accordance with the good leaver provisions in our share plan rules. The 2013 and 2014 GLTI awards will lapse if Andy starts a new executive role at another organisation.

Andy will receive no further benefits aside from the provision of a SIM card for his personal use at the Company's expense for a period of three years commencing 1 April 2014.

**Payments to past directors**

During the 2014 financial year, no payments were made, or benefits given, to past directors with value of greater than our de minimis threshold (£5,000 p.a.).

**Fees retained for external non-executive directorships**

Executive directors may hold positions in other companies as non-executive directors and retain the fees. Andy Halford is a non-executive director of Marks and Spencer Group plc and in accordance with Group policy he retained fees for the year of £81,250.

## Assessing pay and performance

In the table below we summarise the Chief Executive's single figure remuneration over the past five years, as well as how our variable pay plans have paid out in relation to the maximum opportunity. This can be compared with the historic TSR performance over the same period. The chart below shows the performance of the Company relative to the STOXX Europe 600 Index over a five year period. The STOXX Europe 600 Index was selected as this is a broad-based index that includes many of our closest competitors. It should be noted that the payout from the long-term incentive plan is based on the TSR performance shown in the chart on page 79 and not this chart.

Financial year remuneration for Chief Executive (Vittorio Colao)	2010 <sup>1</sup>	2011	2012	2013	2014
Single figure of total remuneration £ '000	3,350	7,022	15,767	11,099	8,927
Annual variable element (actual award versus maximum opportunity)	64%	62%	47%	33%	44%
Long-term incentive (vesting versus maximum opportunity)	25%	31%	100%	57%	37%

Note:

1 The single figure reflects share awards which were granted in 2006 and 2007, prior to his appointment to Chief Executive in 2008.

## Change in the Chief Executive's remuneration

In the table below we show the percentage change in the Chief Executive's remuneration (salary, taxable benefits and annual bonus payment) between the 2013 and 2014 financial years compared to the average for other Vodafone Group employees who are measured on comparable business objectives and who have been employed in the UK since 2013 (per capita). Vodafone has employees based all around the world and some of these individuals work in countries with very high inflation therefore a comparison to Vodafone's UK based Group employees is more appropriate than to all employees.

Item	Percentage change from 2013 to 2014	
	Chief Executive: Vittorio Colao	Other Vodafone Group employees employed in the UK
Base salary	0%	3.7%
Taxable benefits	-2.6%	1.5%
Annual bonus	34.3%	53.3%



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**Relative spend on pay**

The chart below shows both the dividends distributed in the year and the total cost of remuneration in the Group.

For more details on dividends and expenditure on remuneration for all employees, please see pages 124 and 152 respectively.

**2014 remuneration for the Chairman and non-executive directors**

	Salary/fees		Benefits <sup>1</sup>		Total	
	2014	2013	2014	2013	2014	2013
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Chairman						
Gerard Kleisterlee	600	600	58	106	658	706
Senior Independent Director						
Luc Vandevelde	160	154	11	22	171	176
Non-executive directors						
Valerie Gooding (appointed 1 February 2014)	19				19	
Renee James <sup>2</sup>	139	151	5	12	144	163
Alan Jebson <sup>2</sup>	151	151	40	106	191	257
Samuel Jonah <sup>2</sup>	151	157	9	101	160	258
Omid Kordestani <sup>2</sup>	151	10	33		184	10
Nick Land	140	140	1		141	140
Anne Lauvergeon	115	115	5	9	120	124
Anthony Watson	115	115	1		116	115
Philip Yea	115	115			115	115
Former non-executive directors						
Sir John Buchanan (retired 24 July 2012)		58				58
<b>Total</b>	<b>1,856</b>	<b>1,766</b>	<b>163</b>	<b>356</b>	<b>2,019</b>	<b>2,122</b>

Notes:

1

We have been advised that for non-executive directors, certain travel and accommodation expenses in relation to attending Board meetings should be treated as a taxable benefit. The table above includes these travel expenses and the corresponding tax contribution (restated for 2013).

- 2 Salary/fees include an additional allowance of £6,000 per meeting for directors based outside of Europe.

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Directors remuneration (continued)

**Annual report on remuneration (continued)**

**2015 remuneration**

Subject to shareholder approval at the 2014 AGM, we intend to implement the remuneration policy as set out on pages 71 to 76.

For the 2015 financial year the details are as follows:

**2015 base salaries**

The Remuneration Committee considered business performance, salary increases for other UK employees and external market information and decided to increase the annual base salaries of the Chief Executive (Vittorio Colao) and the Chief Technology Officer (Stephen Pusey) by 3.6% and 4.3% respectively from 1 July 2014. The last salary increase that was received by these individuals was three years ago in July 2011. The average salary increase for Executive Committee members will be 1.7%; this compares to the salary increase budget in the UK of 2%.

The annual salaries for 2015 (effective 1 July 2014) are as follows:

g Chief Executive: Vittorio Colao £1,150,000;

g Chief Financial Officer: Nick Read (from 1 April 2014) £675,000; and

g Chief Technology Officer: Stephen Pusey £600,000.

**2015 annual bonus ( GSTIP )**

The performance measures and weightings for 2015 are as follows:

g Service revenue (25%);

g adjusted EBITDA (25%);

g adjusted free cash flow (25%); and

g competitive performance assessment (25%). This is an assessment encompassing both net promoter score ( NPS ) and market share against the competitors in each of our markets.

Annual bonus targets are commercially sensitive and therefore will be disclosed in the 2015 remuneration report following the completion of the financial year.

### Long-term incentive ( GLTI ) awards for 2015

As described in our policy on pages 72 to 74 the performance conditions are a combination of adjusted free cash flow and TSR performance. The details for the 2015 award will be as follows (with linear interpolation between points):

Adjusted free cash flow measure (€ billion)	TSR out performance			TSR peer group	
	0%	5%	10%	Bharti	Orange
Below threshold	<3.4	0%	0%	BT Group	Telecom Italia
Threshold	3.4	50%	75%	Deutsche Telekom	Telefónica
Target	5.1	100%	150%	MTN	
Maximum	6.8	125%	187.5%		

Note:

1 When considered on a like-for-like basis with targets for previous years (e.g. excluding the impact of Project Spring) the adjusted cash flow target is £12.3 billion.

The combined vesting percentages are applied to the target number of shares granted.

We have made the following changes to the long-term incentive since the last award:

g the maximum vesting level has reduced from three times to two and a half times the target vesting level;

g a mandatory holding period has been introduced where 50% of the post-tax shares are released after vesting, a further 25% after the first anniversary of vesting, and the remaining 25% will be released after the second anniversary; and

g

AT&T has been removed from the peer group, Bharti and MTN have been added as stand alone comparators and the remaining emerging market proxy company (Turkcell) has also been removed.

### **Long-term incentive ( GLTI ) awards vesting**

As discussed elsewhere in the annual report, Project Spring involves significant organic investment over the next two years to enhance network and service leadership further. This investment will have a significant impact on adjusted Free Cash Flow ( FCF ), which is the primary performance condition for the GLTI and we expect an initial drop in FCF that will then build again as the investment pays off over the longer term. The impact is predicted as follows:

Financial year of award	Performance period end	Impact
2013	March 2015	Targets for the 2013 and 2014 awards were set prior to the announcement of Project
2014	March 2016	Spring therefore we will remove the impact on FCF when calculating the vesting results following the end of each performance period.
2015 onwards	March 2017 onwards	The 2015 awards (and all future years) will have the full impact of Project Spring included in the targets and no further adjustments will be necessary.

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**2015 remuneration for the Chairman and non-executive directors**

For the 2015 review, the fees for our Chairman and non-executives have been benchmarked against a comparator group of the FTSE 30 companies. Following the review there will be no increases to the fees of non-executive directors. The Chairman's fees will be increased by 4.2% to £625,000 from 1 July 2014.

Position/role	Fee payable (£ '000)
	From 1 April 2014
Chairman <sup>1</sup>	625
Senior Independent Director <sup>2</sup>	160
Non-executive director	115
Chairmanship of Audit and Risk Committee	25
Note:	

1 The Chairman's fee also includes the fee for the Chairmanship of the Nominations and Governance Committee.

2 The Senior Independent Director's fees also include the fee for the Chairmanship of the Remuneration Committee. For 2015, the allowance payable each time a non-Europe-based non-executive director is required to travel to attend Board and committee meetings to reflect the additional time commitment involved is £6,000.

**Further remuneration information****Dilution**

All awards are made under plans that incorporate dilution limits as set out in the guidelines for share incentive schemes published by the Association of British Insurers. The current estimated dilution from subsisting executive awards is approximately 3.2% of the Company's share capital at 31 March 2014 (2.0% at 31 March 2013), whilst from all-employee share awards it is approximately 0.6% (0.3% at 31 March 2013). This gives a total dilution of 3.8% (2.3% at 31 March 2013).

**Service contracts**

The terms and conditions of appointment of our directors are available for inspection at the Company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting). The executive directors have notice periods in their service contracts of 12 months. The non-executive directors' letters of appointment do not contain provision for notice periods or for compensation if their appointments are terminated.

The executive directors will be proposed for election or re-election at the 2014 AGM.

/s/ Luc Vandeveld

**Luc Vandeveld**

On behalf of the Board

20 May 2014

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Annual Report on Form 20-F 2014

**Directors report**

**Directors report**

The Directors of your Company present their report together with the consolidated financial statements for the year ended 31 March 2014.

This report has been prepared in accordance with requirements outlined within The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and forms part of the management report as required under DTR4. Certain information that fulfils the requirements of the directors report can be found elsewhere in this document and is referred to below. This information is incorporated into this directors report by reference.

**Responsibility statement**

As required under the Disclosure and Transparency Rules a statement made by the Board regarding the preparation of the financial statements is set out on page 88. This statement also provides details regarding the disclosure of information to the Company's auditors and management's report on internal control over financial information.

**Going concern**

The going concern statement required by the Listing Rules and the Code is set out in the Directors statement of responsibility on page 89.

**Strategic report**

The strategic report is set out in pages 1 to 47 and is incorporated into this directors report by reference.

**Directors and their interests**

A full list of the individuals who were directors of the Company during the financial year ended 31 March 2014 is set out below.



Gerard Kleisterlee, Vittorio Colao, Andy Halford, Stephen Pusey, Valerie Gooding, Renee James, Alan Jebson, Samuel Jonah, Omid Kordestani, Nick Land, Anne Lauvergeon, Luc Vandeveld, Anthony Watson and Philip Yea.

Details of each director's interests in the Company's ordinary shares, options held over ordinary shares, interests in share options and long term incentive plans are set out in full on pages 69 to 85.

#### Directors' conflicts of interest

Established within the Company is a procedure for managing and monitoring conflicts of interest for directors. Full details of this procedure is set out on page 56.

#### Directors' indemnities

Details of qualifying third party indemnity provisions for the benefit of the Company's directors can be found on page 57.

#### Corporate governance statement

Under Disclosure and Transparency Rule 7, a requirement exists for certain parts of the corporate governance statement to be outlined in the directors' report. This information is laid out in the corporate governance statement, on pages 48 to 85.

#### Capital structure and rights attaching to shares

All information relating to the Company's capital structure, rights attaching to shares, dividends, the policy to repurchase the Company's own shares and other shareholder information is contained on pages 182 to 189 and incorporated into this directors' report by reference.

#### Dividends

Full details of the Company's dividend policy and proposed final dividend payment for the year ended 31 March 2014, are set out on page 124.

#### Sustainability

Information about the Company's approach to sustainability risks and opportunities is set out on pages 34 and 35. Also included on these pages are details of our greenhouse gas emissions.

#### Political donations

No political donations under the Companies Act 2006 have been made during the financial year. The Group policy is that no political donations be made or political expenditure incurred.

#### Financial risk management objectives and policies

Disclosures relating to financial risk management objectives and policies, including our policy for hedging are set out in note 23 to the consolidated financial statements.

#### Exposure to price, credit, liquidity and cash flow risks

Our disclosures relating to exposure to price risk, credit risk, liquidity risk and cash flow risk are outlined in note 23 to the consolidated financial statements.

### **Important events since the end of the financial year**

Details of those important events affecting the Group which have occurred since the end of the financial year are set out in the strategic report and note 34 to the consolidated financial statements.

### **Future developments within the Group**

The strategic report contains details of likely future developments within the Group.

### **Research and development**

Details of the Group's activities relating to research and development are contained in note 3 to the consolidated financial statements.

### **Branches**

As the Group is a global business there are activities operated through many jurisdictions.

### **Employee disclosures**

Our disclosures relating to the employment of disabled persons, the number of women in senior management roles, employee engagement and policies are included in *Our people* on pages 36 and 37.

By Order of the Board

/s/ Rosemary Martin

**Rosemary Martin**

Company Secretary

20 May 2014

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The Consolidated financial statements are presented on a statutory basis which, under IFRS accounting principles, includes the financial results of the Group's joint ventures using the equity accounting basis.

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## Reporting our financial performance

We continue to review the format of our consolidated financial statements with the aim of making them clear and easier to follow. This year, in addition to continuing with the integrated financial review which combines commentary on certain items within the primary financial statements, we have changed the order and grouping of the notes to the financial statements to help with the flow of information and focus on areas that we feel are key to understanding our business. We have also placed accounting policies within the notes to the accounts to which they best relate. We hope this format makes it easier for you to navigate to the information that is important to you.

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**Directors' statement of responsibility**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations and keeping proper accounting records. Detailed below are statements made by the directors in relation to their responsibilities, disclosure of information to the Company's auditors, going concern and management's report on internal control over financial reporting.

**Financial statements and accounting records**

Company law of England and Wales requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements the directors are required to:

- g select suitable accounting policies and apply them consistently;
- g make judgements and estimates that are reasonable and prudent;
- g present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- g state whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) as adopted for use in the EU and Article 4 of the EU IAS Regulations. The directors also ensure that the consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ( IASB );
- g state for the Company financial statements whether applicable UK accounting standards have been followed; and

- g prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 and for the consolidated financial statements, Article 4 of the EU IAS Regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Company and the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Directors responsibility statement

The Board confirms to the best of its knowledge:

- g the consolidated financial statements, prepared in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- g the parent company financial statements, prepared in accordance with United Kingdom generally accepted accounting practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- g the directors report includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit and Risk Committee, the Board considers the report and accounts, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

#### Disclosure of information to the auditor

Having made the requisite enquiries, so far as the directors are 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 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.

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**Going concern**

The Group's business activities, performance, position and principal risks and uncertainties and how these are managed are set out in the strategic report on pages 1 to 47. A range of mitigations for risks faced by the Group are included on page 90.

In addition, the financial position of the Group is included within Commentary on the consolidated statement of cash flows on page 103, Borrowings, Liquidity and capital resources and Capital and financial risk management in notes 21, 22 and 23 respectively to the consolidated financial statements, which include disclosure in relation to the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources, and the directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

Further discussion on the basis of the going concern assessment by the directors is set out on page 200.

**Management's report on internal control over financial reporting**

As required by section 404 of the Sarbanes-Oxley Act, management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group. The Group's internal control over financial reporting includes policies and procedures that:

- g** pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- g** are designed to provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, as adopted by the EU and IFRS as issued by the IASB, and that receipts and expenditures are being made only in accordance with authorisation of management and the directors of the Company; and
- g** provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets that could have a material effect on the financial statements.

Any internal control framework, no matter how well designed, has inherent limitations including the possibility of human error and the circumvention or overriding of the controls and procedures, and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the internal control over financial reporting at 31 March 2014 based on the original Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in 1992. Based on management’s assessment, management has concluded that internal control over financial reporting was effective at 31 March 2014.

In 2013, COSO published an updated Internal Control – Integrated Framework which will supersede the original framework from 15 December 2014. Accordingly, the new framework will be implemented during the year ending 31 March 2015. The Group’s existing controls will be mapped to the five components and 17 principles in the updated Internal Control – Integrated Framework. Any gaps will be evaluated and, where required, additional controls identified, or existing controls enhanced.

The assessment excluded the internal controls over financial reporting relating to Kabel Deutschland Holding AG ( KDG ) because it became a subsidiary during the year, as described in note 28 – Acquisitions and disposals . KDG will be included in the Group’s assessment at 31 March 2015. Key amounts consolidated for KDG at 31 March 2014 are total assets of £9,741 million, net assets of £4,709 million and revenue and loss for the financial year of £735 million and £242 million, respectively.

During the period covered by this document, there were no changes in the Group’s internal control over financial reporting that have materially affected or are reasonably likely to materially affect the effectiveness of the internal controls over financial reporting.

The Group’s internal control over financial reporting at 31 March 2014 has been audited by Deloitte LLP, an independent registered public accounting firm who also audit the Group’s consolidated financial statements. Their audit report on internal control over financial reporting is on page 91.

By Order of the Board

/s/ Rosemary Martin

**Rosemary Martin**

Company Secretary

20 May 2014



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**Risk mitigation**

**g** Specific back-up and resilience requirements are built into our networks. We monitor our ability to replace strategic equipment quickly in event of failure, and for high risk components, we maintain dedicated back-up equipment ready for use. Dedicated access network equipment is installed on trucks ready to be moved on site if required. Our critical infrastructure has been enhanced to prevent unauthorised access and reduce the likelihood and impact of a successful attack. Network contingency plans are linked with our business continuity and disaster recovery plans which are in place to cover the residual risks that cannot be mitigated. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually.

We also manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 monitoring of our network in many countries.

**g** Both the hardware and software applications which hold or transmit confidential personal and business voice and data traffic include security features. Security related reviews are conducted according to our policies and security standards. Security governance and compliance is managed and monitored through software tools that are deployed to all local markets and selected partner markets. Our data centres are managed to international information security standards. Third party data security reviews are conducted jointly with our technology security and corporate security functions.

**g** We will continue to promote our differentiated propositions by focusing on our points of strength such as network quality, capacity and coverage, quality of customer service and the value of our products and services. We are enhancing distribution channels to get closer to customers and using targeted promotions where appropriate to attract and retain specific customers. We closely monitor and model competitor behaviour, network builds and product offerings to understand future intentions so that we are able to react in a timely manner.

**g** We monitor political developments in our existing and potential markets closely, identifying risks in our current and proposed commercial propositions. Regular reports are made to our Executive Committee on current political and regulatory risks. These risks are considered in our business planning process, including the importance of

competitive commercial pricing and appropriate product strategies. Authoritative and timely intervention is made at both national and international level in respect of legislative, fiscal and regulatory proposals which we feel are not in the interests of the Group. We have regular dialogue with trade groups that represent network operators and other industry bodies to understand underlying political pressures.

**g** In some markets we are already providing fixed line telecommunication services (voice and broadband). In other existing markets we actively look for opportunities to provide services beyond mobile through acquisition, partnerships, or joint ventures.

We have also developed strategies which strengthen our relationships with customers by accelerating the introduction of integrated voice, messaging and data price plans to avoid customers reducing their out of bundle usage through internet/ Wi-Fi based substitution.

**g** We are closely monitoring international economic and currency situations. Executive Committee briefings have been provided with specific actions identified to reduce the impact of the risk. We have developed a detailed business continuity plan in the event of a country economic crisis leading to a banking system freeze and a need to transition to a cash based operating system for a number of months.

**g** We have a global health and safety policy that includes standards for electromagnetic fields ( EMF ) that are mandated in all our operating companies. We have a Group EMF Board that manages potential risks through cross sector initiatives and which oversees a coordinated global programme to respond to public concern, and develop appropriate advocacy related to possible precautionary legislation. We monitor scientific developments and engage with relevant bodies to support the delivery and transparent communication of the scientific research agenda set by the WHO.

**g** We have experience of acquiring and integrating businesses into the Group and for all significant transactions we develop and implement a structured integration plan, led by a senior business leader. Integration plans are systematically implemented and executed to ensure that revenue benefits and cost synergies are delivered and that the acquired businesses are successfully integrated through the alignment of policies, processes and systems. The progress against acquisition business cases and the status of integration plans is monitored and reviewed as part of the Group s governance and performance management procedures.

**g** We regularly review the performance of key suppliers, both operationally and financially, across individual markets and from the Group perspective. Other processes are in place to regularly identify and manage suppliers at risk . Most supplier categories have business continuity plans in place in the event of single supplier failure.

**g** We maintain constructive but robust engagement with the tax authorities and relevant government representatives, as well as active engagement with a wide range of international companies and business organisations with similar issues. Where appropriate we engage advisors and legal counsel to obtain opinions on tax legislation and principles.

**g** We review the carrying value of the Group s property, plant and equipment, goodwill and other intangible assets at least annually, or more frequently where the circumstances require, to assess whether carrying values can be supported by the net present value of future cash flows derived from such assets. This review considers the

continued appropriateness of the assumptions used in assessing for impairment, including an assessment of discount rates and long-term growth rates, future technological developments, and the timing and amount of future capital expenditure. Other factors which may affect revenue and profitability (for example intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services) are also considered. Discount rates are in part derived from yields on government bonds, the level of which may change substantially period to period and which may be affected by political, economic and legal developments which are beyond our control. For further details see Critical accounting judgements and key sources of estimation uncertainty in note 1 Basis of preparation to the consolidated financial statements.

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**Report of Independent Registered Public Accounting Firm****on internal control over financial reporting**

We have audited the internal control over financial reporting of Vodafone Group Plc and subsidiaries and applicable joint ventures (the Group) as of 31 March 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in management’s report on internal control over financial reporting, management excluded from its assessment the internal control over financial reporting at Kabel Deutschland Holding AG, which became a subsidiary during the year and which accounted for £9,741 million of total assets, £4,709 million of net assets, £735 million of revenue and £242 million of loss for the financial year of the consolidated financial statement amounts as of and for the year ended 31 March 2014. Accordingly our audit did not include the internal control over financial reporting at Kabel Deutschland Holding AG.

The Group’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management’s report on internal control over financial reporting. Our responsibility is to express an opinion on the Group’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 March 2014, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Group as of and for the year ended 31 March 2014 prepared in conformity with International Financial Reporting Standards ( IFRS ) as issued by the International Accounting Standards Board. Our report dated 20 May 2014 expressed an unqualified opinion on those financial statements.

/s/ Deloitte LLP

**Deloitte LLP**

London

United Kingdom

20 May 2014

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**Report of Independent Registered Public Accounting Firm  
on the consolidated financial statements**

**Report of Independent Registered Public Accounting Firm to the members of Vodafone Group Plc**

We have audited the accompanying consolidated statements of financial position of Vodafone Group Plc and subsidiaries (the Group) as of 31 March 2014 and 2013, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended 31 March 2014. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 March 2014 and 2013, and the results of its operations and cash flows for each of the three years in the period ended 31 March 2014, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

As discussed in note 1, the 2013 and 2012 financial statements have been restated for the adoption of IFRS 11, Joint Arrangements and amendments to IAS 19, Employee Benefits. Our opinion is not modified with respect to this matter.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of 31 March 2014, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 20 May 2014 expressed an unqualified opinion on the Group's internal control over financial reporting.

/s/ DELOITTE LLP

**Deloitte LLP**

London

United Kingdom

20 May 2014

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<b>Vodafone Group Plc</b>
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**Consolidated income statement**

for the years ended 31 March

		Restated <sup>1</sup>	Restated <sup>1</sup>
	2014	2013	2012
	£m	£m	£m
<b>Revenue</b>	<b>38,346</b>	<b>38,041</b>	<b>38,821</b>
Cost of sales	(27,942)	(26,567)	(27,201)
<b>Gross profit</b>	<b>10,404</b>	<b>11,474</b>	<b>11,620</b>
Selling and distribution expenses	(3,033)	(2,860)	(2,755)
Administrative expenses	(4,245)	(4,159)	(4,031)
Share of results of equity accounted associates and joint ventures	278	575	1,129
Impairment losses	(6,600)	(7,700)	(4,050)
Other income and expense	(717)	468	3,705
<b>Operating (loss)/profit</b>	<b>(3,913)</b>	<b>(2,202)</b>	<b>5,618</b>
Non-operating income and expense	(149)	10	(162)
Investment income	346	305	456
Financing costs	(1,554)	(1,596)	(1,768)
<b>(Loss)/profit before taxation</b>	<b>(5,270)</b>	<b>(3,483)</b>	<b>4,144</b>
Income tax credit/(expense)	16,582	(476)	(705)
<b>Profit/(loss) for the financial year from continuing operations</b>	<b>11,312</b>	<b>(3,959)</b>	<b>3,439</b>
<b>Profit for the financial year from discontinued operations</b>	<b>48,108</b>	<b>4,616</b>	<b>3,555</b>
<b>Profit for the financial year</b>	<b>59,420</b>	<b>657</b>	<b>6,994</b>
Attributable to:			
Equity shareholders	59,254	413	6,948
Non-controlling interests	166	244	46
<b>Profit for the financial year</b>	<b>59,420</b>	<b>657</b>	<b>6,994</b>

<b>Earnings/(loss) per share</b>				
<b>From continuing operations:</b>				
Basic		42.10p	(15.66p)	12.28p
Diluted		41.77p	(15.66p)	12.14p
<b>Total Group:</b>				
Basic	8	223.84p	1.54p	25.15p
Diluted	8	222.07p	1.54p	24.87p

Notes:

- 1 Restated to show the results of our US Group in discontinued operations, adoption of IFRS 11 and amendments to IAS 19. See note 1 Basis of preparation for further details.
- 2 Profit attributable to non-controlling interests solely derives from continuing operations.

**Consolidated statement of comprehensive income**

for the years ended 31 March

		Restated <sup>1</sup>	Restated <sup>1</sup>
	2014	2013	2012
	£m	£m	£m
<b>Profit for the financial year</b>	<b>59,420</b>	<b>657</b>	<b>6,994</b>
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Losses on revaluation of available-for-sale investments, net of tax	(119)	(73)	(17)
Foreign exchange translation differences, net of tax	(4,104)	362	(3,673)
Foreign exchange losses/(gains) transferred to the income statement	1,493	1	(681)
Fair value gains transferred to the income statement	(25)	(12)	
Other, net of tax		(4)	(10)
<b>Total items that may be reclassified to profit or loss in subsequent years</b>	<b>(2,755)</b>	<b>274</b>	<b>(4,381)</b>
<i>Items that will not be reclassified to profit or loss in subsequent years:</i>			
Net actuarial gains/(losses) on defined benefit pension schemes, net of tax	37	(182)	(263)
<b>Total items that will not be reclassified to profit or loss in subsequent years</b>	<b>37</b>	<b>(182)</b>	<b>(263)</b>
<b>Other comprehensive (expense)/income</b>	<b>(2,718)</b>	<b>92</b>	<b>(4,644)</b>
<b>Total comprehensive income for the year</b>	<b>56,702</b>	<b>749</b>	<b>2,350</b>
Attributable to:			
Equity shareholders	56,711	604	2,383
Non-controlling interests	(9)	145	(33)

56,702

749

2,350

Note:

- 1 Restated to show the results of our US Group in discontinued operations, adoption of IFRS 11 and amendments to IAS 19. See note 1 Basis of preparation for further details.

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**Commentary on the consolidated income statement  
and statement of comprehensive income**

The consolidated income statement includes the majority of our income and expenses for the year with the remainder recorded in the consolidated statement of comprehensive income.

Further details on the major movements in the year are set out below:

**Revenue**

Revenue increased by 0.8% to £38.3 billion. The increase is driven by revenue growth in our AMAP region and business acquisitions, partially offset by revenue declines in Europe due to challenging trading conditions and by unfavourable exchange rate movements. Our operating results discussion on pages 40 to 45 provides further detail on our revenue performance.

**Operating loss**

Our operating loss increased to £3.9 billion from £2.2 billion as lower impairment charges were offset by lower revenue, higher customer costs and higher amortisation. During the year we recorded goodwill impairment charges of £6.6 billion relating to our businesses in Germany, Spain, Portugal, Czech Republic and Romania (see note 4 Impairment losses ).

**Income tax expense**

We recorded an income tax credit on continuing operations of £16.6 billion compared with a £0.5 billion charge in 2013. The credit primarily arises from the recognition of £19.3 billion of deferred tax assets for tax losses in Germany and Luxembourg partly offset by taxes arising from the disposal of the Group's investment in Verizon Wireless (see note 6 Taxation ). Our effective tax rate decreased to -33.4% from 77.2%. Further information on how our effective tax rate is determined is provided within the operating results discussion on page 44.

**Profit for the year from discontinued operations**

Discontinued operations includes the £45.0 billion profit arising on the disposal of the Group's investment in Verizon Wireless, £1.7 billion of dividends receivable since the disposal and the post-tax profits of the Group's share of Verizon Wireless and entities in the US Group sold to Verizon Communications as part of the overall disposal transaction up until 2 September 2013 when the proposed disposal was announced. The profit from discontinued operations for the year ended 31 March 2014 has increased to £48.1 billion from £4.6 billion, primarily due to the profit arising from the disposal of the Group's investment in Verizon Wireless. Further information is provided in note

7 Discontinued operations and note 28 Acquisitions and disposals .

### **Earnings per share**

Basic earnings per share from continuing operations was 42.10 pence, an increase of 57.76 pence, driven by the recognition of £19.3 billion of deferred tax assets for losses in Germany and Luxembourg. Total Group basic earnings per share, which includes profits from discontinued operations, increased by 222.30 pence to 223.84 pence primarily as a result of the £45.0 billion gain recognised on the disposal of the US Group.

Adjusted earnings per share, which is a non-GAAP measure used by management and which excludes items that we do not view as being reflective of our performance, was 17.54 pence, a decrease of 12.8% compared to the prior year. The reduction was primarily due to lower adjusted operating profits, partially offset by a reduction in the number of the Group's shares due to the Group's share buyback programme.

Our calculation of the adjusted earnings on which we base our adjusted earnings per share calculation is set out within the operating results on page 45. Note 8 Earnings per share provides information on the number of shares used for determining earnings per share.

**The consolidated statement of comprehensive income records all of the income and losses generated for the year.**

Further details on the major movements in the year are set out below:

### **Profit for the financial year**

Profit for the financial year of £59.4 billion is recognised in the consolidated income statement and the reasons underlying the £58.8 billion increase are provided above.

### **Foreign exchange differences, net of tax**

Foreign exchange translation differences arise when we translate the results and net assets of our operating companies, joint arrangements and associates, which transact their operations in foreign currencies including the euro, South African rand and Indian rupee, into our presentation currency of sterling. The net movements in foreign exchange rates resulted in a loss of £4.1 billion for the year compared with a gain in the previous year of £0.4 billion.

### **Foreign exchange losses/(gains) transferred to the income statement**

The foreign exchange losses transferred to the income statement in the year ended 31 March 2014 relate to the recycling of amounts in relation to our investment in Verizon Wireless and Vodafone Italy which were triggered, respectively, by the disposal and the acquisition of a controlling stake.

### **Net actuarial gains/(losses) on defined benefit schemes, net of tax**

We realised a £37 million post-tax gain from the revaluation of the Group's defined benefit pension schemes after updating actuarial assumptions and revaluing scheme assets.

The financial commentary on this page is unaudited.

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**Consolidated statement of financial position**

at 31 March

		Restated <sup>1</sup>	Restated <sup>1</sup>
	<b>31 March</b>	31 March	1 April
	<b>2014</b>	2013	2012
	<b>Note</b>	£m	£m
<b>Non-current assets</b>			
Goodwill	10	23,315	24,390
Other intangible assets	10	23,373	19,749
Property, plant and equipment	11	22,851	17,584
Investments in associates and joint ventures	12	114	46,447
Other investments	13	3,553	773
Deferred tax assets	6	20,607	2,848
Post employment benefits	26	35	52
Trade and other receivables	15	3,270	4,832
		<b>97,118</b>	<b>116,675</b>
<b>Current assets</b>			
Inventory	14	441	353
Taxation recoverable		808	397
Trade and other receivables	15	8,886	8,018
Other investments	13	4,419	5,350
Cash and cash equivalents	20	10,134	7,531
Assets held for sale		34	
		<b>24,722</b>	<b>21,649</b>
<b>Total assets</b>		<b>121,840</b>	<b>138,324</b>
<b>Equity</b>			
Called up share capital	18	3,792	3,866
Additional paid-in capital		116,973	154,279



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Treasury shares		(7,187)	(9,029)	(7,841)
Accumulated losses		(51,428)	(88,834)	(84,217)
Accumulated other comprehensive income		8,652	11,195	11,004
<b>Total equity shareholders funds</b>		<b>70,802</b>	<b>71,477</b>	<b>76,935</b>
Non-controlling interests		1,733	1,890	2,090
Put options over non-controlling interests		(754)	(879)	(823)
<b>Total non-controlling interests</b>		<b>979</b>	<b>1,011</b>	<b>1,267</b>
<b>Total equity</b>		<b>71,781</b>	<b>72,488</b>	<b>78,202</b>
<b>Non-current liabilities</b>				
Long-term borrowings	21	21,454	27,904	26,882
Taxation liabilities		50	150	250
Deferred tax liabilities	6	747	6,671	6,572
Post employment benefits	26	584	580	292
Provisions	17	846	855	448
Trade and other payables	16	1,339	1,307	1,181
		<b>25,020</b>	<b>37,467</b>	<b>35,625</b>
<b>Current liabilities</b>				
Short-term borrowings	21	7,747	11,800	6,232
Taxation liabilities		873	1,922	1,888
Provisions	17	963	715	571
Trade and other payables	16	15,456	13,932	12,932
		<b>25,039</b>	<b>28,369</b>	<b>21,623</b>
<b>Total equity and liabilities</b>		<b>121,840</b>	<b>138,324</b>	<b>135,450</b>

Note:

1 Restated for the adoption of IFRS 11 and amendments to IAS 19. See note 1 Basis of preparation for further details. The consolidated financial statements were approved by the Board of directors and authorised for issue on 20 May 2014 and were signed on its behalf by:

/s/ Vittorio Colao  
**Vittorio Colao**  
 Chief Executive

/s/ Nick Read  
**Nick Read**  
 Chief Financial Officer

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**Commentary on the consolidated statement of financial position**

The consolidated statement of financial position shows all of our assets and liabilities at 31 March.

Further details on the major movements of both our assets and liabilities in the year are set out below. Our statement of financial position has been materially impacted in the year by the sale of our interest in Verizon Wireless, the acquisition of Kabel Deutschland and the assumption of control over Vodafone Italy (jointly the Group's acquisitions):

**Assets****Goodwill and other intangible assets**

Our total intangible assets increased to £46.7 billion from £44.1 billion. The increase primarily arose as a result of £11.5 billion additions as a result of the Group's acquisitions and other additions of £3.7 billion, including £1.9 billion of spectrum acquired in India, partially offset by £6.6 billion of goodwill impairments, reductions of £2.6 billion as a result of unfavourable movements in foreign exchange rates and £3.5 billion of amortisation.

**Property, plant and equipment**

Property, plant and equipment increased to £22.9 billion from £17.6 billion, principally as a result of £6.4 billion additions in the year arising from Group acquisitions and a further £4.9 billion of purchases, partially offset by £4.0 billion of depreciation charges and £1.5 billion of adverse foreign exchange movements.

**Investments in associates and joint ventures**

Investments in associates and joint ventures decreased to £0.1 billion (2013: £46.4 billion), primarily reflecting a reduction of £43.2 billion on the disposal of the Group's investment in Verizon Wireless and the transition of Vodafone Italy from a joint venture to a fully consolidated subsidiary. Our share of the trading results of associates and joint ventures was £3.5 billion, including £3.2 billion from Verizon Wireless classified within discontinued operations.

**Other non-current assets**

Other non-current assets increased by £19.0 billion to £27.5 billion, mainly due to a £17.8 billion increase in recognised deferred tax assets, primarily in respect of additional tax losses in Germany and Luxembourg (see note 6 Taxation for further details), and an increase of £2.8 billion in other investments as a result of loan notes received in respect of the disposal of the Group's investment in Verizon Wireless, partly offset by a £1.6 billion reduction in receivables, which was primarily due to a reduction in amounts due from associates.

**Total equity and liabilities**

### Total equity

Total equity decreased by £0.7 billion to £71.8 billion. Total comprehensive income for the year of £56.7 billion was offset by the return of value to shareholders of £51.0 billion and other dividends paid to equity shareholders and non-controlling interests of £5.1 billion.

### Borrowings

Total borrowings decreased to £29.2 billion from £39.7 billion, primarily as the result of the redemption of US\$5.65 billion of bonds following the sale of our interest in Verizon Wireless and also due to £2.7 billion favourable foreign exchange movements. A net debt reconciliation is provided on page 103.

### Deferred taxation liabilities

Deferred tax liabilities reduced to £0.7 billion from £6.7 billion mainly due to the disposal of the US Group that held substantial deferred tax liabilities to Verizon Communications.

### Other current liabilities

Other current liabilities increased to £16.4 billion (2013: £14.6 billion). Trade payables at 31 March 2014 were equivalent to 40 days (2013:37 days) outstanding, calculated by reference to the amount owed to suppliers as a proportion of the amounts invoiced by suppliers during the year. It is our policy to agree terms of transactions, including payment terms, with suppliers and it is our normal practice that payment is made accordingly.

### Contractual obligations and contingencies

A summary of our principal contractual financial obligations is shown below and details of the Group's contingent liabilities are included in note 30 Contingent liabilities .

	Total	Payments due by period			
		<1 year	1 - 3 years	3 - 5 years	>5 years
Contractual obligations <sup>1</sup>					£m
Borrowings <sup>2</sup>	35,721	8,642	5,506	9,825	11,748
Operating lease commitments <sup>3</sup>	5,732	1,128	1,519	1,034	2,051
Capital commitments <sup>3,4</sup>	2,335	2,093	215	20	7
Purchase commitments	4,420	3,426	578	191	225
<b>Total</b>	<b>48,208</b>	<b>15,289</b>	<b>7,818</b>	<b>11,070</b>	<b>14,031</b>

Notes:

- 1 This table includes commitments in respect of options over interests in Group businesses held by non-controlling shareholders (see Potential cash outflows from option agreements and similar arrangements on page 146) and obligations to pay dividends to non-controlling shareholders (see Dividends from associates and to non-controlling shareholders on page 146). The table excludes current and deferred tax liabilities and obligations under post employment benefit schemes, details of which are provided in notes 6 Taxation and 26 Post employment benefits respectively. The table also excludes the contractual obligations of associates and joint ventures.
- 2 See note 21 Borrowings .
- 3 See note 29 Commitments .
- 4 Primarily related to network infrastructure.

The financial commentary on this page is unaudited.

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**Vodafone Group Plc**

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**Consolidated statement of changes in equity**

for the years ended 31 March

Share capital £m	Additional paid-in capital <sup>2</sup> £m	Treasury shares £m	Retained losses £m	Currency reserve £m	Pensions reserve £m	Investment reserve £m	Other comprehensive income		Equity share-holders funds £m	Non-controlling interests
							Revaluation surplus £m	Other £m		
4,082	153,760	(8,171)	(77,685)	14,417	(203)	237	1,040	78	87,555	
	2	277	(208)						71	
(216)	216	4,724	(4,724)							
		(4,671) <sup>4</sup>							(4,671)	
	145 <sup>3</sup>								145	
			(1,908)						(1,908)	1,5
			6,948	(4,279)	(263)	(17)		(6)	2,383	
			6,948						6,948	
				(3,629)	(352)	(17)		(14)	(4,012)	
				31	89			8	128	
				(681)					(681)	

			(6,654)						(6,654)	(3)
			14						14	
<b>3,866</b>	<b>154,123</b>	<b>(7,841)</b>	<b>(84,217)</b>	<b>10,138</b>	<b>(466)</b>	<b>220</b>	<b>1,040</b>	<b>72</b>	<b>76,935</b>	<b>1,3</b>
	2	287	(237)						52	
		(1,475) <sup>4</sup>							(1,475)	
	152 <sup>3</sup>								152	
			(7)						(7)	
			413	462	(182)	(85)		(4)	604	1
			413						413	2
				482	(238)	(73)		(6)	165	
				(21)	56			2	37	
				1		(12)			(11)	
	2		(4,801)						(4,801)	(3)
			15						17	
<b>3,866</b>	<b>154,279</b>	<b>(9,029)</b>	<b>(88,834)</b>	<b>10,600</b>	<b>(648)</b>	<b>135</b>	<b>1,040</b>	<b>68</b>	<b>71,477</b>	<b>1,0</b>
	2	194	(173)						23	
(74)	74	1,648	(1,648)							
16,613	(37,470)		20,857							
(16,613)			1,115						(15,498)	
	88 <sup>3</sup>								88	
			(1,451)						(1,451)	2
			59,254	(2,436)	37	(119)		(25)	56,711	
			59,254						59,254	1

			(3,932)	57	(119)		3	(3,991)	(1)
			3	(20)			(3)	(20)	
			1,493				(25)	1,468	
	(40,566)							(40,566)	(2)
	18							18	
<b>3,792</b>	<b>116,973</b>	<b>(7,187)</b>	<b>(51,428)</b>	<b>8,164</b>	<b>(611)</b>	<b>16</b>	<b>1,040</b>	<b>43</b>	<b>70,802</b>

Notes:

- 1 Restated for the adoption of IFRS 11 and amendments to IAS 19. Retained losses have increased and the pensions reserve losses have reduced by £49 million for the year ended 31 March 2013 and by £33 million for the year ended 31 March 2012. See note 1 Basis of preparation for further details.
- 2 Includes share premium, capital redemption reserve and merger reserve. The merger reserve was derived from acquisitions made prior to 31 March 2004 and subsequently allocated to additional paid-in capital on adoption of IFRS.
- 3 Includes £12 million tax charge (2013: £18 million credit; 2012: £2 million credit).
- 4 Amount for 2013 includes a commitment for the purchase of own shares of £1,026 million; 2012: £1,091 million).

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**Commentary on the consolidated statement  
of changes in equity**

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The consolidated statement of changes in equity shows the movements in equity shareholders' funds and non-controlling interests. Equity shareholders' funds decreased by £0.7 billion as the profits on the sale of our investment in Verizon Wireless (VZW) and from the recognition of a large deferred tax asset were offset by the return of value to shareholders, regular ordinary dividends and goodwill impairment charges.

The major movements in the year are described below:

**Redemption and cancellation of shares**

We cancelled 1 billion ordinary shares that had been repurchased by the Company and held as treasury shares.

**Purchase of own shares**

We initiated a £1.5 billion share buyback programme following the receipt of a US\$3.8 billion (£2.4 billion) income dividend from VZW in December 2012. Under this programme, which was completed in June 2013, the Group placed irrevocable purchase instructions with a third party in the prior year to enable shares to be repurchased on our behalf when we may otherwise have been prohibited from buying in the market. This led to a total of 552,050 purchased shares being settled in the current year at an average price per share, including transaction costs, of 189 pence.

The movement in treasury shares during the year is shown below:

	Number	
	Million	£m
1 April 2013	4,902	9,029
Reissue of shares	(104)	(194)
Receipt of shares re-purchased in prior year	552	
Cancellation of shares	(1,000)	(1,648)
Share consolidation	(1,978)	
<b>31 March 2014</b>	<b>2,372</b>	<b>7,187</b>

The reissue of shares in the year was to satisfy obligations under employee share schemes.

**Issue of B and C shares**



On 2 September 2013 Vodafone announced that it had reached agreement to dispose of its US Group whose principal asset was its 45% interest in Verizon Wireless for a total consideration of US\$130 billion (£79 billion).

Following completion on 21 February 2014, Vodafone shareholders received all of the Verizon shares and US\$23.9 billion (£14.3 billion) of cash (the Return of Value ) totalling US\$85.2 billion (£51.0 billion).

The Return of Value was carried out through a B share and C share scheme. Eligible shareholders were able to elect between receiving one B share or one C share for each ordinary share that they held.

The B shares were cancelled by Vodafone in return for cash and Verizon shares with a value no greater than the aggregate nominal value of the B shares.

Holders of the C shares received a special dividend on their C shares, consisting of cash and Verizon shares with an aggregate value, for each C share, equal to the aggregate value of cash payable and Verizon shares receivable on the cancellation of each B share. The special B share distribution and C share dividend of £35.5 billion is included within the £40.6 billion of dividends described paid to equity shareholders in the year.

### **Transactions with non-controlling stakeholders in subsidiaries**

During the year we acquired further non-controlling interests in Vodafone India Limited and commenced the legal process of acquiring the remaining shares in Kabel Deutschland.

### **Comprehensive income**

The Group generated £56.7 billion of total comprehensive income in the year, primarily a result of the profit for the year attributable to equity shareholders of £59.3 billion. Total comprehensive income increased by £56.0 billion compared to the previous year; the primary reason underlying the increase being the profit realised on the disposal of our investment in VZW of £45.0 billion and the profit arising from the recognition of significant deferred tax assets of £19.3 billion in relation to losses incurred in Germany and Luxembourg (further details are provided in note 6 Taxation to the consolidated financial statements).

### **Dividends**

Dividends of £40.6 billion include the special £35.5 billion B share distribution and C share dividends distributed as part of the Return of Value to shareholders and £5.1 billion of equity dividends.

We provide returns to shareholders through equity dividends and historically have generally paid dividends in February and August in each year. The directors expect that we will continue to pay dividends semi-annually.

The £5.1 billion equity dividend in the current year comprises £3.4 billion in relation to the final dividend for the year ended 31 March 2013 and £1.7 billion for the interim dividend for the year ended 31 March 2014. This has increased from total dividends of £4.8 billion in the prior year, with increases in the dividend per share more than offsetting reductions in the number of shares in issue.

The interim dividend of 3.53 pence per share announced by the directors in November 2013 represented an 8% increase over last year's interim dividend. The directors are proposing a final dividend of 7.47 pence per share. Total dividends for the year, excluding the Return of Value in relation to the VZW disposal increased by 8% to 11.00 pence per share.

The financial commentary on this page is unaudited.

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**Consolidated statement of cash flows**

for the years ended 31 March

	2014	Restated <sup>1</sup> 2013	Restated <sup>1</sup> 2012
	£m	£m	£m
<b>Net cash flow from operating activities</b>	<b>6,227</b>	<b>8,824</b>	<b>10,297</b>
<b>Cash flows from investing activities</b>			
Purchase of interests in subsidiaries, net of cash acquired	(4,279)	(1,432)	(149)
Other investing activities in relation to purchase of subsidiaries			310
Purchase of interests in associates and joint ventures	(11)	(6)	(5)
Purchase of intangible assets	(2,327)	(3,758)	(1,876)
Purchase of property, plant and equipment	(4,396)	(3,958)	(4,071)
Purchase of investments	(214)	(4,249)	(417)
Disposal of interests in subsidiaries, net of cash disposed		27	784
Disposal of interests in associates and joint ventures	34,919		6,799
Disposal of property, plant and equipment	79	105	91
Disposal of investments	1,483	1,523	66
Dividends received from associates and joint ventures	4,897	5,539	4,916
Dividends received from investments	10	2	3
Interest received	582	461	336
Taxation on investing activities			(206)
<b>Net cash flow from investing activities</b>	<b>30,743</b>	<b>(5,746)</b>	<b>6,581</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital and reissue of treasury shares	38	69	91
Net movement in short-term borrowings	(2,887)	1,581	1,517
Proceeds from issue of long-term borrowings	1,060	5,422	1,578
Repayment of borrowing	(9,788)	(1,720)	(3,424)
Purchase of treasury shares	(1,033)	(1,568)	(3,583)

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B and C share payments		(14,291)		
Equity dividends paid		(5,076)	(4,806)	(6,643)
Dividends paid to non-controlling shareholders in subsidiaries		(264)	(379)	(304)
Other transactions with non-controlling shareholders in subsidiaries		(111)	15	(2,605)
Other movements in loans with associates and joint ventures			168	(792)
Interest paid		(1,897)	(1,525)	(1,504)
<b>Net cash flow from financing activities</b>		<b>(34,249)</b>	<b>(2,743)</b>	<b>(15,669)</b>
<b>Net cash flow</b>		<b>2,721</b>	<b>335</b>	<b>1,209</b>
Cash and cash equivalents at beginning of the financial year	20	7,506	7,001	6,138
Exchange (loss)/gain on cash and cash equivalents		(115)	170	(346)
<b>Cash and cash equivalents at end of the financial year</b>	<b>20</b>	<b>10,112</b>	<b>7,506</b>	<b>7,001</b>

During the year ended 31 March 2014 there were a number of material non-cash investing and financing activities that arose in relation to both the disposal of our interest in Verizon Wireless, the acquisition of the remaining 23% of Vodafone Italy and the return of value to shareholders. Full details of these material non-cash transactions are included in note 28 to the consolidated financial statements.

Note:

1 Restated for the adoption of IFRS 11 and amendments to IAS 19. See note 1 Basis of preparation for further details.

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**Commentary on the consolidated statement of cash flows**

The consolidated statement of cash flows shows the cash flows from operating, investing and financing activities for the year. Closing net debt has reduced to £13.7 billion from £25.4 billion. The reduction has primarily been achieved as the result of cash retained from the sale of our interest in Verizon Wireless after the return of value to shareholders.

Our liquidity and working capital may be affected by a material decrease in cash flow due to a number of factors as outlined in *Principal risk factors and uncertainties* on pages 196 to 200. We do not use non-consolidated special purpose entities as a source of liquidity or for other financing purposes.

**Purchase of interests in subsidiaries, net of cash acquired**

During the year we acquired Kabel Deutschland for net cash consideration of £4.3 billion. Further details on the assets and liabilities acquired are outlined in note 28 *Acquisitions and disposals* .

**Purchase of intangible assets**

Cash payments for the purchase of intangible assets comprise £1.4 billion for purchases of computer software and £0.9 billion for acquired spectrum.

**Purchase of investments**

The Group purchases short-term investments as part of its treasury strategy. See note 13 *Other investments* .

**Disposal of interests in associates and joint ventures**

During the year, we disposed of our US Group whose principal asset was its 45% interest in Verizon Wireless for consideration which included net cash proceeds of £34.9 billion. There were no significant disposals in the prior year.

**Disposal of investments**

In the prior year we received the remaining consideration of £1.5 billion from the disposal of our interests in SoftBank Mobile Corp.

**Dividends received from joint ventures and associates**

Dividends received from associates reduced by 11.6% to £4.9 billion. Dividends received primarily comprise tax dividends and income dividends from Verizon Wireless of £4.8 billion in both the current and prior financial years.

**Movements in borrowings**

Funds retained from the sale of our interest in Verizon Wireless, after the return of value to shareholders, has enabled us to reduce the overall amount of the Group's borrowings.

### **Purchase of treasury shares**

Cash payments of £1.0 billion relate to the completion of a £1.5 billion share buyback programme that commenced following the receipt of a US\$3.8 billion (£2.4 billion) income dividend from VZW in December 2012. Further details are provided on page 101.

### **B and C share payments**

B share payments formed part of the return of value to shareholders following the disposal of the Group's interest in Verizon Wireless. Further details are provided on page 101.

### **Equity dividends paid**

Equity dividends paid during the year increased by 5.6%. A special dividend was paid during the year to 31 March 2012 following the receipt of an income dividend from VZW. Further details on the Group's dividends are provided on page 101.

### **Other transactions with non-controlling shareholders in subsidiaries**

During the year we acquired the non-controlling interests in Vodafone India Limited and commenced the legal process of acquiring the remaining shares in Kabel Deutschland.

The financial commentary on this page is unaudited.

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**Notes to the consolidated financial statements**

**1. Basis of preparation**

This section describes the critical accounting judgements that management has identified as having a potentially material impact on the Group's consolidated financial statements and sets out our significant accounting policies that relate to the financial statements as a whole. Where an accounting policy is generally applicable to a specific note to the accounts, the policy is described within that note. We have also detailed below the new accounting pronouncements that we will adopt in future years and our current view of the impact they will have on our financial reporting.

The consolidated financial statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board and are also prepared in accordance with IFRS adopted by the European Union ( EU ), the Companies Act 2006 and Article 4 of the EU IAS Regulations. The consolidated financial statements are prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. A discussion on the Group's critical accounting judgements and key sources of estimation uncertainty is detailed below. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Amounts in the consolidated financial statements are stated in pounds sterling.

Vodafone Group Plc is registered in England and Wales (No. 1833679).

IFRS requires the directors to adopt accounting policies that are the most appropriate to the Group's circumstances. In determining and applying accounting policies, directors and management are required to make judgements in respect of items where the choice of specific policy, accounting estimate or assumption to be followed could materially affect the Group's reported financial position, results or cash flows; it may later be determined that a different choice may have been more appropriate.

Management has identified accounting estimates and assumptions relating to revenue, taxation, business combinations and goodwill, joint arrangements, finite lived intangible assets, property, plant and equipment, post employment benefits, provisions and contingent liabilities and impairment that it considers to be critical due to their impact on the Group's financial statements. These critical accounting judgements, assumptions and related disclosures have been discussed with the Company's Audit and Risk Committee (see page 62).

### Critical accounting judgements and key sources of estimation uncertainty

#### Revenue recognition

##### Arrangements with multiple deliverables

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. The fair values determined for deliverables may impact the timing of the recognition of revenue. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis after considering volume discounts where appropriate.

##### Gross versus net presentation

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

#### Taxation

The Group's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge involves estimation and judgement in respect of certain matters where the tax impact is uncertain until a conclusion is reached with the relevant tax authority or through a legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows.

Resolving tax issues can take many years as it is not always within the control of the Group and often depends on the efficiency of legal processes in the relevant tax jurisdiction.

##### Recognition of deferred tax assets

The recognition of deferred tax assets is based upon whether it is more likely than not that there will be sufficient and suitable taxable profits in the relevant legal entity or tax group against which to utilise the assets in the future. Judgement is required when determining probable future taxable profits, which are estimated using the latest available profit forecasts. Prior to recording deferred tax assets for tax losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

Significant items on which the Group has exercised accounting estimation and judgement include the recognition of deferred tax assets in respect of losses in Luxembourg, Germany, India, and Turkey, capital allowances in the United Kingdom and the tax liability on the rationalisation and re-organisation of the Group prior to the disposal of our US group, whose principal asset was its 45% interest in Verizon Wireless (VZW). See note 6 Taxation to the consolidated



financial statements.

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**Business combinations and goodwill**

When a business combination occurs, the fair values of the identifiable assets and liabilities assumed, including intangible assets, are recognised. The determination of the fair values of acquired assets and liabilities is based, to a considerable extent, on management's judgement. If the purchase consideration exceeds the fair value of the net assets acquired then the difference is recognised as goodwill. If the purchase price consideration is lower than the fair value of the assets acquired then a gain is recognised in the income statement.

Allocation of the purchase price between finite lived assets (discussed below) and indefinite lived assets such as goodwill affects the results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised.

On transition to IFRS the Group elected not to apply IFRS 3, Business combinations, retrospectively as the difficulty in applying these requirements to business combinations completed by the Group from incorporation through to 1 April 2004 exceeded any potential benefits. Goodwill arising before the date of transition to IFRS amounted to £78,753 million.

If the Group had elected to apply the accounting for business combinations retrospectively it may have led to an increase or decrease in goodwill, licences, customer bases, brands and related deferred tax liabilities recognised on acquisition.

**Joint arrangements**

The Group participates in a number of joint arrangements where control of the arrangement is shared with one or more other parties. A joint arrangement is classified as a joint operation or as a joint venture, depending on management's assessment of the legal form and substance of the arrangement.

The classification can have a material impact on the consolidated financial statements. The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis, whereas the Group's investment and share of results of joint ventures are shown within single line items in the consolidated statement of financial position and consolidated income statement respectively. See note 12 Investments in associates and joint ventures to the consolidated financial statements.

**Finite lived intangible assets**

Other intangible assets include amounts spent by the Group acquiring licences and spectrum, customer bases and brands and the costs of purchasing and developing computer software.

Where intangible assets are acquired through business combinations and no active market for the assets exists, the fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. Estimates relating to the future cash flows and discount rates used may have a material effect on the reported amounts of finite lived intangible assets.

#### **Estimation of useful life**

The useful life over which intangible assets are amortised depends on management's estimate of the period over which economic benefit will be derived from the asset. Reducing the useful life will increase the amortisation charge in the consolidated income statement. Useful lives are periodically reviewed to ensure that they remain appropriate. The basis for determining the useful life for the most significant categories of intangible assets is discussed below.

#### **Licences and spectrum fees**

The estimated useful life is generally the term of the licence unless there is a presumption of renewal at negligible cost; this is adjusted if necessary, for example taking into account the impact of any expected changes in technology.

#### **Customer bases**

The estimated useful life principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

#### **Capitalised software**

For computer software, the useful life is based on management's view, considering historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology. The useful life will not exceed the duration of a licence.

#### **Property, plant and equipment**

Property, plant and equipment represents 18.8% (2013: 12.7%) of the Group's total assets; estimates and assumptions made may have a material impact on their carrying value and related depreciation charge. See note 11 Property, plant and equipment for further details.

#### **Estimation of useful life**

The depreciation charge for an asset is derived using estimates of its expected useful life and expected residual value, which are reviewed annually. Increasing an asset's expected life or residual value would result in a reduced depreciation charge in the consolidated income statement.

Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected changes in technology. The useful life of network infrastructure is assumed not to exceed the duration of related operating licences unless there is a reasonable expectation of renewal or an alternative future use for the asset.

#### **Post employment benefits**

Management judgement is exercised when determining the Group's liabilities and expenses arising for defined benefit pension schemes. Management is required to make assumptions regarding future rates of inflation, salary increases, discount rates and longevity of members, each of which may have a material impact on the defined benefit obligations

that are recorded. Sensitivity analysis is provided for these assumptions in note 26 Post employment benefits to the consolidated financial statements.

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Notes to the consolidated financial statements (continued)

**1. Basis of preparation (continued)**  
**Provisions and contingent liabilities**

The Group exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities (see note 30 Contingent liabilities to the consolidated financial statements). Judgement is necessary to assess the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of any financial settlement. The inherent uncertainty of such matters means that actual losses may materially differ from estimates.

**Impairment reviews**

IFRS requires management to perform impairment tests annually for indefinite lived assets and, for finite lived assets, if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires assumptions to be made in respect of highly uncertain matters including management's expectations of:

g growth in adjusted EBITDA, calculated as adjusted operating profit before depreciation and amortisation;

g timing and amount of future capital expenditure;

g long-term growth rates; and

g appropriate discount rates to reflect the risks involved.

Management prepares formal five year forecasts for the Group's operations, which are used to estimate their value in use. In certain developing markets ten year forecasts are used if it is considered that the fifth year of a forecast is not indicative of expected long-term future performance as operations may not have reached maturity.

For operations where five year forecasts are used for the Group's value in use calculations, a long-term growth rate into perpetuity has been determined as the lower of:

g the nominal GDP growth rates for the country of operation; and

g the long-term compound annual growth rate in adjusted EBITDA in years six to ten estimated by management.

For operations where ten year forecasts are used for the Group's value in use calculations, a long-term growth rate into perpetuity has been determined as the lower of:

g the nominal GDP growth rates for the country of operation; and

g the compound annual growth rate in adjusted EBITDA in years nine to ten of the management plan.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence reported assets and profits or losses. Further details, including a sensitivity analysis is included in note 4 "Impairment losses" to the consolidated financial statements.

### Significant accounting policies applied in the current reporting period

that relate to the financial statements as a whole

#### Accounting convention

The consolidated financial statements are prepared on a historical cost basis except for certain financial and equity instruments that have been measured at fair value.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, subsidiaries controlled by the Company (see note 32 "Principal subsidiaries") and joint operations that are subject to joint control (see note 12 "Investments in associates and joint ventures").

#### Foreign currencies

The consolidated financial statements are presented in sterling, which is the parent company's functional currency and the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets, such as investments in equity securities classified as available-for-sale, are reported as part of the fair value gain or loss and are included in equity.

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For the purpose of presenting consolidated financial statements, the assets and liabilities of entities with a functional currency other than sterling are expressed in sterling using exchange rates prevailing at the reporting period date. Income and expense items and cash flows are translated at the average exchange rates for the period and exchange differences arising are recognised directly in equity. On disposal of a foreign entity, the cumulative amount previously recognised in equity relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated accordingly.

In respect of all foreign operations, any exchange differences that have arisen before 1 April 2004, the date of transition to IFRS, are deemed to be nil and will be excluded from the determination of any subsequent profit or loss on disposal.

The net foreign exchange loss recognised in the consolidated income statement for the year ended 31 March 2014 is £1,688 million (31 March 2013: £117 million loss; 2012: £703 million gain). The net losses and net gains are recorded within operating profit (2014: £16 million charge; 2013: £21 million charge; 2012: £33 million charge), other income and expense and non-operating income and expense (2014: £1,493 million charge; 2013: £1 million charge; 2012: £681 million credit), investment and financing income (2014: £180 million charge; 2013: £91 million charge; 2012: £55 million credit) and income tax expense (2014: £1 million credit; 2013: £4 million charge; 2012: £nil). The foreign exchange gains and losses included within other income and expense and non-operating income and expense arise on the disposal of interests in joint ventures, associates and investments from the recycling of foreign exchange gains previously recorded in the consolidated statement of comprehensive income.

**New accounting pronouncements adopted**

On 1 April 2013 the Group adopted new accounting policies where necessary to comply with amendments to IFRS. Accounting pronouncements considered by the Group as significant on adoption are:

- g** Amendments to IAS 19, Employee benefits, which requires revised accounting and disclosures for defined benefit pension schemes, including a different measurement basis for asset returns, replacing the expected return on plan assets and interest cost currently recorded in the consolidated income statement with net interest. This results in a revised allocation of costs between the income statement and other comprehensive income. The amendments also include a revised definition of short- and long-term benefits to employees and revised criteria for the recognition of termination benefits. The consolidated financial statements have been restated on the adoption of the amendments to IAS 19 (2013: reduced profit for the year by £16 million, 2012: £9 million).



g Changes to the standards governing the accounting for subsidiaries, joint arrangements and associates, including the introduction of IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities and amendments to IAS 28, Investments in Associates and Joint Ventures. IFRS 11 generally requires interests in jointly controlled entities to be recorded using the equity method, which is consistent with the accounting treatment applied to investments in associates. Under IFRS 11, the Group's principal joint arrangements, excluding Cornerstone Telecommunications Infrastructure Limited (see note 12 Investments in associates and joint ventures), are incorporated into the consolidated financial statements using the equity method of accounting rather than proportionate consolidation. The consolidated financial statements have been restated on the adoption of IFRS 11; the other changes to the standards governing the accounting for subsidiaries, joint arrangements and associates do not have a material impact on the Group. Adoption on 1 April 2013 is considered to be early adoption for the purposes of complying with IFRS as endorsed by the European Union.

In addition, during the year the Group has early-adopted amendments to IAS 36, Impairment of Assets, relating to recoverable amounts disclosures, which corrects a previous amendment.

Other IFRS changes adopted on 1 April 2013, including the adoption of IFRS 13, Fair Value Measurement, have no material impact on the consolidated results, financial position or cash flows of the Group.

The previously reported comparative periods have been restated in the consolidated financial statements for the amendments to IAS 19 and IFRS 11. The impact on key financial information is detailed in the following tables; the impact on earnings per share is immaterial.

	2013				2012			
	Discontinued			Restated	Discontinued			Restated
	As reported	Adjustments	operations <sup>1</sup>		As reported	Adjustments	operations <sup>1</sup>	
£m	£m	£m	£m	£m	£m	£m	£m	
<b>Consolidated income statement and statement of comprehensive income</b>								
Revenue	44,445	(6,404)		38,041	46,417	(7,596)		38,821
Gross profit	13,940	(2,466)		11,474	14,871	(3,251)		11,620
Share of results of equity accounted associates and joint ventures	6,477	520	(6,422)	575	4,963	1,033	(4,867)	1,129
Operating profit/(loss)	4,728	(508)	(6,422)	(2,202)	11,187	(702)	(4,867)	5,618
Profit/(loss) before tax	3,255	(372)	(6,366)	(3,483)	9,549	(561)	(4,844)	4,144
Profit/(loss) for the financial year from continuing operations	673	(16)	(4,616)	(3,959)	7,003	(9)	(3,555)	3,439
Profit for the financial year from discontinued operations			4,616	4,616			3,555	3,555
Other comprehensive income/(expense)	76	16		92	(4,653)	9		(4,644)
	749			749	2,350			2,350

Total comprehensive  
income  
Note:

- 1 Adjustments to disclose discontinued operations as a result of the disposal of the US Group, whose principal asset was its 45% interest in Verizon Wireless. See note 7 Discontinued operations for further details.

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Notes to the consolidated financial statements (continued)

**1. Basis of preparation (continued)**

	2013		2012			
	As reported	Adjustments	Restated	As reported		Adjustments
	£m	£m	£m	£m	£m	£m
<b>Consolidated statement of financial position</b>						
Non-current assets	119,411	(2,736)	116,675	119,551	(3,132)	116,419
Current assets	23,287	(1,638)	21,649	20,025	(994)	19,031
<b>Total assets</b>	<b>142,698</b>	<b>(4,374)</b>	<b>138,324</b>	<b>139,576</b>	<b>(4,126)</b>	<b>135,450</b>
Total equity	72,488		72,488	78,202		78,202
Non-current liabilities	38,986	(1,519)	37,467	37,349	(1,724)	35,625
Current liabilities	31,224	(2,855)	28,369	24,025	(2,402)	21,623
<b>Total equity and liabilities</b>	<b>142,698</b>	<b>(4,374)</b>	<b>138,324</b>	<b>139,576</b>	<b>(4,126)</b>	<b>135,450</b>
<b>Consolidated statement of cash flows</b>						
Net cash flow from operating activities	10,694	(1,870)	8,824	12,755	(2,458)	10,297
Net cash flow from investing activities	(7,398)	1,652	(5,746)	3,843	2,738	6,581
Net cash flow from financing activities	(2,956)	213	(2,743)	(15,369)	(300)	(15,669)
<b>Net cash flow</b>	<b>340</b>	<b>(5)</b>	<b>335</b>	<b>1,229</b>	<b>(20)</b>	<b>1,209</b>

**New accounting pronouncements to be adopted on 1 April 2014**

The following pronouncements which are potentially relevant to the Group have been issued by the IASB or the IFRIC, are effective for annual periods beginning on or after 1 January 2014 and have been endorsed for use in the EU unless otherwise stated:

g Amendment to IAS 32, *Offsetting financial assets and financial liabilities* .

g Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting* .

g Improvements to IFRS 2010 to 2012 cycle , elements are effective variously from 1 July 2014 and for annual periods beginning on or after 1 July 2014. All the amendments will be adopted by the Group from 1 April 2014, except an amendment to IFRS 8, *Operating Segments* , which will be adopted on 1 April 2014. These amendments have not yet been endorsed by the EU.

g IFRIC 21, *Levies* , which has not yet been endorsed by the EU.

For periods commencing on or after 1 April 2014, the Group's financial reporting will be presented in accordance with the new standards above which are not expected to have a material impact on the consolidated results, financial position or cash flows of the Group.

#### **New accounting pronouncements to be adopted on or after 1 April 2015**

On 1 April 2015 the Group will adopt Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* and Improvements to IFRS 2011-2013 Cycle , which are both effective for annual periods beginning on or after 1 July 2014. Accounting for Acquisitions of Interests in Joint Operations, Amendments to IFRS 11 and Clarification of Acceptable Methods of Depreciation and Amortisation, Amendment to IAS 16 and IAS 38 , which are effective for accounting periods on or after 1 January 2016, will be adopted by the Group on 1 April 2016.

Phase I of IFRS 9 *Financial Instruments* was issued in November 2009 and has subsequently been updated and amended. The effective date of the standard is to be confirmed and has not yet been endorsed for use in the EU. The standard introduces changes to the classification and measurement of financial assets, removes the restriction on electing to measure certain financial liabilities at fair value through the income statement from initial recognition and requires changes to the presentation of gains and losses relating to fair value changes.

The Group is currently assessing the impact of the above new pronouncements on its results, financial position and cash flows. None of the new pronouncements discussed above have been endorsed for use in the EU.

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**2. Segmental analysis**

The Group's businesses are managed on a geographical basis. Selected financial data is presented on this basis below.

The Group's operating segments are established on the basis of those components of the Group that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has a single group of related services and products being the supply of communications services and products. Revenue is attributed to a country or region based on the location of the Group company reporting the revenue. Transactions between operating segments are charged at arm's length prices.

Segment information is provided on the basis of geographic areas, being the basis on which the Group manages its worldwide interests, with each country in which the Group operates treated as an operating segment. The aggregation of operating segments into the Europe and AMAP regions reflects, in the opinion of management, the similar economic characteristics within each of those regions as well the similar products and services offered and supplied, classes of customers and the regulatory environment. In the case of the Europe region this largely reflects membership of the European Union, whilst for the AMAP region this largely includes emerging and developing economies that are in the process of rapid growth and industrialisation.

This note contains information on a management basis which includes the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis, including a five month contribution from Verizon Wireless. The statutory basis includes the results of these joint ventures, using the equity accounting basis rather than on a proportionate consolidation basis, and includes a five month contribution from Verizon Wireless which is treated as discontinued operations.

Certain financial information is provided separately within the Europe region for Germany, Italy, the UK and Spain and within the AMAP region for India and Vodacom, as these operating segments are individually material for the Group.

During the year ended 31 March 2014 the Group changed its organisational structure, merging its Northern and Central Europe and Southern Europe regions into one Europe region and moved its Turkish operating company into the AMAP region given its emerging market characteristics. The tables below present segmental information on the revised basis with prior years restated accordingly.

**Accounting policies****Revenue**

Revenue is recognised to the extent the Group has delivered goods or 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 Group. Revenue is measured at the fair value of the consideration receivable, exclusive of

sales taxes and discounts.

The Group principally obtains revenue from providing the following telecommunication services: access charges, airtime usage, messaging, interconnect fees, data services and information provision, connection fees and equipment sales. Products and services may be sold separately or in bundled packages.

Revenue for access charges, airtime usage and messaging by contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from interconnect fees is recognised at the time the services are performed.

Revenue from data services and information provision is recognised when the Group 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 Group as commission for facilitating the service.

Customer connection revenue is recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenue does not exceed the fair value of the equipment delivered to the customer. Any customer connection revenue not recognised together with related equipment revenue is deferred and recognised over the period in which services are expected to be provided to the customer.

Revenue for device sales is recognised when the device is delivered to the end customer and the sale is considered complete. For device sales made to intermediaries, revenue is recognised if the significant risks associated with the device 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 device to an end customer by the intermediary or the expiry of the right of return.

In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met: (1) the deliverable has value to the customer on a stand-alone basis and (2) there is evidence of the fair value of the item. The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value.

### Commissions

Intermediaries are given cash incentives by the Group to connect new customers and upgrade existing customers.

For intermediaries who do not purchase products and services from the Group, such cash incentives are accounted for as an expense. Such cash incentives to other intermediaries are also accounted for as an expense if:

**g** the Group receives an identifiable benefit in exchange for the cash incentive that is separable from sales transactions to that intermediary; and

**g** the Group can reliably estimate the fair value of that benefit.

Cash incentives that do not meet these criteria are recognised as a reduction of the related revenue.



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**Vodafone Group Plc**

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Notes to the consolidated financial statements (continued)

**2. Segmental analysis (continued)**

## Segmental revenue

	Management basis <sup>1</sup>				Group Revenue £m	Presentation adjustments <sup>2</sup> £m	Statutory basis <sup>1</sup>	
	Segment revenue £m	Intra-region revenue £m	Regional revenue £m	Inter-region revenue £m			Discontinued operations <sup>2</sup> £m	Revenue £m
<b>31 March 2014</b>								
Germany	8,272	(9)	8,263	(11)	8,252		8,252	
Italy	4,312	(8)	4,304	(1)	4,303	(3,782)	521	
UK	6,427	(10)	6,417	(3)	6,414	(131)	6,283	
Spain	3,518	(17)	3,501	(2)	3,499	3	3,502	
Other Europe	5,525	(13)	5,512	(4)	5,508	136	5,644	
<b>Europe</b>	<b>28,054</b>	<b>(57)</b>	<b>27,997</b>	<b>(21)</b>	<b>27,976</b>	<b>(3,774)</b>	<b>24,202</b>	
India	4,394		4,394	(3)	4,391	(449)	3,942	
Vodacom	4,718		4,718		4,718		4,718	
Other AMAP	5,860	(1)	5,859	(12)	5,847	(1,047)	4,800	
<b>AMAP</b>	<b>14,972</b>	<b>(1)</b>	<b>14,971</b>	<b>(15)</b>	<b>14,956</b>	<b>(1,496)</b>	<b>13,460</b>	
Non-Controlled Interests and Common Functions	686		686	(2)	684		684	
<b>Group</b>	<b>43,712</b>	<b>(58)</b>	<b>43,654</b>	<b>(38)</b>	<b>43,616</b>	<b>(5,270)</b>	<b>38,346</b>	
<b>Discontinued operations</b>								
<i>Verizon Wireless</i> <sup>3</sup>	9,955							
<b>31 March 2013 restated</b>								
Germany	7,857	(27)	7,830	(6)	7,824	2	7,826	
Italy	4,755	(21)	4,734	(1)	4,733	(4,733)		
UK	5,150	(30)	5,120	(4)	5,116	(23)	5,093	



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Spain	3,904	(40)	3,864	(2)	3,862	5	3,867
Other Europe	7,115	(61)	7,054	(6)	7,048	32	7,080
<b>Europe</b>	<b>28,781</b>	<b>(179)</b>	<b>28,602</b>	<b>(19)</b>	<b>28,583</b>	<b>(4,717)</b>	<b>23,866</b>
India	4,324		4,324	(4)	4,320	(417)	3,903
Vodacom	5,206		5,206		5,206		5,206
Other AMAP	5,884	(1)	5,883	(28)	5,855	(1,270)	4,585
<b>AMAP</b>	<b>15,414</b>	<b>(1)</b>	<b>15,413</b>	<b>(32)</b>	<b>15,381</b>	<b>(1,687)</b>	<b>13,694</b>
Non-Controlled Interests and Common Functions	481		481		481		481
<b>Group</b>	<b>44,676</b>	<b>(180)</b>	<b>44,496</b>	<b>(51)</b>	<b>44,445</b>	<b>(6,404)</b>	<b>38,041</b>
<b>Discontinued operations</b>							
<i>Verizon Wireless</i> <sup>3</sup>	21,972						
<b>31 March 2012 restated</b>							
Germany	8,233	(43)	8,190	(2)	8,188	5	8,193
Italy	5,658	(27)	5,631	(2)	5,629	(5,629)	
UK	5,397	(36)	5,361	(7)	5,354	5	5,359
Spain	4,763	(52)	4,711	(4)	4,707	7	4,714
Other Europe	6,469	(40)	6,429	(5)	6,424	8	6,432
<b>Europe</b>	<b>30,520</b>	<b>(198)</b>	<b>30,322</b>	<b>(20)</b>	<b>30,302</b>	<b>(5,604)</b>	<b>24,698</b>
India	4,265		4,265	(6)	4,259	(295)	3,964
Vodacom	5,638		5,638	(8)	5,630	1	5,631
Other AMAP	5,669	(1)	5,668	(54)	5,614	(1,456)	4,158
<b>AMAP</b>	<b>15,572</b>	<b>(1)</b>	<b>15,571</b>	<b>(68)</b>	<b>15,503</b>	<b>(1,750)</b>	<b>13,753</b>
Non-Controlled Interests and Common Functions	614		614	(2)	612	(242)	370
<b>Group</b>	<b>46,706</b>	<b>(199)</b>	<b>46,507</b>	<b>(90)</b>	<b>46,417</b>	<b>(7,596)</b>	<b>38,821</b>
<b>Discontinued operations</b>							
<i>Verizon Wireless</i> <sup>3</sup>	20,187						

Notes:

- 1 Management basis includes the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis. The statutory basis includes the results of these joint ventures, using the equity accounting basis rather than on a proportionate consolidation basis.
- 2 Presentation adjustments relate to the restatement of the Group's joint ventures from a proportionate consolidation basis to an equity accounted basis. Discontinued items relate to the results of Verizon Wireless.
- 3 Values shown for Verizon Wireless, which was an associate, are not included in the calculation of Group revenue.

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**Segmental profit**

The reconciliation of management basis adjusted EBITDA to statutory adjusted operating profit is shown below.

	Management basis <sup>1</sup>				Statutory
	Depreciation, amortisation and loss on disposal of fixed assets	Share of results in associates and joint ventures		Presentation adjustments <sup>4</sup>	Discontinued operations <sup>4</sup>
Adjusted EBITDA <sup>2</sup>	£m	£m	£m	£m	Adjusted op £m
	2,698				
	1,536				
	1,418				
	787				
Europe	1,736				
	<b>8,175</b>				
	1,397				
	1,716				
IAP	1,567				
	<b>4,680</b>				
Controlled and					
	(24)				
	<b>12,831</b>	<b>(8,181)</b>	<b>3,224</b>	<b>(395)</b>	<b>(3,169)</b>
Adjusted as					
	4,274				

ated

2,831  
1,917  
1,210  
1,021  
2,120  
**9,099**  
1,240  
1,891  
1,401  
**4,532**

ope

IAP

rolled  
and

(65)  
**13,566**                      **(7,543)**                      **6,554**                      **(487)**                      **(6,500)**

ued  
as

8,831

ated

3,034  
2,521  
1,294  
1,210  
2,160  
**10,219**  
1,122  
1,933  
1,338  
**4,393**

ope

IAP

rolled  
and

(6)  
**14,606**                      **(7,625)**                      **5,049**                      **(690)**                      **(4,953)**

ued  
as

7,689

Notes:

- 1 Management basis includes the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis, including a five month contribution from Verizon Wireless. The statutory basis includes the results of these joint ventures, using the equity accounting basis rather than on a proportionate consolidation basis, and includes a five month contribution from Verizon Wireless which is treated as discontinued operations.

2

The Group's measure of segment profit, adjusted EBITDA, excludes depreciation, amortisation and loss on disposal of fixed assets and the Group's share of results in associates and joint ventures. Adjusted EBITDA and adjusted operating profit have been restated to exclude restructuring costs.

- 3 Discontinued operations comprise our US Group whose principal asset was a 45% interest in Verizon Wireless. We sold our US Group on 21 February 2014. Refer to note 7 Discontinued operations for further details.
- 4 Presentation adjustments relate to the restatement of the Group's joint ventures from a proportionate consolidation basis to an equity accounted basis. Discontinued items relate to the results of Verizon Wireless.

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Notes to the consolidated financial statements (continued)

**2. Segmental analysis (continued)**

A reconciliation of adjusted operating profit to operating (loss)/profit is shown below. For a reconciliation of operating (loss)/profit to profit for the financial year, see the consolidated income statement on page 96.

	2014	Restated 2013	Restated 2012
	£m	£m	£m
<b>Adjusted operating profit</b>	<b>4,310</b>	<b>5,590</b>	<b>6,387</b>
Impairment loss	(6,600)	(7,700)	(4,050)
Restructuring costs	(355)	(311)	(144)
Amortisation of acquired customer base and brand intangible assets	(551)	(249)	(280)
Other income and expense	(717)	468	3,705
<b>Operating (loss)/profit</b>	<b>(3,913)</b>	<b>(2,202)</b>	<b>5,618</b>

**Segmental assets**

	Non-current assets <sup>1</sup>	Capital expenditure <sup>2</sup>	Other expenditure on intangible assets	Depreciation and amortisation	Impairment loss
	£m	£m	£m	£m	£m
<b>31 March 2014</b>					
Germany	22,780	1,312	3	2,036	4,900

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Italy	7,984	180		164	
UK	8,031	932		1,290	
Spain	3,653	511		587	800
Other Europe	8,736	800	273	1,047	900
<b>Europe</b>	<b>51,184</b>	<b>3,735</b>	<b>276</b>	<b>5,124</b>	<b>6,600</b>
India	7,824	633	1,938	828	
Vodacom	4,560	663	3	593	
Other AMAP	4,850	711	11	932	
<b>AMAP</b>	<b>17,234</b>	<b>2,007</b>	<b>1,952</b>	<b>2,353</b>	
Non-Controlled Interests and Common Functions	1,121	571		83	
<b>Group</b>	<b>69,539</b>	<b>6,313</b>	<b>2,228</b>	<b>7,560</b>	<b>6,600</b>
<b>31 March 2013 restated</b>					
Germany	19,109	1,073	2	1,423	
Italy					4,500
UK	8,365	601	863	888	
Spain	4,599	377		590	3,200
Other Europe	9,786	993	1,335	1,291	
<b>Europe</b>	<b>41,859</b>	<b>3,044</b>	<b>2,200</b>	<b>4,192</b>	<b>7,700</b>
India	7,388	462	130	914	
Vodacom	5,668	703	10	696	
Other AMAP	5,826	678	90	894	
<b>AMAP</b>	<b>18,882</b>	<b>1,843</b>	<b>230</b>	<b>2,504</b>	
Non-Controlled Interests and Common Functions	982	405		(35)	
<b>Group</b>	<b>61,723</b>	<b>5,292</b>	<b>2,430</b>	<b>6,661</b>	<b>7,700</b>
<b>31 March 2012 restated</b>					
Germany	19,151	880	4	1,469	
Italy					2,450
UK	6,430	575		880	
Spain	8,069	429	71	626	900
Other Europe	8,543	823	313	1,122	700
<b>Europe</b>	<b>42,193</b>	<b>2,707</b>	<b>388</b>	<b>4,097</b>	<b>4,050</b>
India	7,847	710		967	
Vodacom	6,469	723		840	
Other AMAP	5,362	709		782	
<b>AMAP</b>	<b>19,678</b>	<b>2,142</b>		<b>2,589</b>	
Non-Controlled Interests and Common Functions	715	395		35	
<b>Group</b>	<b>62,586</b>	<b>5,244</b>	<b>388</b>	<b>6,721</b>	<b>4,050</b>

Notes:

- 1 Comprises goodwill, other intangible assets and property, plant and equipment.
- 2 Includes additions to property, plant and equipment and computer software, reported within intangibles. Excludes licences and spectrum additions.

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**3. Operating (loss)/profit**

Detailed below are the key amounts recognised in arriving at our operating (loss)/profit.

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Net foreign exchange losses	16	21	33
Depreciation of property, plant and equipment (note 11):			
Owned assets	3,990	3,600	3,583
Leased assets	48	37	74
Amortisation of intangible assets (note 10)	3,522	3,024	3,064
Impairment of goodwill in subsidiaries, associates and joint arrangements (note 4)	6,600	7,700	3,848
Impairment of licences and spectrum (note 4)			121
Impairment of property, plant and equipment (note 4)			81
Negative goodwill (note 28)		(473)	
Research and development expenditure	214	307	304
Staff costs (note 25)	3,875	3,620	3,352
Operating lease rentals payable:			
Plant and machinery	651	506	500
Other assets including fixed line rentals	1,502	1,297	1,255
Loss on disposal of property, plant and equipment	85	77	51
Own costs capitalised attributable to the construction or acquisition of property, plant and equipment	(455)	(356)	(312)

The total remuneration of the Group's auditor, Deloitte LLP and other member firms of Deloitte Touche

Tohatsu Limited for services provided to the Group is analysed below:

	2014	2013	2012
	£m	£m	£m
Parent company	1	1	1
Subsidiaries	8	7	6
<b>Audit fees:</b>	<b>9</b>	<b>8</b>	<b>7</b>
Audit-related assurance services <sup>1</sup>	1	1	1

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Other assurance services <sup>2</sup>	3		
Taxation advisory services <sup>3</sup>			
Other non-audit services <sup>3</sup>			1
<b>Non-audit fees:</b>	<b>4</b>	<b>1</b>	<b>2</b>
<b>Total fees</b>	<b>13</b>	<b>9</b>	<b>9</b>

Notes:

- 1 Relates to fees for statutory and regulatory filings.
- 2 Primarily arising from regulatory filings and shareholder documentation requirements in respect of the disposal of Verizon Wireless and the acquisition of the outstanding minority stake in Vodafone Italy.
- 3 Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited were engaged during the year to provide a number of taxation advisory and other non-audit services. In aggregate, fees for these services amounted to £0.3 million

Deloitte LLP and other member firms of Deloitte Touche Tohmatsu Limited have also received fees in each of the last three years in respect of audits of charitable foundations associated to the Group.

A description of the work performed by the Audit and Risk Committee in order to safeguard auditor independence when non-audit services are provided is set out in Corporate governance on page 64.



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**4. Impairment losses**

Impairment occurs when the carrying value of assets is greater than the present value of the net cash flows they are expected to generate. We review the carrying value of assets for each country in which we operate at least annually. For further details on our impairment review process see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies**

**Goodwill**

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversible in subsequent periods.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The Group prepares and approves formal five year management plans for its operations, which are used in the value in use calculations. In certain developing markets the fifth year of the management plan is not indicative of the long-term future performance as operations may not have reached maturity. For these operations, the Group extends the plan data for an additional five year period.

**Property, plant and equipment and finite lived intangible assets**

At each reporting period date, the Group reviews the carrying amounts of its property, plant and equipment and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years and an impairment loss reversal is recognised immediately in the income statement.

### Impairment losses

Following our annual impairment review, the net impairment losses recognised in the consolidated income statement within operating profit, in respect of goodwill, licences and spectrum fees, and property, plant and equipment are stated below. The impairment losses were based on value in use calculations.

		2014	2013	2012
Cash generating unit	Reportable segment	£m	£m	£m
Germany	Germany	4,900		
Italy	Italy		4,500	2,450
Spain	Spain	800	3,200	900
Portugal	Other Europe	500		250
Czech Republic	Other Europe	200		
Romania	Other Europe	200		
Greece	Other Europe			450
		<b>6,600</b>	<b>7,700</b>	<b>4,050</b>

### Goodwill

The remaining carrying value of goodwill at 31 March was as follows:

		2014	Restated 2013
		£m	£m
Germany		10,306	11,703
Italy		3,017	
Spain		1,662	2,515
		<b>14,985</b>	<b>14,218</b>
Other		8,330	10,172
		<b>23,315</b>	<b>24,390</b>



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**Key assumptions used in the value in use calculations**

The key assumptions used in determining the value in use are:

Assumption	How determined
Budgeted, adjusted EBITDA	<p>Budgeted, adjusted EBITDA has been based on past experience adjusted for the following:</p> <ul style="list-style-type: none"> <li><span style="color: red;">g</span> voice and messaging revenue is expected to benefit from increased usage from new customers, especially in emerging markets, the introduction of new services and traffic moving from fixed networks to mobile networks, though these factors will be offset by increased competitor activity, which may result in price declines, and the trend of falling termination and other regulated rates;</li> <li><span style="color: red;">g</span> non-messaging data revenue is expected to continue to grow as the penetration of 3G (plus 4G where available) enabled devices and smartphones rise along with higher data bundle attachment rates, and new products and services are introduced; and</li> <li><span style="color: red;">g</span> margins are expected to be impacted by negative factors such as the cost of acquiring and retaining customers in increasingly competitive markets and the expectation of further termination rate cuts by regulators and by positive factors such as the efficiencies expected from the implementation of Group initiatives.</li> </ul>
Budgeted capital expenditure	<p>The cash flow forecasts for capital expenditure are based on past experience and include the ongoing capital expenditure required to roll out networks in emerging markets, to provide enhanced voice and data products and services and to meet the population coverage requirements of certain of the Group's licences. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and computer software.</p>
Long-term growth rate	<p>For businesses where the five year management plans are used for the Group's value in use calculations, a long-term growth rate into perpetuity has been determined as the lower of:</p>

g the nominal GDP rates for the country of operation; and

g the long-term compound annual growth rate in adjusted EBITDA in years six to ten estimated by management.

Pre-tax risk adjusted discount rate

The discount rate applied to the cash flows of each of the Group's operations is generally based on the risk free rate for ten year bonds issued by the government in the respective market. Where government bond rates contain a material component of credit risk, high quality local corporate bond rates may be used.

These rates are adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group operating company. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole.

In determining the risk adjusted discount rate, management has applied an adjustment for the systematic risk to each of the Group's operations determined using an average of the betas of comparable listed mobile telecommunications companies and, where available and appropriate, across a specific territory. Management has used a forward-looking equity market risk premium that takes into consideration both studies by independent economists, the average equity market risk premium over the past ten years and the market risk premiums typically used by investment banks in evaluating acquisition proposals.

#### Year ended 31 March 2014

During the year ended 31 March 2014 impairment charges of £4,900 million, £800 million, £500 million, £200 million and £200 million were recorded in respect of the Group's investments in Germany, Spain, Portugal, Czech Republic and Romania respectively. The impairment charges relate solely to goodwill. The recoverable amount of Germany, Spain, Portugal, Czech Republic and Romania were £23.0 billion, £3.3 billion, £1.3 billion, £0.6 billion and £1.2 billion respectively.

The impairment charges are driven by lower projected cash flows within the business plans resulting in our reassessment of expected future business performance in the light of current trading and economic conditions.

The table below shows the key assumptions used in the value in use calculations.

	Assumptions used in value in use calculation						
	Germany %	Italy %	Spain %	Portugal %	Czech Republic %	Romania %	Greece %
Pre-tax risk adjusted discount rate	7.7	10.5	9.9	11.1	8.0	11.0	24.3
Long-term growth rate	0.5	1.0	1.9	1.5	0.8	1.0	1.0
Budgeted, adjusted EBITDA <sup>1</sup>	2.8	(2.2)	(0.7)	(0.8)	(0.6)	1.7	4.7

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Budgeted capital expenditure<sup>2</sup>      12.5 21.7 11.1 25.5 9.0 23.5 11.0 28.3 15.9 21.2 10.5 17.3 7.6 12.2  
Notes:

- 1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.
- 2 Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

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**4. Impairment losses (continued)****Sensitivity analysis**

Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to exceed its recoverable amount.

The estimated recoverable amounts of the Group's operations in Germany, Italy, Spain, Portugal, Czech Republic, Romania and Greece are equal to, or not materially greater than, their carrying values; consequently, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognised.

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease to the aggregate impairment loss recognised in the year ended 31 March 2014.

	Germany		Spain		Portugal	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	by	by	by	by	by	by
	2pps	2pps	2pps	2pps	2pps	2pps
	£bn	£bn	£bn	£bn	£bn	£bn
Pre-tax risk adjusted discount rate	(7.1)	4.9	(0.9)	0.8	(0.3)	0.4
Long-term growth rate	4.9	(5.2)	0.8	(0.8)	0.4	(0.2)
Budgeted, adjusted EBITDA <sup>1</sup>	0.8	(0.8)	0.2	(0.2)	0.1	(0.1)
Budgeted capital expenditure <sup>2</sup>	(2.4)	2.4	(0.8)	0.8	(0.2)	0.2
			Czech Republic		Romania	
			Increase	Decrease	Increase	Decrease

	by 2pps	by 2pps	by 2pps	by 2pps
	£bn	£bn	£bn	£bn
Pre-tax risk adjusted discount rate	(0.2)	0.2	(0.2)	0.2
Long-term growth rate	0.2	(0.2)	0.2	(0.2)
Budgeted, adjusted EBITDA <sup>1</sup>			0.1	(0.1)
Budgeted capital expenditure <sup>2</sup>				

Notes:

- 1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.
- 2 Budgeted capital expenditure is expressed as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

#### Year ended 31 March 2013

During the year ended 31 March 2013 impairment charges of £4,500 million and £3,200 million were recorded in respect of the Group's investments in Italy and Spain respectively. The impairment charges relate solely to goodwill. The recoverable amounts of Italy and Spain were £8.9 billion and £4.2 billion respectively. The impairment charges were driven by a combination of lower projected cash flows within business plans, resulting from our reassessment of expected future business performance in light of current trading and economic conditions and adverse movements in discount rates driven by the credit rating and yields on ten year government bonds.

The table below shows the key assumptions used in the value in use calculations.

	Assumptions used in value in use calculation											
	Italy		Spain		Germany		Greece		Portugal		Romania	
	%	%	%	%	%	%	%	%	%	%	%	%
Pre-tax risk adjusted discount rate	11.3	12.2	9.6	23.9	11.2	11.2						
Long-term growth rate	0.5	1.9	1.4	1.0	0.4	3.0						
Budgeted, adjusted EBITDA <sup>1</sup>	(0.2)	1.7	2.5	0.4	(1.5)	0.8						
Budgeted capital expenditure <sup>2</sup>	9.9	15.2	11.2	15.2	11.3	12.6	7.8	11.0	10.0	18.9	10.1	15.5

Notes:

- 1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.
  - 2 Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.
- The pre-tax adjusted discount rate used for Czech Republic was 5.6%.



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**Sensitivity analysis**

Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash-generating unit to exceed its recoverable amount.

The estimated recoverable amounts of the Group's operations in Italy, Spain, Portugal and Greece are equal to, or not materially greater than, their carrying values; consequently, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognised. The estimated recoverable amounts of the Group's operations in Germany and Romania exceeded their carrying values by approximately £1,034 million and £184 million respectively.

	Change required for carrying value to equal the recoverable amount	
	Germany	Romania
	pps	pps
Pre-tax risk adjusted discount rate	0.4	1.0
Long-term growth rate	(0.5)	(1.2)
Budgeted, adjusted EBITDA <sup>1</sup>	(0.7)	(1.7)
Budgeted capital expenditure <sup>2</sup>	1.1	2.8

Notes:

1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.

2 Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease to the aggregate impairment loss recognised in the year ended 31 March 2013:

	Italy		Spain		Portugal	
	Increase by 2pps £bn	Decrease by 2pps £bn	Increase by 2pps £bn	Decrease by 2pps £bn	Increase by 2pps £bn	Decrease by 2pps £bn

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Pre-tax risk adjusted discount rate	(1.4)	1.8	(0.7)		(0.3)
Long-term growth rate	1.8	(1.3)		(0.7)	(0.3)
Budgeted, adjusted EBITDA <sup>1</sup>	0.5	(0.5)		(0.1)	(0.1)
Budgeted capital expenditure <sup>2</sup>	(0.9)	0.9	(0.6)		(0.2)

Notes:

- 1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.
- 2 Budgeted capital expenditure is expressed as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

**Year ended 31 March 2012**

During the year ended 31 March 2012 impairment charges of £2,450 million, £900 million, £450 million and £250 million were recorded in respect of the Group's investments in Italy, Spain, Greece and Portugal, respectively. Of the total charge, £3,848 million related to goodwill, and £202 million was allocated in Greece to licence intangible assets (£121 million) and property, plant and equipment (£81 million). The recoverable amounts of Italy, Spain, Greece and Portugal were £13.5 billion, £7.4 billion, £0.4 billion and £1.8 billion respectively.

The impairment charges were primarily driven by increased discount rates as a result of increases in bond rates, with the exception of Spain where rates reduced marginally compared to 31 March 2011. In addition, business valuations were negatively impacted by lower cash flows within business plans reflecting challenging economic and competitive conditions, and faster than expected regulatory rate cuts, particularly in Italy.

The table below shows the key assumptions used in the value in use calculations.

	Assumptions used in value in use calculation													
	Germany		Italy		Spain		Greece		Portugal		India		Romania	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Pre-tax risk adjusted discount rate	8.5	12.1	10.6	22.8	16.9	15.1	11.5							
Long-term growth rate	1.5	1.2	1.6	1.0	2.3	6.8	3.0							
Budgeted, adjusted EBITDA <sup>1</sup>	2.3	(1.2)	3.9	(6.1)	0.2	15.0	0.8							
Budgeted capital expenditure <sup>2</sup>	8.5	11.8	10.1	12.3	10.3	11.7	9.3	12.7	12.5	14.0	11.4	14.4	12.0	14.3

Notes:

- 1 Budgeted, adjusted EBITDA is expressed as the compound annual growth rates in the initial five years for all cash-generating units of the plans used for impairment testing.
- 2 Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial five years for all cash-generating units of the plans used for impairment testing.

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**5. Investment income and financing costs**

Investment income comprises interest received from short-term investments, bank deposits, government bonds and gains from foreign exchange contracts which are used to hedge net debt. Financing costs mainly arise from interest due on bonds and commercial paper issued, bank loans and the results of hedging transactions used to manage foreign exchange and interest rate movements.

	<b>2014</b>	Restated	Restated
	<b>£m</b>	2013	2012
		£m	£m
<b>Investment income:</b>			
Available-for-sale investments:			
Dividends received	10	2	2
Loans and receivables at amortised cost	184	124	168
Fair value through the income statement (held for trading):			
Derivatives foreign exchange contracts	82	115	121
Other <sup>1</sup>	70	64	165
	<b>346</b>	<b>305</b>	<b>456</b>
<b>Financing costs:</b>			
Items in hedge relationships:			
Other loans	265	228	210
Interest rate swaps	(196)	(184)	(178)
Fair value hedging instrument	386	(81)	(539)
Fair value of hedged item	(363)	112	511
Other financial liabilities held at amortised cost:			
Bank loans and overdrafts <sup>2</sup>	557	584	628
Other loans <sup>3</sup>	770	736	785
Interest credit on settlement of tax issues <sup>4</sup>	(15)	(91)	23

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Equity put rights and similar arrangements <sup>5</sup>	143	136	81
Fair value through the income statement (held for trading):			
Derivatives – forward starting swaps and futures	1	105	244
Other <sup>1</sup>	6	51	3
	<b>1,554</b>	<b>1,596</b>	<b>1,768</b>
<b>Net financing costs</b>	<b>1,208</b>	<b>1,291</b>	<b>1,312</b>

Notes:

- 1 Amounts for 2014 include net foreign exchange gains of £21 million (2013 £91 million loss; 2012 £55 million gain) arising from net foreign exchange movements on certain intercompany balances. Amounts for 2012 include foreign exchange gains arising on investments held following the disposal of Vodafone Japan to SoftBank Corp.
- 2 The Group capitalised £3 million of interest expense in the year (2013: £8 million; 2012: £25 million). The interest rate used to determine the amount of borrowing costs eligible for capitalisation was 5.4%.
- 3 Amounts for 2014 include foreign exchange losses of £201 million.
- 4 Amounts for 2014 and 2013 include a reduction of the provision for potential interest on tax issues.
- 5 Includes amounts in relation to the Group's arrangements with its non-controlling interest partners in India.

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**6. Taxation**

This note explains how our Group tax charge arises. The deferred tax section of the note also provides information on our expected future tax charges and sets out the tax assets held across the Group together with our view on whether or not we expect to be able to make use of these in the future.

**Accounting policies**

Income tax expense represents the sum of the current tax payable and deferred tax.

Current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The Group's liability for current tax is calculated using UK and foreign tax rates and laws that have been enacted or substantively enacted by the reporting period date.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that temporary differences or taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are not recognised to the extent they arise from the initial recognition of non-tax deductible goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting period date and adjusted to reflect changes in the Group's assessment that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the reporting period date.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they either relate to income taxes levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle the current tax assets and liabilities on a net basis.

Tax is charged or credited to the income statement, except when it relates to items charged or credited to other comprehensive income or directly to equity, in which case the tax is recognised in other comprehensive income or in equity.

### Income tax expense

	2014 £m	Restated 2013 £m	Restated 2012 £m
United Kingdom corporation tax expense/(income):			
Current year			
Adjustments in respect of prior years	17	24	(4)
	<b>17</b>	<b>24</b>	<b>(4)</b>
Overseas current tax expense/(income):			
Current year	3,114	1,062	1,118
Adjustments in respect of prior years	(25)	(249)	(42)
	<b>3,089</b>	<b>813</b>	<b>1,076</b>
<b>Total current tax expense</b>	<b>3,106</b>	<b>837</b>	<b>1,072</b>
Deferred tax on origination and reversal of temporary differences:			
United Kingdom deferred tax	57	(52)	(8)
Overseas deferred tax	(19,745)	(309)	(359)
<b>Total deferred tax income</b>	<b>(19,688)</b>	<b>(361)</b>	<b>(367)</b>
<b>Total income tax (income)/expense</b>	<b>(16,582)</b>	<b>476</b>	<b>705</b>

UK operating profits are more than offset by statutory allowances for capital investment in the UK network and systems plus ongoing interest costs including those arising from the £6.8 billion of spectrum payments to the UK government in 2000 and 2013.

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**6. Taxation (continued)**

## Tax on discontinued operations

	<b>2014</b>	2013	2012
	<b>£m</b>	£m	£m
Tax charge on profit from ordinary activities of discontinued operations	1,709	1,750	1,289
Tax charge relating to the gain or loss of discontinuance			
<b>Total tax charge on discontinued operations</b>	<b>1,709</b>	<b>1,750</b>	<b>1,289</b>
<b>Tax charged/(credited) directly to other comprehensive income</b>			

	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
Current tax charge/(credit)	23	4	(4)
Deferred tax charge/(credit)	23	(37)	(116)
<b>Total tax charged/(credited) directly to other comprehensive income</b>	<b>23</b>	<b>(33)</b>	<b>(120)</b>
<b>Tax charged/(credited) directly to equity</b>			

	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
Current tax charge/(credit)	12	(17)	(1)
Deferred tax credit		(1)	(1)

<b>Total tax charged/(credited) directly to equity</b>	<b>12</b>	<b>(18)</b>	<b>(2)</b>
<b>Factors affecting the tax expense for the year</b>			

The table below explains the differences between the expected tax expense at the UK statutory tax rate of 23% (2013: 24% and 2012: 26%), and the Group's total tax expense for each year.

	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
<b>Continuing (loss)/profit before tax as shown in the consolidated income statement</b>	<b>(5,270)</b>	<b>(3,483)</b>	<b>4,144</b>
Expected income tax (income)/expense at UK statutory tax rate	(1,212)	(836)	1,077
Effect of different statutory tax rates of overseas jurisdictions	(328)	(9)	456
Impairment losses with no tax effect	1,958	2,664	1,053
Disposal of Group investments <sup>1</sup>	211	(10)	(718)
Effect of taxation of associates and joint ventures, reported within operating profit	61	129	78
Recognition of deferred tax assets in Luxembourg and Germany <sup>2</sup>	(19,318)		
Tax charge on rationalisation and re-organisation of non-US assets prior to VZW disposal <sup>3</sup>	1,365		
Deferred tax impact of previously unrecognised temporary differences including losses	(164)	(625)	(634)
Current tax impact of previously unrecognised temporary differences including losses		(74)	
Effect of unrecognised temporary differences	215	(184)	(285)
Adjustments in respect of prior years	(43)	(234)	(110)
Gain on acquisition of CWW with no tax effect		(164)	
Effect of secondary and irrecoverable taxes	37	94	159
Deferred tax on overseas earnings	4	(4)	
Effect of current year changes in statutory tax rates	158	(2)	(3)
Expenses not deductible for tax purposes and other items	210	104	199
Tax on income derived from discontinued operations	418		
Exclude taxation of associates	(154)	(373)	(567)
<b>Income tax (income)/expense</b>	<b>(16,582)</b>	<b>476</b>	<b>705</b>

Notes:

- 1 2014 relates to deemed disposal of Italy. 2012 relates to the disposal of SFR and Polkomtel.
- 2 See commentary regarding deferred tax asset recognition on page 122.
- 3 Includes the US tax charge of £2,210 million on the rationalisation and reorganisation of non-US assets prior to the disposal of our interest in Verizon Wireless.



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**Deferred tax**

Analysis of movements in the net deferred tax balance during the year:

	£m
1 April 2013 restated	(3,823)
Exchange movements	151
Credited to the income statement (continuing operations)	19,688
Charged to the income statement (discontinued operations)	(567)
Charged directly to other comprehensive income	(23)
Arising on acquisition and disposals	4,434
<b>31 March 2014</b>	<b>19,860</b>

Deferred tax assets and liabilities, before offset of balances within countries, are as follows:

	Amount (charged)/ credited in income statement £m	Gross deferred tax asset £m	Gross deferred tax liability £m	Less amounts unrecognised £m	Net recognised deferred tax (liability)/ asset £m
Accelerated tax depreciation	(123)	993	(1,597)	(40)	(644)
Intangible assets	255	72	(1,409)	1	(1,336)
Tax losses	19,433	28,569		(7,418)	21,151
Deferred tax on overseas earnings	(2)				
Other temporary differences	125	1,186	(343)	(154)	689
<b>31 March 2014</b>	<b>19,688</b>	<b>30,820</b>	<b>(3,349)</b>	<b>(7,611)</b>	<b>19,860</b>

Deferred tax assets and liabilities are analysed in the statement of financial position, after offset of balances within countries, as follows:

	£m
Deferred tax asset	20,607
Deferred tax liability	(747)

**31 March 2014****19,860**

At 31 March 2013, deferred tax assets and liabilities, before offset of balances within countries, were as follows:

	Amount (charged)/ credited in income statement £m	Gross deferred tax asset £m	Gross deferred tax liability £m	Less amounts unrecognised £m	Net recognised deferred tax (liability)/ asset £m
Accelerated tax depreciation	58	1,071	(4,962)		(3,891)
Intangible assets	85	126	(1,403)		(1,277)
Tax losses	164	28,077		(25,977)	2,100
Deferred tax on overseas earnings	(5)		(1,812)		(1,812)
Other temporary differences	59	2,848	(193)	(1,598)	1,057
<b>31 March 2013</b>	<b>361</b>	<b>32,122</b>	<b>(8,370)</b>	<b>(27,575)</b>	<b>(3,823)</b>

At 31 March 2013 deferred tax assets and liabilities were analysed in the statement of financial position, after offset of balances within countries, as follows:

Deferred tax asset	£m 2,848
Deferred tax liability	(6,671)
<b>31 March 2013</b>	<b>(3,823)</b>

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Notes to the consolidated financial statements (continued)

**6. Taxation (continued)****Factors affecting the tax charge in future years**

Factors that may affect the Group's future tax charge include the impact of corporate restructurings, the resolution of open issues, future planning, corporate acquisitions and disposals, the use of brought forward tax losses and changes in tax legislation and tax rates.

The Group is routinely subject to audit by tax authorities in the territories in which it operates and, specifically, in India these are usually resolved through the Indian legal system. The Group considers each issue on its merits and, where appropriate, holds provisions in respect of the potential tax liability that may arise. However, the amount ultimately paid may differ materially from the amount accrued and could therefore affect the Group's overall profitability and cash flows in future periods. See note 30 'Contingent liabilities' to the consolidated financial statements.

At 31 March 2014, the gross amount and expiry dates of losses available for carry forward are as follows:

	Expiring			Total
	Expiring within 5 years	within 6-10 years	Unlimited	
	£m	£m	£m	£m
Losses for which a deferred tax asset is recognised	274	461	79,115	79,850
Losses for which no deferred tax is recognised	1,281	519	26,318	28,118
	<b>1,555</b>	<b>980</b>	<b>105,433</b>	<b>107,968</b>

At 31 March 2013, the gross amount and expiry dates of losses available for carry forward are as follows:

	Expiring			Total
	within			
	Expiring within 5 years £m	6 10 years £m	Unlimited £m	
Losses for which a deferred tax asset is recognised	343		8,423	8,766
Losses for which no deferred tax is recognised	1,845	691	94,135	96,671
	<b>2,188</b>	<b>691</b>	<b>102,558</b>	<b>105,437</b>

The losses arising on the write down of investments in Germany are available to use against both German federal and trade tax liabilities. Losses of £15,290 million (2013: £3,236 million) are included in the above table on which we have recognised a deferred tax asset as we expect the German business to continue to generate future taxable profits against which we can utilise these losses. In 2013 the Group did not recognise a deferred tax asset on £12,346 million of the losses as it was uncertain that these losses would be utilised.

Included above are losses amounting to £6,651 million (2013: £7,104 million) in respect of UK subsidiaries which are only available for offset against future capital gains and since it is uncertain whether these losses will be utilised, no deferred tax asset has been recognised. We have recognised a deferred tax asset against £442 million of these losses in the current year.

The losses above also include £73,734 million (2013: £70,644 million) that have arisen in overseas holding companies as a result of revaluations of those companies' investments for local GAAP purposes. A deferred tax asset of £18,150 million (2013: £1,325 million) has been recognised in respect of £62,980 million (2013: £4,535 million) of these losses which relate to tax groups in Luxembourg where we expect the members of these tax groups to generate future taxable profits against which these losses will be used. No deferred tax asset is recognised in respect of the remaining £10,754 million of these losses as it is uncertain whether these losses will be utilised.

In addition to the above, we hold £7,642 million of losses in overseas holding companies from a former Cable & Wireless Worldwide Group company, for which no deferred tax asset has been recognised as it is uncertain whether these losses will be utilised.

The recognition of the additional deferred tax assets, which arose from losses in earlier years, was triggered by the agreement to dispose of the US Group whose principal asset was its 45% interest in Verizon Wireless, which removes significant uncertainty around both the availability of the losses in Germany and the future income streams in Luxembourg. The Group expects to use the losses over a significant number of years; the actual use of the losses is dependent on many factors which may change, including the level of profitability in both Germany and Luxembourg, changes in tax law and changes to the structure of the Group.

The remaining losses relate to a number of other jurisdictions across the Group. There are also £339 million (2013: £5,918 million) of unrecognised other temporary differences.

The Group holds no deferred tax liability (2013: £1,812 million) in respect of deferred taxation that would arise if temporary differences on investments in subsidiaries, associates and interests in joint arrangements were to be realised after the balance sheet date (see table above) following the Group's disposal of its 45% stake in Verizon Wireless. No deferred tax liability has been recognised in respect of a further £22,985 million (2013: £47,978 million) of unremitted earnings of subsidiaries, associates and joint arrangements because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

It is not practicable to estimate the amount of unrecognised deferred tax liabilities in respect of these unremitted earnings.

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**7. Discontinued operations**

On 21 February 2014, we completed the sale of our US Group whose principal asset was its 45% interest in Verizon Wireless. The results of these discontinued operations are detailed below.

**Income statement and segment analysis of discontinued operations**

	2014	2013	2012
	£m	£m	£m
Share of result in associates	3,191	6,422	4,867
Net financing income/(costs)	27	(56)	(23)
<b>Profit before taxation</b>	<b>3,218</b>	<b>6,366</b>	<b>4,844</b>
Taxation relating to performance of discontinued operations	(1,709)	(1,750)	(1,289)
<b>Post-tax profit from discontinued operations</b>	<b>1,509</b>	<b>4,616</b>	<b>3,555</b>

**Gain on disposal of discontinued operations**

	2014	2013	2012
	£m	£m	£m
<b>Gain on disposal of discontinued operations before taxation (see note 28)</b>	<b>44,996</b>		
Other items arising from the disposal <sup>1</sup>	1,603		
<b>Net gain on disposal of discontinued operations</b>	<b>46,599</b>		

Note:

1 Includes dividends received from Verizon Wireless after the date of the announcement of the disposal

**Profit for the financial year from discontinued operations**

	2014	2013	2012
	£m	£m	£m
Profit for the financial year from discontinued operations	1,509	4,616	3,555
Net gain on disposal of discontinued operations	46,599		
<b>Profit for the financial year from discontinued operations</b>	<b>48,108</b>	<b>4,616</b>	<b>3,555</b>

**Earnings per share from discontinued operations**

	2014	2013	2012
	Pence per share	Pence per share	Pence per share
Basic	181.74p	17.20p	12.87p
Diluted	180.30p	17.20p	12.73p

**Total comprehensive income for the financial year from discontinued operations**

	2014	2013	2012
	£m	£m	£m
Equity shareholders funds	48,108	4,616	3,555

**Cash flows from discontinued operations**

	2014	2013	2012
	£m	£m	£m
Net cash flows from operating activities	(2,617)	(1,464)	(175)
Net cash flows from investing activities	4,830	4,798	4,318
Net cash flows from financing activities	(2,225)	(5,164)	(2,364)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(12)</b>	<b>(1,830)</b>	<b>1,779</b>
Cash and cash equivalents at the beginning of the financial year		1,721	
Exchange gain/(loss) on cash and cash equivalents	12	109	(58)
<b>Cash and cash equivalents at the end of the financial year</b>			<b>1,721</b>

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**8. Earnings per share**

Basic earnings per share is the amount of profit generated for the financial year attributable to equity shareholders divided by the weighted average number of shares in issue during the year.

	<b>2014</b>	Restated 2013	Restated 2012
	<b>Millions</b>	Millions	Millions
Weighted average number of shares for basic earnings per share	26,472	26,831	27,624
Effect of dilutive potential shares: restricted shares and share options	210		314
<b>Weighted average number of shares for diluted earnings per share</b>	<b>26,682</b>	<b>26,831</b>	<b>27,938</b>
	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
<b>Earnings for basic and diluted earnings per share</b>	<b>59,254</b>	<b>413</b>	<b>6,948</b>
Basic earnings per share	223.84p	1.54p	25.15p
Diluted earnings per share	222.07p	1.54p	24.87p

On 19 February 2014, we announced a 6 for 11 share consolidation effective 24 February 2014. This had the effect of reducing the number of shares in issue from 52,821,751,216 ordinary shares (including 4,351,833,492 ordinary shares held in Treasury) as at the close of business on 18 February 2014 to 28,811,864,298 new ordinary shares in issue immediately after the share consolidation on 24 February 2014. Prior year comparatives have been restated.

**9. Equity dividends**

Dividends are one type of shareholder return, historically paid to our shareholders in February and August. For information on shareholder returns in the form of share buybacks, see the [Commentary on the consolidated](#)



statement of changes in equity on page 101.

	2014	2013	2012
	£m	£m	£m
<b>Declared during the financial year:</b>			
Final dividend for the year ended 31 March 2013: 6.92 pence per share (2012: 6.47 pence per share, 2011: 6.05 pence per share)	3,365	3,193	3,102
Interim dividend for the year ended 31 March 2014: 3.53 pence per share (2013: 3.27 pence per share, 2012: 3.05 pence per share)	1,711	1,608	1,536
Second interim dividend share for the year ended 31 March 2014: nil (2013: nil pence per share, 2012: 4.00 pence per share)			2,016
Special dividend for the year ended 31 March 2014: 172.94 US cents per share (see below) (2013: nil, 2012: nil)	35,490		
	<b>40,566</b>	<b>4,801</b>	<b>6,654</b>
<b>Proposed after the end of the reporting period and not recognised as a liability:</b>			
Final dividend for the year ended 31 March 2014: 7.47 pence per share (2013: 6.92 pence per share, 2012: 6.47 pence per share)	1,975	3,377	3,195
On 2 September 2013 Vodafone announced that it had reached agreement to dispose of its US Group whose principal asset was its 45% interest in Verizon Wireless ( VZW ) to Verizon Communications Inc. ( Verizon ), for a total consideration of US\$130 billion (£79 billion).			

At a General Meeting of the Company on 28 January 2014, shareholders approved the transactions and following completion on 21 February 2014, Vodafone shareholders received all of the Verizon shares and US\$23.9 billion (£14.3 billion) of cash (the Return of Value ) totalling US\$85.2 billion (£51.0 billion).

The Return of Value was carried out in the form of a B share scheme pursuant to a Court-approved scheme of arrangement and associated reduction of capital (the Scheme ). The Scheme provided shareholders (other than shareholders in the United States and certain other jurisdictions) with the flexibility to receive their proceeds as either an income or capital return. Under the Scheme, Vodafone shareholders were issued unlisted, non-voting bonus shares, which were shortly thereafter either cancelled in consideration of the relevant amount of Verizon shares and cash or the holders received the relevant amount of Verizon shares and cash in satisfaction of a special distribution on the bonus shares, depending on shareholder elections and subject to applicable securities laws.

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**10. Intangible assets**

Our statement of financial position contains significant intangible assets, mainly in relation to goodwill and licences and spectrum. Goodwill, which arises when we acquire a business and pay a higher amount than the fair value of its net assets primarily due to the synergies we expect to create, is not amortised but is subject to annual impairment reviews. Licences and spectrum are amortised over the life of the licence. For further details see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies**

Identifiable intangible assets are recognised when the Group controls the asset, it is probable that future economic benefits attributed to the asset will flow to the Group and the cost of the asset can be reliably measured.

**Goodwill**

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested for impairment or whenever there is evidence that it may be required. Goodwill is denominated in the currency of the acquired entity and revalued to the closing exchange rate at each reporting period date.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Goodwill arising before the date of transition to IFRS, on 1 April 2004, has been retained at the previous UK GAAP amounts, subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

**Finite lived intangible assets**

Intangible assets with finite lives are stated at acquisition or development cost, less accumulated amortisation. The amortisation period and method is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

### Licence and spectrum fees

Amortisation periods for licence and spectrum fees are determined primarily by reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives from the commencement of related network services.

### Computer software

Computer software comprises computer software purchased from third parties as well as the cost of internally developed software.

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and are probable of producing future economic benefits are recognised as intangible assets. Direct costs include software development employee costs and directly attributable overheads.

Software integral to an item of hardware equipment is classified as property, plant and equipment.

Costs associated with maintaining computer software programs are recognised as an expense when they are incurred.

Internally developed software is recognised only if all of the following conditions are met:

- g an asset is created that can be separately identified;
- g it is probable that the asset created will generate future economic benefits; and
- g the development cost of the asset can be measured reliably.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life from the date the software is available for use.

### Other intangible assets

Other intangible assets, including brands and customer bases, are recorded at fair value at the date of acquisition. Amortisation is charged to the income statement, over the estimated useful lives of intangible assets from the date they are available for use, on a straight-line basis, with the exception of customer relationships which are amortised on a sum of digits basis. The amortisation basis adopted for each class of intangible asset reflects the Group's consumption of the economic benefit from that asset.

### Estimated useful lives

The estimated useful lives of finite lived intangible assets are as follows:

g Licence and spectrum fees	3	25 years
g Computer software	3	5 years
g Brands	1	10 years
g Customer bases	2	7 years

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**10. Intangible assets (continued)**

	Goodwill	Licences and spectrum	Computer software	Other	Total
	£m	£m	£m	£m	£m
<b>Cost:</b>					
1 April 2012 restated	72,840	26,480	8,018	2,783	110,121
Exchange movements	417	(62)	49	(213)	191
Arising on acquisition	59	28	63	335	485
Additions		2,430	1,307		3,737
Disposals of subsidiaries		(9)	(554)		(563)
Disposals			(4)		(4)
Other		4			4
<b>31 March 2013 restated</b>	<b>73,316</b>	<b>28,871</b>	<b>8,879</b>	<b>2,905</b>	<b>113,971</b>
Exchange movements	(3,054)	(1,757)	(375)	(434)	(5,620)
Arising on acquisition	6,859	1,319	464	2,861	11,503
Additions		2,228	1,437		3,665
Disposals		(74)	(296)		(370)
Other		5	103		108
<b>31 March 2014</b>	<b>77,121</b>	<b>30,592</b>	<b>10,212</b>	<b>5,332</b>	<b>123,257</b>
<b>Accumulated impairment losses and amortisation:</b>					
1 April 2012 restated	45,024	10,886	5,471	2,162	63,543
Exchange movements	702	30	38	(153)	617
Amortisation charge for the year		1,623	1,150	251	3,024
Impairment losses	3,200				3,200
Disposals of subsidiaries		(5)	(545)		(550)
Disposals			(3)		(3)
Other			1		1

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<b>31 March 2013 restated</b>	<b>48,926</b>	<b>12,534</b>	<b>6,112</b>	<b>2,260</b>	<b>69,832</b>
Exchange movements	(1,720)	(732)	(261)	(338)	(3,051)
Amortisation charge for the year		1,683	1,282	557	3,522
Impairment losses	6,600				6,600
Disposals		(65)	(278)		(343)
Other			9		9
<b>31 March 2014</b>	<b>53,806</b>	<b>13,420</b>	<b>6,864</b>	<b>2,479</b>	<b>76,569</b>
<b>Net book value:</b>					
<b>31 March 2013 restated</b>	<b>24,390</b>	<b>16,337</b>	<b>2,767</b>	<b>645</b>	<b>44,139</b>
<b>31 March 2014</b>	<b>23,315</b>	<b>17,172</b>	<b>3,348</b>	<b>2,853</b>	<b>46,688</b>

For licences and spectrum and other intangible assets, amortisation is included within the cost of sales line within the consolidated income statement. Licences and spectrum with a net book value of £3,885 million (2013: £2,707 million) have been pledged as security against borrowings.

The net book value and expiry dates of the most significant licences are as follows:

			Restated
			2013
	Expiry date	2014 £m	£m
Germany	2016/2020/2025	3,743	4,329
Italy	2015/2021/2029	1,301	
UK	2021/2033	3,425	3,782
India	2014 2030	3,885	2,702
Qatar	2028	945	1,111
Netherlands	2016/2029/2030	1,188	1,329

The remaining amortisation period for each of the licences in the table above corresponds to the expiry date of the respective licence. A summary of the Group's most significant spectrum licences can be found on page 194.

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**11. Property, plant and equipment**

We make significant investments in network equipment and infrastructure – the base stations and technology required to operate our networks – that form the majority of our tangible assets. All assets are depreciated over their useful economic lives. For further details on the estimation of useful economic lives, see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies**

Land and buildings held for use are stated in the statement of financial position at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Amounts for equipment, fixtures and fittings, which includes network infrastructure assets and which together comprise an all but insignificant amount of the Group's property, plant and equipment, are stated at cost less accumulated depreciation and any accumulated impairment losses.

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.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost of assets, other than land, using the straight-line method, over their estimated useful lives, as follows:

**Land and buildings**

g Freehold buildings	25–50 years
g Leasehold premises	the term of the lease

**Equipment, fixtures and fittings**

g Network infrastructure	3–25 years
g Other	3–10 years

Depreciation is not provided on freehold land.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between any sale proceeds and the carrying amount of the asset and is recognised in the income statement.



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**11. Property, plant and equipment (continued)**

	Land and buildings	Equipment, fixtures and fittings	Total
	£m	£m	£m
<b>Cost:</b>			
1 April 2012 restated	1,426	38,776	40,202
Exchange movements	(20)	(41)	(61)
Arising on acquisition	52	1,503	1,555
Additions	122	3,862	3,984
Disposals of subsidiaries	(1)	(28)	(29)
Disposals	(18)	(1,481)	(1,499)
Other	37	(143)	(106)
<b>31 March 2013 restated</b>	<b>1,598</b>	<b>42,448</b>	<b>44,046</b>
Exchange movements	(99)	(2,900)	(2,999)
Arising on acquisition	113	6,286	6,399
Additions	127	4,743	4,870
Disposals of subsidiaries		(15)	(15)
Disposals	(93)	(1,224)	(1,317)
Transfer of assets to joint operations		(672)	(672)
Other		(103)	(103)
<b>31 March 2014</b>	<b>1,646</b>	<b>48,563</b>	<b>50,209</b>
<b>Accumulated depreciation and impairment:</b>			
1 April 2012 restated	584	23,610	24,194
Exchange movements	1	106	107
Charge for the year	97	3,540	3,637

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Disposals of subsidiaries	(1)	(14)	(15)
Disposals	(13)	(1,329)	(1,342)
Other	31	(150)	(119)
<b>31 March 2013 restated</b>	<b>699</b>	<b>25,763</b>	<b>26,462</b>
Exchange movements	(20)	(1,477)	(1,497)
Charge for the year	99	3,939	4,038
Disposals of subsidiaries		(15)	(15)
Disposals	(46)	(1,099)	(1,145)
Transfer of assets to joint operations		(476)	(476)
Other		(9)	(9)
<b>31 March 2014</b>	<b>732</b>	<b>26,626</b>	<b>27,358</b>
<b>Net book value:</b>			
<b>31 March 2013 restated</b>	<b>899</b>	<b>16,685</b>	<b>17,584</b>
<b>31 March 2014</b>	<b>914</b>	<b>21,937</b>	<b>22,851</b>

The net book value of land and buildings and equipment, fixtures and fittings includes £48 million and £413 million respectively (2013: £62 million and £281 million) in relation to assets held under finance leases. Included in the net book value of land and buildings and equipment, fixtures and fittings are assets in the course of construction, which are not depreciated, with a cost of £70 million and £1,617 million respectively (2013: £19 million and £1,399 million). Property, plant and equipment with a net book value of £1 million (2013: £357 million) has been pledged as security against borrowings.

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**12. Investments in associates and joint ventures**

We hold interests in several associates where we have significant influence, including Verizon Wireless which was disposed of on 21 February 2014, as well as interests in a number of joint arrangements where we share control with one or more third parties, with our business in Italy being the most significant prior to the acquisition of the remaining interests as part of the Verizon Wireless disposal. For further details see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies****Interests in joint arrangements**

A joint arrangement is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is, when the relevant activities that significantly affect the investee's returns require the unanimous consent of the parties sharing control. Joint arrangements are either joint operations or joint ventures.

**Joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control have the rights to the assets, and obligations for the liabilities, relating to the arrangement or that other facts and circumstances indicate that this is the case. The Group's share of assets, liabilities, revenue, expenses and cash flows are combined with the equivalent items in the financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

**Joint ventures**

A joint venture is a joint arrangement whereby the parties that have joint control have the rights to the net assets of the arrangement.

At the date of acquisition, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the joint venture is recognised as goodwill. The goodwill is included within the carrying amount of the investment.

The results and assets and liabilities of joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the joint venture, less any impairment in the value of the investment. The Group's share of post-tax profits or losses are recognised in the consolidated income statement. Losses of a joint venture in excess of the Group's

interest in that joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

### Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but do not have control or joint control over those policies.

At the date of acquisition, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate is recognised as goodwill. The goodwill is included within the carrying amount of the investment.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of the investment. The Group's share of post-tax profits or losses are recognised in the consolidated income statement. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

### Joint operations

The Company's principal joint operation has share capital consisting solely of ordinary shares and is indirectly held, and principally operates in the UK. The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

Name of joint operation	Principal activity	Country of incorporation or registration	Percentage <sup>1</sup> shareholdings
Cornerstone Telecommunications Infrastructure Limited	Network infrastructure	UK	50.0

Note:

<sup>1</sup> Effective ownership percentages of Vodafone Group Plc at 31 March 2014, rounded to the nearest tenth of one percent.

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Notes to the consolidated financial statements (continued)

**12. Investments in associates and joint ventures (continued)**

	2014	Restated 2013
	£m	£m
Investment in joint ventures	(158)	7,812
Investment in associates	272	38,635
<b>31 March</b>	<b>114</b>	<b>46,447</b>
<b>Joint ventures</b>		

The financial and operating activities of the Group's joint ventures are jointly controlled by the participating shareholders. The participating shareholders have rights to the net assets of the joint ventures through their equity shareholdings. Unless otherwise stated, the Company's principal joint ventures all have share capital consisting solely of ordinary shares and are all indirectly held. The country of incorporation or registration of all joint ventures is also their principal place of operation.

Name of joint venture	Principal activity	Country of incorporation or registration	Percentage <sup>1</sup> shareholdings
Indus Towers Limited	Network infrastructure	India	37.4 <sup>2</sup>
Vodafone Hutchison Australia Pty Limited <sup>3</sup>	Network operator	Australia	50.0
Vodafone Fiji Limited	Network operator	Fiji	49.0 <sup>4</sup>

Notes:

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Effective ownership percentages of Vodafone Group Plc at 31 March 2014, rounded to the nearest tenth of one percent.

- 2 42% of Indus Towers Limited is held by Vodafone India Limited ( VIL ) in which the Group had a 89% interest.
- 3 Vodafone Hutchison Australia Pty Limited has a year end of 31 December.
- 4 The Group holds substantive participating rights which provide it with a veto over the significant financial and operating policies of Vodafone Fiji Limited and which ensure it is able to exercise joint control over Vodafone Fiji Limited with the majority shareholder.

The summarised financial information for equity accounted joint ventures on a 100% ownership basis is set out below including the Group's 76.9% ownership interest in Vodafone Omnitel B.V. until 21 February 2014. On 21 February 2014, the Group acquired the remaining 23.1% interest upon which date, the results of the wholly acquired entity have been consolidated in the Group's financial statements. Refer to note 28 Acquisitions and disposals for further information.

	Vodafone Omnitel B.V.		Indus Towers Limited		Vodafone Hutchison Australia Pty Limited		Other joint ventures		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Income statement and statement of comprehensive income</b>										
Revenue	4,931	6,186	1,547	1,489	2,032	2,497				
Depreciation and amortisation	(937)	(999)	(507)	(256)	(423)	(454)				
Interest income	1	2	20	8	10	6				
Interest expense	(15)	(6)	(124)	(103)	(212)	(191)				
Income tax (expense)/income	(174)	(430)	39	(53)	1	3				
Profit or loss from continuing operations	339	951	51	34	(132)	(446)				
Other comprehensive (expense)/income		(6)				6				
Total comprehensive income/(expense)	339	945	51	34	(132)	(440)				
<b>Statement of financial position</b>										
Non-current assets		4,870	1,798	1,542	1,916	1,865				
Current assets		1,722	423	417	590	528				
Non-current liabilities		(176)	(801)	(1,297)	(3,150)	(1,688)				
Current liabilities		(3,067)	(532)	(724)	(661)	(2,154)				
Equity shareholders funds		(3,349)	(888)	62	1,305	1,449				
<b>Statement of financial position</b>										
Cash and cash equivalents within current assets		20	143	65	60	96				
		(97)	(701)	(1,147)	(3,060)	(1,560)				

Non-current liabilities excluding trade and other payables and provisions										
Current liabilities excluding trade and other payables and provisions		(772)	(258)	(34)	(97)	(1,412)				
<b>Summary</b>										
Investment in joint ventures		8,441	373	(26)	(559)	(609)	28	6	(158)	7,812
Profit/(loss) from continuing operations	261	731	21	15	(66)	(223)	5	(3)	221	520
Other comprehensive (expense)/income		(5)				3		2		
Total comprehensive income/(expense)	261	726	21	15	(66)	(220)	5	(1)	221	520

Note:

1 Prior to 21 February 2013, the other participating shareholder held substantive veto rights such that the Group did not unilaterally control the financial and operating policies of Vodafone Omnitel B.V.

The Group received a dividend of £26 million in the year to 31 March 2014 (2013: £46 million; 2012: £nil) from Indus Towers.

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**Associates**

Unless otherwise stated, the Company's principal associates all have share capital consisting solely of ordinary shares and are all indirectly held. The country of incorporation or registration of all associates is also their principal place of operation.

Name of associate	Principal activity	Country of incorporation or registration	Percentage <sup>1</sup> shareholdings
Safaricom Limited <sup>2,3</sup>	Network operator	Kenya	40.0

Notes:

- 1 Effective ownership percentages of Vodafone Group Plc at 31 March 2014, rounded to the nearest tenth of one percent.
- 2 The Group also holds two non-voting shares.
- 3 At 31 March 2014 the fair value of Safaricom Limited was KES 198 billion (£1,371 million) based on the closing quoted share price on the Nairobi Stock Exchange.

On 21 February 2014, the Group disposed of its 45% interest in Cellco Partnership which traded under the name Verizon Wireless. Consequently, comparative information has been restated to reflect the continuing operations of the business. Results from discontinued operations are disclosed in note 7 'Discontinued operations' to the consolidated financial statements. The summarised financial information showing the Group's share of equity accounted associates is set out below.

	Cellco Partnership		Other associates		2014	Total 2013
	2014	2013	2014	2013		
	£m	£m	£m	£m	£m	£m
<b>Income statement and statement of comprehensive income</b>						
Revenue	22,122	48,827				
Depreciation and amortisation	(2,186)	(5,145)				
Interest income	1	3				
Interest expense	(38)	(60)				



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Income tax (expense)/income	(111)	29			
Post-tax profit of loss from discontinued operations	7,092	14,272			
Other comprehensive expense	(2)				
Total comprehensive income	7,090	14,272			
<b>Statement of financial position</b>					
Non-current assets		72,755			
Current assets		9,764			
Non-current liabilities		(6,328)			
Current liabilities		(9,267)			
Non-controlling interests		(1,366)			
Equity shareholders funds		(65,558)			
<b>Statement of financial position</b>					
Cash and cash equivalents within current assets		2,894			
Non-current liabilities excluding trade and other payables and provisions		(5,034)			
Current liabilities excluding trade and other payables and provisions		(3,208)			
<b>Summary</b>					
Investment in associates		38,373	272	262	272
Profit or loss from continuing operations			57	55	57
Post-tax profit from discontinued operations	3,191	6,422			3,191
Other comprehensive expense	(1)				(1)
Total comprehensive income	3,190	6,422	57	55	3,247

The Group received £4,828 million of dividends in the year to 31 March 2014 (2013: £4,798 million, 2012: £3,820 million) from Cellco Partnership.

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Notes to the consolidated financial statements (continued)

**13. Other investments**

We hold a number of other listed and unlisted investments, mainly comprising US\$5.25 billion of loan notes from Verizon Communications.

**Accounting policies**

Other investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, including transaction costs.

Other investments classified as held for trading and available-for-sale are stated at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, determined using the weighted average cost method, is included in the net profit or loss for the period.

Other investments classified as loans and receivables are stated at amortised cost using the effective interest method, less any impairment.

	2014 £m	Restated 2013 £m
<b>Included within non-current assets:</b>		
Listed securities:		
Equity securities	13	3
Unlisted securities:		

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Equity securities	228	570
Public debt and bonds	141	134
Other debt and bonds	3,171	66
	<b>3,553</b>	<b>773</b>

The listed and unlisted securities are classified as available-for-sale. Public debt and bonds are classified as held for trading, and other debt and bonds which are not quoted in an active market, are classified as loans and receivables.

Unlisted equity investments are recorded at fair value where appropriate.

Other debt and bonds includes loan notes of US\$5.25 billion (£3,151 million) issued by Verizon Communications Inc. as part of the Group's disposal of its interest in Verizon Wireless.

Current other investments comprise the following, of which public debt and bonds are classified as held for trading.

	<b>2014</b>	Restated
	<b>£m</b>	2013
		£m
<b>Included within current assets:</b>		
Public debt and bonds	938	1,130
Other debt and bonds	2,957	3,816
Cash held in restricted deposits	524	404
	<b>4,419</b>	<b>5,350</b>

Other debt and bonds includes £2,953 million of assets held for trading which include £1,979 million (2013: £3,000 million) of assets held in managed investment funds with liquidity of up to 90 days, £830 million (2013: £643 million) of short-term securitised investments with original maturities of up to six months, and collateral paid on derivative financial instruments of £144 million (2013: £169 million).

Current public debt and bonds include government bonds of £852 million (2013: £1,076 million) which consist of highly liquid index linked gilts with less than four years to maturity held on an effective floating rate basis.

For public debt and bonds, other debt and bonds and cash held in restricted deposits, the carrying amount approximates fair value.

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**14. Inventory**

Our inventory primarily consists of mobile handsets and is presented net of an allowance for obsolete products.

**Accounting policies**

Inventory is stated at the lower of cost and net realisable value. Cost is determined on the basis of weighted average costs and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

	<b>2014</b>	Restated 2013
	<b>£m</b>	£m
Goods held for resale	441	353

Inventory is reported net of allowances for obsolescence, an analysis of which is as follows:

	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
1 April	(89)	(92)	(99)
Exchange movements	6	(6)	7
Amounts credited to the income statement	(5)	9	
<b>31 March</b>	<b>(88)</b>	<b>(89)</b>	<b>(92)</b>

Cost of sales includes amounts related to inventory amounting to £5,340 million (2013: £5,107 million; 2012: £5,409 million).

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Notes to the consolidated financial statements (continued)

**15. Trade and other receivables**

Our trade and other receivables mainly consist of amounts owed to us by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad or doubtful debts. Derivative financial instruments with a positive market value are reported within this note.

**Accounting policies**

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectible.

	2014 £m	Restated 2013 £m
<b>Included within non-current assets:</b>		
Trade receivables	232	40
Amounts owed by associates and joint ventures	51	1,065
Other receivables	150	284
Prepayments and accrued income	592	499
Derivative financial instruments	2,245	2,944
	<b>3,270</b>	<b>4,832</b>
<b>Included within current assets:</b>		
Trade receivables	3,627	3,277
Amounts owed by associates and joint ventures	68	281
Other receivables	1,233	908
Prepayments and accrued income	3,760	3,464

Derivative financial instruments	198	88
	<b>8,886</b>	<b>8,018</b>

The Group's trade receivables are stated after allowances for bad and doubtful debts based on management's assessment of creditworthiness, an analysis of which is as follows:

	2014	Restated 2013	Restated 2012
	£m	£m	£m
1 April	770	799	826
Exchange movements	(67)	(10)	(54)
Amounts charged to administrative expenses	347	360	357
Trade receivables written off	(461)	(379)	(330)
<b>31 March</b>	<b>589</b>	<b>770</b>	<b>799</b>

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are predominantly non-interest bearing.

	2014	Restated 2013
	£m	£m
<b>Included within Derivative financial instruments :</b>		
Fair value through the income statement (held for trading):		
Interest rate swaps	1,262	1,508
Cross currency interest rate swaps	158	319
Foreign exchange contracts	68	88
	<b>1,488</b>	<b>1,915</b>
Designated hedge relationships:		
Interest rate swaps	609	1,117
Cross currency interest rate swaps	346	
	<b>2,443</b>	<b>3,032</b>

In the absence of a quoted price in an active market for the same derivatives, the fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at 31 March derived from similar transactions.

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**16. Trade and other payables**

Our trade and other payables mainly consist of amounts we owe to our suppliers that have been invoiced or are accrued. They also include taxes and social security amounts due in relation to our role as an employer. Derivative financial instruments with a negative market value are reported within this note.

**Accounting policies**

Trade payables are not interest bearing and are stated at their nominal value.

	2014 £m	Restated 2013 £m
<b>Included within non-current liabilities:</b>		
Derivative financial instruments	811	982
Other payables	72	105
Accruals and deferred income	456	220
	<b>1,339</b>	<b>1,307</b>
<b>Included within current liabilities:</b>		
Trade payables	4,710	3,781
Amounts owed to associates and joint ventures	51	54
Other taxes and social security payable	1,047	1,059
Derivative financial instruments	70	119
Other payables	678	447
Accruals and deferred income	8,900	8,472
	<b>15,456</b>	<b>13,932</b>

The carrying amounts of trade and other payables approximate their fair value. The fair values of the derivative financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at 31 March.

	2014 £m	Restated 2013 £m
<b>Included within Derivative financial instruments :</b>		

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Fair value through the income statement (held for trading):		
Interest rate swaps	430	1,013
Cross currency interest rate swaps	12	
Foreign exchange contracts	29	44
	<b>471</b>	<b>1,057</b>
Designated hedge relationships		
Interest rate swaps	205	44
Cross currency interest rate swaps	205	
	<b>881</b>	<b>1,101</b>



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Notes to the consolidated financial statements (continued)

**17. Provisions**

A provision is a liability recorded in the statement of financial position, where there is uncertainty over the timing or amount that will be paid, and is therefore often estimated. The main provisions we hold are in relation to asset retirement obligations, which include the cost of returning network infrastructure sites to their original condition at the end of the lease, and claims for legal and regulatory matters. For further details see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

**Asset retirement obligations**

In the course of the Group's activities, a number of sites and other assets are utilised which are expected to have costs associated with de-commissioning. The associated cash outflows are substantially expected to occur at the dates of exit of the assets to which they relate, which are long-term in nature, primarily in periods up to 25 years from when the asset is brought into use.

**Legal and regulatory**

The Group is involved in a number of legal and other disputes, including notifications of possible claims. The directors of the Company, after taking legal advice, have established provisions after taking into account the facts of each case. The timing of cash outflows associated with the majority of legal claims are typically less than one year, however, for some legal claims the timing of cash flows may be long-term in nature. For a discussion of certain legal issues potentially affecting the Group see note 30 [Contingent liabilities](#) to the consolidated financial statements.

**Other provisions**

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Other provisions comprises various provisions including those for restructuring costs and property. The associated cash outflows for restructuring costs are primarily less than one year. The timing of the cash flows associated with property is dependent upon the remaining term of the associated lease.

	Asset			
	retirement	Legal and		
	obligations	regulatory	Other	Total
	£m	£m	£m	£m
1 April 2012 restated	288	265	466	1,019
Exchange movements	(3)	6	(6)	(3)
Arising on acquisition	147	8	109	264
Amounts capitalised in the year	41			41
Amounts charged to the income statement		42	272	314
Utilised in the year payments	(3)	(34)	(167)	(204)
Amounts released to the income statement		(17)	(23)	(40)
Other	(3)	180	2	179
<b>31 March 2013 restated</b>	<b>467</b>	<b>450</b>	<b>653</b>	<b>1,570</b>
Exchange movements	(14)	(33)	(27)	(74)
Arising on acquisition	62	92	5	159
Amounts capitalised in the year	14			14
Amounts charged to the income statement		140	374	514
Utilised in the year payments	(26)	(35)	(186)	(247)
Amounts released to the income statement		(32)	(61)	(93)
Other	(18)	(25)	9	(34)
<b>31 March 2014</b>	<b>485</b>	<b>557</b>	<b>767</b>	<b>1,809</b>

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Provisions have been analysed between current and non-current as follows:

**31 March 2014**

	Asset retirement obligations	Legal and regulatory	Other	Total
	£m	£m	£m	£m
Current liabilities	14	271	678	963
Non-current liabilities	471	286	89	846
	<b>485</b>	<b>557</b>	<b>767</b>	<b>1,809</b>

**31 March 2013**

	Asset retirement obligations	Legal and regulatory	Other	Total
	£m	£m	£m	£m
Current liabilities	11	209	495	715
Non-current liabilities	456	241	158	855
	<b>467</b>	<b>450</b>	<b>653</b>	<b>1,570</b>

**18. Called up share capital**

Called up share capital is the number of shares in issue at their par value. A number of shares were allotted during the year in relation to employee share schemes.

**Accounting policies**

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issuance costs

	Number	2014 £m	Number	2013 £m
<b>Ordinary shares of 20 <sup>20</sup>/<sub>21</sub> US cents each allotted, issued and fully paid:<sup>1</sup></b>				
1 April	53,820,386,309	3,866	53,815,007,289	3,866
Allotted during the year	1,423,737		5,379,020	
Consolidated during the year <sup>2</sup>	(24,009,886,918)			
Cancelled during the year	(1,000,000,000)	(74)		
<b>31 March</b>	<b>28,811,923,128</b>	<b>3,792</b>	<b>53,820,386,309</b>	<b>3,866</b>

Note:

- At 31 March 2014, the Group held 2,371,962,907 (2013: 4,901,767,844) treasury shares with a nominal value of £312 million (2013: £352 million). The market value of shares held was £5,225 million (2013: £9,147 million). During the year 103,748,921 (2013: 161,289,620) treasury shares were reissued under Group share option schemes.
- On 19 February 2014, we announced a 6 for 11 share consolidation effective 24 February 2014. This had the effect of reducing the number of shares in issue from 52,821,751,216 ordinary shares (including 4,351,833,492 ordinary shares held in Treasury) as at the close of business on 18 February 2014 to 28,811,864,298 new ordinary shares in issue immediately after the share consolidation on 24 February 2014.

During the year, we issued 14,732,741,283 B shares of US\$1.88477 per share and 33,737,176,433 C shares of US\$0.00001 per share as part of the Return of Value following the disposal of our US Group, whose principal asset was its 45% stake in Verizon Wireless. The B shares were cancelled as part of the Return of Value. The C shares were reclassified as deferred shares with no substantive rights as part of the Return of Value and transferred to LDC (Shares) Limited ( LDC ). After 22 February 2015 and without prior notice we may repurchase, or be required by LDC to repurchase, and then subsequently cancel all deferred shares for a total price of not more than one cent for all deferred shares repurchased.

### Allotted during the year

	Number	Nominal value £m	Net proceeds £m
UK share awards			
US share awards	1,423,737		
<b>Total share awards</b>	<b>1,423,737</b>		

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Notes to the consolidated financial statements (continued)

**19. Reconciliation of net cash flow from operating activities**

The table below shows how our profit for the year translates into cash flows generated from our operating activities.

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Profit for the financial year	59,420	657	6,994
Adjustments for:			
Share-based payments	92	124	133
Depreciation and amortisation	7,560	6,661	6,721
Loss on disposal of property, plant and equipment	85	77	51
Share of result of equity accounted associates and joint ventures	(3,469)	(6,997)	(5,996)
Impairment losses	6,600	7,700	4,050
Other income and expense <sup>1</sup>	(45,979)	(468)	(3,705)
Non-operating income and expense	149	(10)	162
Investment income	(346)	(305)	(456)
Financing costs	1,527	1,652	1,791
Income tax (income)/expense	(14,873)	2,226	1,994
Decrease/(increase) in inventory	4	56	(8)
Decrease/(increase) in trade and other receivables	526	(199)	(664)
Increase in trade and other payables	851	320	849
<b>Cash generated by operations</b>	<b>12,147</b>	<b>11,494</b>	<b>11,916</b>
Tax paid	(5,920)	(2,670)	(1,619)
<b>Net cash flow from operating activities</b>	<b>6,227</b>	<b>8,824</b>	<b>10,297</b>

Note:

1 Includes a net gain on disposal of Verizon Wireless of £44,996 million.

## 20. Cash and cash equivalents

The majority of the Group's cash is held in bank deposits, money market funds or in repurchase agreements which have a maturity of three months or less to enable us to meet our short-term liquidity requirements.

### Accounting policies

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

	2014	Restated 2013
	£m	£m
Cash at bank and in hand	1,498	1,304
Money market funds	3,648	3,494
Repurchase agreements	4,799	2,550
Short-term securitised investments	189	183
<b>Cash and cash equivalents as presented in the statement of financial position</b>	<b>10,134</b>	<b>7,531</b>
Bank overdrafts	(22)	(25)
<b>Cash and cash equivalents as presented in the statement of cash flows</b>	<b>10,112</b>	<b>7,506</b>

Cash and cash equivalents are held by the Group on a short-term basis with all having an original maturity of three months or less. The carrying amount approximates their fair value.

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**21. Borrowings**

The Group's sources of borrowing for funding and liquidity purposes come from a range of committed bank facilities and through short-term and long-term issuances in the capital markets including bond and commercial paper issues and bank loans. We manage the basis on which we incur interest on debt between fixed interest rates and floating interest rates depending on market conditions using interest rate derivatives. The Group enters into foreign exchange contracts to mitigate the impact of exchange rate movements on certain monetary items.

**Accounting policies****Capital market and bank borrowings**

Interest bearing loans and overdrafts are initially measured at fair value (which is equal to cost at inception), and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a designated hedge relationship. Any difference between the proceeds net of transaction costs and the amount due on settlement or redemption of borrowings is recognised over the term of the borrowing.

**Carrying value and fair value information**

				Restated		
			2014			2013
	Short-term	Long-term		Short-term	Long-term	
	borrowings	borrowings	Total	borrowings	borrowings	Total
	£m	£m	£m	£m	£m	£m
Financial liabilities measured at amortised cost:						
Bank loans	1,263	4,647	5,910	2,440	3,077	5,517
Bank overdrafts	22		22	25		25
Redeemable preference shares					1,355	1,355
Commercial paper	950		950	4,054		4,054
Bonds	1,783	4,465	6,248	2,133	15,698	17,831
Other liabilities <sup>1,2</sup>	3,729	110	3,839	3,148	753	3,901
Bonds in designated hedge relationships		12,232	12,232		7,021	7,021
	<b>7,747</b>	<b>21,454</b>	<b>29,201</b>	<b>11,800</b>	<b>27,904</b>	<b>39,704</b>

Notes:

- 1 At 31 March 2014, amount includes £1,185 million (2013: £1,151 million) in relation to collateral support agreements.
- 2 At 31 March 2014, amount includes £882 million (2013: £899 million) in relation to the Piramal Healthcare option disclosed in note 22 Liquidity and capital resources .

Bank loans include INR 425 billion of loans held by Vodafone India Limited ( VIL ) and its subsidiaries (the VIL Group ). The VIL Group has a number of security arrangements supporting certain licences secured under the terms of agreements between the Group, the Department of Telecommunications, and the Government of India including certain share pledges of the shares within the VIL Group. The terms and conditions of the security arrangements mean that should members of the VIL Group not meet all of their loan payment and performance obligations, the lenders may sell the pledged shares and enforce rights over the certain licences under the terms of the tri-party agreements to recover their losses, with any remaining sales proceeds being returned to the VIL Group. Each of the eight legal entities within the VIL Group provide cross-guarantees to the lenders in respect of debt contracted by the other entities.

The fair value and carrying value of the Group s short-term borrowings is as follows:

	Sterling equivalent nominal value		Fair value		Carrying value	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
<b>Financial liabilities measured at amortised cost</b>	<b>5,655</b>	<b>9,385</b>	<b>5,964</b>	<b>9,790</b>	<b>5,964</b>	<b>9,667</b>
<b>Bonds:</b>	1,756	2,094	1,771	2,150	1,783	2,133
Czech koruna floating rate note due June 2013		18		18		18
Euro floating rate note due September 2013		646		647		645
5.0% US dollar 1,000 million bond due December 2013		658		679		678
6.875% euro 1,000 million bond due December 2013		772		806		792
Euro floating rate note due June 2014	929		930		930	
4.625% sterling 350 million bond due September 2014	302		307		315	
4.625% sterling 525 million bond due September 2014	525		534		538	
<b>Short-term borrowings</b>	<b>7,411</b>	<b>11,479</b>	<b>7,735</b>	<b>11,940</b>	<b>7,747</b>	<b>11,800</b>



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Notes to the consolidated financial statements (continued)

**21. Borrowings (continued)**

The fair value and carrying value of the Group's long-term borrowings is as follows:

	Sterling equivalent nominal value Restated		Fair value Restated		Carrying value Restated	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
<b>Financial liabilities measured at amortised cost:</b>						
Bank loans	4,788	3,017	4,707	3,122	4,647	3,077
Redeemable preference shares		1,086		1,020		1,355
Other liabilities	110	731	110	821	110	753
<b>Bonds:</b>	4,272	14,456	4,620	15,986	4,465	15,698
Euro floating rate note due June 2014		949		952		951
4.15% US dollar 1,250 million bond due June 2014		795		828		810
4.625% sterling 350 million bond due September 2014		304		319		320
4.625% sterling 525 million bond due September 2014		525		552		541
5.125% euro 500 million bond due April 2015	413	422	432	461	435	446
5.0% US dollar 750 million bond due September 2015		494		543		521
3.375% US dollar 500 million bond due November 2015		329		349		331

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6.25% euro 1,250 million bond due January 2016	1,032	949	1,020	1,091	943	964
0.9% US dollar 900 million bond due February 2016		592		592		592
US dollar floating rate note due February 2016		461		460		461
2.875% US dollar 600 million bond due March 2016		395		416		394
5.75% US dollar 750 million bond due March 2016		494		561		536
4.75% euro 500 million bond due June 2016	302	422	328	474	441	455
5.625% US dollar 1,300 million bond due February 2017		856		995		937
1.625% US dollar 1,000 million bond due March 2017		658		665		655
6.5% euro 400 million bond due July 2017	330		351		347	
1.25% US dollar 1,000 million bond due September 2017		658		654		655
5.375% sterling 600 million bond due December 2017	548	552	611	646	569	571
1.5% US dollar 1,400 million bond due February 2018		921		922		917
5% euro 750 million bond due June 2018	619	633	716	750	644	658
6.5% euro 700 million bond due June 2018	578		604		606	
4.625% US dollar 500 million bond due July 2018		329		376		387
8.125% sterling 450 million bond due November 2018	450	450	558	598	480	483
4.375% US dollar 500 million bond due March 2021		329		371		327
7.875% US dollar 750 million bond due February 2030		494		699		778
6.25% US dollar 495 million bond due November 2032		326		399		442
6.15% US dollar 1,700 million bond due February 2037		1,119		1,313		1,566
<b>Bonds in designated hedge relationships:</b>	10,951	6,287	11,797	6,969	12,232	7,021
2.15% Japanese yen 3,000 million bond due April 2015	17	21	18	22	18	21
5.375% US dollar 900 million bond due January 2015		592		641		633
US dollar floating rate note due February 2016	420		420		420	
5.625% US dollar 1,300 million bond due February 2017	779		874		836	
	599		607		597	

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1.625% US dollar 1,000 million bond due March 2017						
1.25% US dollar 1,000 million bond due September 2017	599		594		597	
1.5% US dollar 1,400 million bond due February 2018	839		827		837	
4.625% US dollar 500 million bond due July 2018	300		332		343	
5.45% US dollar 1,250 million bond due June 2019	749	823	859	980	833	957
4.375% US dollar 500 million bond due March 2021	300		322		296	
4.65% euro 1,250 million bond due January 2022	1,032	1,055	1,213	1,270	1,194	1,236
5.375% euro 500 million bond due June 2022	413	422	509	530	536	558
2.5% US dollar 1,000 million bond due September 2022	599	658	551	633	557	643
2.95% US dollar 1,600 million bond due February 2023	959	1,053	903	1,050	939	1,054
5.625% sterling 250 million bond due December 2025	250	250	284	308	313	338
6.6324% euro 50 million bond due December 2028	41	42	93	94	81	77
7.875% US dollar 750 million bond due February 2030	450		603		698	
5.9% sterling 450 million bond due November 2032	450	450	519	560	561	598
6.25% US dollar 495 million bond due November 2032	297		341		399	
6.15% US dollar 1,700 million bond due February 2037	1,019		1,166		1,416	
4.375% US dollar 1,400 million bond due February 2043	839	921	762	881	761	906
<b>Long-term borrowings</b>	<b>20,121</b>	<b>25,577</b>	<b>21,234</b>	<b>27,918</b>	<b>21,454</b>	<b>27,904</b>

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Fair values are calculated using quoted market prices or discounted cash flows with a discount rate based upon forward interest rates available to the Group at the reporting date.

**Maturity of borrowings**

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis which, therefore, differs from both the carrying value and fair value, is as follows:

	Bank loans £m	Redeemable preference shares £m	Commercial paper £m	Bonds £m	Other liabilities £m	Loans in designated hedge relationships £m	Total £m
Within one year	1,286		954	2,191	3,758	453	8,642
In one to two years	695			1,709	11	890	3,305
In two to three years	375			591	7	1,228	2,201
In three to four years	1,164			1,075	8	2,468	4,715
In four to five years	2,710			1,724	8	668	5,110
In more than five years	592				69	11,087	11,748
	<b>6,822</b>		<b>954</b>	<b>7,290</b>	<b>3,861</b>	<b>16,794</b>	<b>35,721</b>
Effect of discount/financing rates	(912)		(4)	(1,042)		(4,562)	(6,520)
<b>31 March 2014</b>	<b>5,910</b>		<b>950</b>	<b>6,248</b>	<b>3,861</b>	<b>12,232</b>	<b>29,201</b>
Within one year	2,269	56	4,070	2,946	2,263	277	11,881
In one to two years	402	56		3,313	138	870	4,779
In two to three years	305	56		4,753	1,101	266	6,481
In three to four years	230	56		1,636	599	245	2,766
In four to five years	1,007	56		3,156	72	245	4,536
In more than five years	1,835	1,212		5,877	52	7,913	16,889
	<b>6,048</b>	<b>1,492</b>	<b>4,070</b>	<b>21,681</b>	<b>4,225</b>	<b>9,816</b>	<b>47,332</b>
Effect of discount/financing rates	(531)	(137)	(16)	(3,850)	(299)	(2,795)	(7,628)
<b>31 March 2013 restated</b>	<b>5,517</b>	<b>1,355</b>	<b>4,054</b>	<b>17,831</b>	<b>3,926</b>	<b>7,021</b>	<b>39,704</b>

The maturity profile of the Group's financial derivatives (which include interest rate and foreign exchange swaps), using undiscounted cash flows, is as follows:

	2014		2013	
	Payable £m	Receivable £m	Payable £m	Receivable £m
Within one year	1,284	1,442	10,671	11,020
In one to two years	2,454	3,656	1,014	1,214

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In two to three years	4,489	3,920	1,308	1,495
In three to four years	5,040	3,138	2,803	3,087
In four to five years	1,729	2,137	581	780
In more than five years	14,799	12,737	3,579	4,454
	<b>29,795</b>	<b>27,030</b>	<b>19,956</b>	<b>22,050</b>

The currency split of the Group's foreign exchange derivatives is as follows:

	2014		2013	
	Payable	Receivable	Payable	Receivable
	£m	£m	£m	£m
Sterling	8,955	9,222	2,365	4,477
Euro	5,342	11,364	6,583	602
US dollar	10,613	4,330	348	6,130
Japanese yen	589	17	669	1,296
Other	1,880	2,765	3,945	1,768
	<b>27,379</b>	<b>27,698</b>	<b>13,910</b>	<b>14,273</b>

Payables and receivables are stated separately in the table above as settlement is on a gross basis. The £319 million (2013: £363 million) net receivable in relation to foreign exchange financial instruments in the table above is split £246 million (2013: £44 million) within trade and other payables and £565 million (2013: £407 million) within trade and other receivables.

The present value of minimum lease payments under finance lease arrangements under which the Group has leased certain of its equipment is analysed as follows:

	2014	2013
	£m	£m
Within one year	21	37
In two to five years	34	42
In more than five years	69	53

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Notes to the consolidated financial statements (continued)

**21. Borrowings (continued)**

Interest rate and currency of borrowings

	Total borrowings £m	Floating rate borrowings £m	Fixed rate borrowings <sup>1</sup> £m	Other borrowings <sup>2</sup> £m
Currency				
Sterling	2,801	885	1,910	6
Euro	16,225	4,557	10,220	1,448
US dollar	4,537	4,330	207	
Other	5,638	2,768	1,988	882
<b>31 March 2014</b>	<b>29,201</b>	<b>12,540</b>	<b>14,325</b>	<b>2,336</b>
Sterling	2,915	955	1,951	9
Euro	10,810	5,271	5,539	
US dollar	20,991	8,019	12,866	106
Other	4,988	2,198	1,891	899
<b>31 March 2013 restated</b>	<b>39,704</b>	<b>16,443</b>	<b>22,247</b>	<b>1,014</b>

Notes:

- 1 The weighted average interest rate for the Group's sterling denominated fixed rate borrowings is 5.7% (2013: 5.7%). The weighted average time for which these rates are fixed is 2.5 years (2013: 3.5 years). The weighted average interest rate for the Group's euro denominated fixed rate borrowings is 4.4% (2013: 4.3%). The weighted average time for which the rates are fixed is 2.6 years (2013: 2.4 years). The weighted average interest rate for the Group's US dollar denominated fixed rate borrowings is 2.9% (2013: 4.3%). The weighted average time for which the rates are fixed is 5.7 years (2013: 6.3 years). The weighted average interest rate for the Group's other currency fixed rate borrowings is 10.2% (2013: 9.6%). The weighted average time for which the rates are fixed is 1.4 years (2013: 1.5 years).
- 2 At 31 March 2014 other borrowings of £2,336 million include liabilities for amounts payable under the domination agreement in relation to Kabel Deutschland. At 31 March 2013 other borrowings of £1,014 million include

liabilities arising under options over direct and indirect interests in Vodafone India.

The figures shown in the tables above take into account interest rate swaps used to manage the interest rate profile of financial liabilities. Interest on floating rate borrowings is generally based on national LIBOR equivalents or government bond rates in the relevant currencies.

Additional protection from euro and US dollar interest rate movements is provided by fixing interest rates or reduced by floating interest rates using interest rate swaps or interest rate futures. Cross currency interest rate swaps are used to change the currency of certain fixed interest rate cash flows.

	2014		2013		2014		2013	
	US\$ <sup>1</sup>		US\$ <sup>1</sup>		EUR <sup>1</sup>		EUR <sup>1</sup>	
	Interest rate		Interest rate		Interest rate		Interest rate	
	futures	swaps <sup>2</sup>	futures	swaps	futures	swaps <sup>2</sup>	futures	swaps
	£m	£m	£m	£m	£m	£m	£m	£m
Within one year		(5,722)	(4,722)	2,073	(3,716)	5,814	1,677	696
In one to two years		(5,722)	(823)	1,703	(619)	5,814	3,164	696
In two to three years		(5,722)	(1,940)	1,621	1,726	5,814	5,525	696
In three to four years		(3,744)	2,222	148	4,979	3,806	4,254	422
In four to five years		(2,755)	2,632	(247)	103	2,802	6,123	105
In more than five years <sup>3</sup>		(2,605)		(329)		2,207		

Notes:

- 1 In the table above, figures shown as positive indicate an increase in fixed interest debt and figures shown in brackets indicate a reduction in fixed interest debt.
- 2 Includes cross currency interest rate swaps.
- 3 Figures shown as in more than five years relate to the periods from March 2019 to December 2043 and March 2018 to December 2021, at March 2014 and March 2013 respectively.

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**Borrowing facilities****Committed facilities expiry**

	<b>2014</b>		Restated 2013	
	<b>Drawn</b>	<b>Undrawn</b>	Drawn	Undrawn
	<b>£m</b>	<b>£m</b>	£m	£m
Within one year	590	70	1,994	298
In one to two years	451	13	1,306	50
In two to three years	171	2,643	1,288	3,569
In three to four years	565	35	559	2,794
In four to five years		3,188		
In more than five years	1,728	582	1,037	422
<b>31 March</b>	<b>3,505</b>	<b>6,531</b>	<b>6,184</b>	<b>7,133</b>

At 31 March the Group's most significant committed facilities comprised two revolving credit facilities which remain undrawn throughout the period of US\$4,245 million (£2,545 million) and 3,860 million (£3,188 million) maturing in three and five years respectively. Under the terms of these bank facilities, lenders have the right, but not the obligation, to cancel their commitment 30 days from the date of notification of a change of control of the Company and have outstanding advances repaid on the last day of the current interest period. The facility agreements provide for certain structural changes that do not affect the obligations of the Company to be specifically excluded from the definition of a change of control. This is in addition to the rights of lenders to cancel their commitment if the Company has committed an event of default.

The terms and conditions of the drawn facilities in the Group's Italian, German, Turkish and Romanian operations (1,560 million in aggregate) and the undrawn facilities in the Group's UK and Irish operations (totalling £450 million) are similar to those of the US dollar and euro revolving credit facilities. Further information on these facilities can be found in note 22 Liquidity and capital resources.

**22. Liquidity and capital resources**

This section includes an analysis of net debt, which we use to manage capital, and committed borrowing facilities.

**Net debt**

Net debt was £13.7 billion at 31 March 2014 and includes liabilities for amounts payable under the domination agreement in relation to Kabel Deutschland (£1.4 billion) and deferred spectrum licence costs in India (£1.5 billion). This decreased by £11.7 billion in the year as the proceeds from the disposal of the US sub-group including our interest in Verizon Wireless, positive free cash flow and favourable foreign exchange movements more than offset the



impact of the acquisition of Kabel Deutschland, payments for licences and spectrum, equity shareholder dividends, the return of value and share buybacks.

Net debt represented 23.5% of our market capitalisation at 31 March 2014 compared to 27.8% at 31 March 2013. Average net debt at month end accounting dates over the 12 month period ended 31 March 2014 was £22.9 billion and ranged between net debt of £30.4 billion and a net surplus of funds of £2.7 billion.

Our consolidated net debt position at 31 March was as follows:

	2014	Restated 2013
	£m	£m
<b>Cash and cash equivalents</b>	<b>10,134</b>	<b>7,531</b>
Short-term borrowings		
Bonds	(1,783)	(2,133)
Commercial paper <sup>1</sup>	(950)	(4,054)
Put options over non-controlling interests	(2,330)	(938)
Bank loans	(1,263)	(2,438)
Other short-term borrowings <sup>2</sup>	(1,421)	(2,237)
	<b>(7,747)</b>	<b>(11,800)</b>
Long-term borrowings		
Put options over non-controlling interests	(6)	(77)
Bonds, loans and other long-term borrowings	(21,448)	(27,827)
	<b>(21,454)</b>	<b>(27,904)</b>
Other financial instruments <sup>3</sup>	5,367	6,819
<b>Net debt</b>	<b>(13,700)</b>	<b>(25,354)</b>

Notes:

- 1 At 31 March 2014 US\$578 million was drawn under the US commercial paper programme and 731 million was drawn under the euro commercial paper programme.
- 2 At 31 March 2014 the amount includes £1,185 million (2013: £1,151 million) in relation to cash received under collateral support agreements.
- 3 Comprises mark-to-market adjustments on derivative financial instruments which are included as a component of trade and other receivables (2014: £2,443 million; 2013: £3,032 million) and trade and other payables (2014: £881 million; 2013: £1,101 million) and short-term investments primarily in index linked government bonds and managed investment funds included as a component of other investments (2014: £3,805 million; 2013: £4,888 million).

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Notes to the consolidated financial statements (continued)

**22. Liquidity and capital resources (continued)**

At 31 March 2014 we had £10,134 million of cash and cash equivalents which are held in accordance with the counterparty and settlement risk limits of the Board approved treasury policy. The main forms of liquid investment at 31 March 2014 were managed investment funds, money market funds, UK index linked government bonds, tri-party repurchase agreements and bank deposits.

The cash received from collateral support agreements mainly reflects the value of our interest rate swap portfolio which is substantially net present value positive. See note 23 for further details on these agreements.

**Commercial paper programmes**

We currently have US and euro commercial paper programmes of US\$15 billion and £5 billion respectively which are available to be used to meet short-term liquidity requirements. At 31 March 2014 amounts external to the Group of 731 million (£604 million) were drawn under the euro commercial paper programme and US\$578 million (£346 million) were drawn down under the US commercial paper programme, with such funds being provided by counterparties external to the Group. At 31 March 2013 amounts external to the Group of 2,006 million (£1,693 million), US\$35 million (£23 million), £10 million and JPY 5 billion (£35 million) were drawn under the euro commercial paper programme and US\$3,484 million (£2,293 million) was drawn down under the US commercial paper programme. The commercial paper facilities were supported by US\$4.2 billion (£2.5 billion) and 3.9 billion (£3.2 billion) of syndicated committed bank facilities (see Committed facilities opposite). No amounts had been drawn under either bank facility.

**Bonds**

We have a 30 billion euro medium-term note programme and a US shelf programme which are used to meet medium to long-term funding requirements. At 31 March 2014 the total amounts in issue under these programmes split by currency were US\$14.6 billion, £2.6 billion and 6.2 billion.

At 31 March 2014 we had bonds outstanding with a nominal value of £16,979 million (2013: £22,837 million). No bonds were issued in the year ended 31 March 2014.

## Share buyback programmes

Following the receipt of a US\$3.8 billion (£2.4 billion) dividend from Verizon Wireless in December 2012, we initiated a £1.5 billion share buyback programme under the authority granted by our shareholders at the 2012 annual general meeting. The Group placed irrevocable purchase instructions to enable shares to be repurchased on our behalf when we may otherwise have been prohibited from buying in the market. The share buyback programme concluded at the end of June 2013.

Details of the shares purchased under the programme, including those purchased under irrevocable instructions, are shown below:

Date of share purchase	Number of shares purchased <sup>1,4</sup>	Average price paid per share inclusive of transaction costs	Total number of shares purchased under publicly announced share buyback programme <sup>2</sup>	Maximum value of shares that may yet be purchased under the programme <sup>3</sup>
	000	Pence	000	£m
April 2013	43,000	192.54	314,651	968
May 2013	204,750	196.09	519,401	567
June 2013	304,300	180.52	823,701	
<b>Total</b>	<b>552,050</b>	<b>187.23</b>	<b>823,701</b>	

Notes:

- 1 The nominal value of shares purchased is 11<sup>3</sup>/<sub>7</sub> US cents each.
- 2 No shares were purchased outside the publicly announced share buyback programme.
- 3 In accordance with authorities granted by shareholders in general meeting.
- 4 The total number of shares purchased represents 1.1% of our issued share capital, excluding treasury shares, at the end of June 2013.

The Group held a maximum of 5,099 million shares during the year which represents 9.5% of issued share capital at that time.

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**Committed facilities**

In aggregate we have committed facilities of approximately £10,033 million, of which £6,530 million was undrawn and £3,503 million was drawn at 31 March 2014. The following table summarises the committed bank facilities available to us at 31 March 2014.

Committed bank facilities	Amounts drawn	Terms and conditions
<b>28 March 2014</b> 3.9 billion syndicated revolving credit facility, maturing 28 March 2019.	No drawings have been made against this facility. The facility supports our commercial paper programmes and may be used for general corporate purposes including acquisitions.	Lenders have the right, but not the obligation, to cancel their commitments and have outstanding advances repaid no sooner than 30 days after notification of a change of control. This is in addition to the rights of lenders to cancel their commitment if we commit an event of default; however, it should be noted that a material adverse change clause does not apply.
<b>9 March 2011</b> US\$4.2 billion syndicated revolving credit facility, with US\$0.1 billion maturing 9 March 2016 and US\$4.1 billion maturing 9 March 2017.	No drawings have been made against this facility. The facility supports our commercial paper programmes and may be used for general corporate purposes including acquisitions.	The euro facility agreements provide for certain structural changes that do not affect the obligations to be specifically excluded from the definition of a change of control.  The facility matures on 28 March 2019, with each lender having the option to (i) extend the Facility for a further year prior to the first anniversary of the Facility and should such extension be exercised, to (ii) extend the Facility for a further year prior to the second anniversary of the Facility, in both cases if requested by the Company.
<b>27 November 2013</b> £0.5 billion loan facility, maturing on the seven year anniversary of the first drawing.	This facility is undrawn and has an availability period of eighteen months. The facility is available to finance a project to upgrade and expand the network in the UK and Ireland.	As the syndicated revolving credit facilities with the addition that, should our UK and Irish operating companies spend less than the equivalent of £0.9 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.
<b>28 July 2008</b> 0.4 billion loan facility, maturing 12 August 2015.	This facility was drawn down in full on 12 August 2008.	As the syndicated revolving credit facilities with the addition that, should our Italian operating company spend less than the equivalent of 1.5 billion on capital

**15 September 2009**

0.4 billion loan facility, maturing 30 July 2017, for the German virtual digital subscriber line ( VDSL ) project.

This facility was drawn down in full on 30 July 2010.

expenditure, we will be required to repay the drawn amount of the facility that exceeds 18% of the capital expenditure.

As the syndicated revolving credit facilities with the addition that, should our German operating company spend less than the equivalent of 0.8 billion on VDSL related capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the VDSL capital expenditure.

**29 September 2009**

US\$0.7 billion export credit agency loan facility, final maturity date 19 September 2018.

This facility is fully drawn down and is amortising.

As the syndicated revolving credit facilities with the addition that the Company was permitted to draw down under the facility based upon the eligible spend with Ericsson up until the final draw down date of 30 June 2011. Quarterly repayments of the drawn balance commenced on 30 June 2012 with a final maturity date of 19 September 2018.

**8 December 2011**

0.4 billion loan facility, maturing on the seven year anniversary of the first drawing.

This facility was drawn down in full on 5 June 2013.

As the syndicated revolving credit facilities with the addition that, should our Italian operating company spend less than the equivalent of 1.3 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

**20 December 2011**

0.3 billion loan facility, maturing 18 September 2019.

This facility was drawn down in full on 18 September 2012.

As the syndicated revolving credit facilities with the addition that, should our Turkish and Romanian operating companies spend less than the equivalent of 1.3 billion on capital expenditure, we will be required to repay the drawn amount of the facility that exceeds 50% of the capital expenditure.

**4 March 2013**

0.1 billion loan facility, maturing 4 December 2020.

This facility was drawn down in full on 4 December 2013.

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Notes to the consolidated financial statements (continued)

**22. Liquidity and capital resources (continued)**

Furthermore, certain of our subsidiaries are funded by external facilities which are non-recourse to any member of the Group other than the borrower. These facilities may only be used to fund their operations. At 31 March 2014 Vodafone India had facilities of INR 207 billion (£2.1 billion) of which INR 179 billion (£1.8 billion) was drawn. Vodafone Egypt had an undrawn revolving credit facility of US\$120 million (£71 million). Vodacom had fully drawn facilities of ZAR 1.0 billion (£57 million) and US\$37 million (£22 million). Ghana had a facility of US\$217 million (£130 million) which was fully drawn.

We believe that we have sufficient funding for our expected working capital requirements for at least the next 12 months. Further details regarding the maturity, currency and interest rates of the Group's gross borrowings at 31 March 2014 are included in note 21 Borrowings.

**Dividends from associates and to non-controlling shareholders**

Dividends from our associates are generally paid at the discretion of the Board of directors or shareholders of the individual operating and holding companies and we have no rights to receive dividends except where specified within certain of the Group's shareholders' agreements. Similarly, other than ongoing dividend obligations to the KDG minority shareholders should they continue to hold their minority stake, we do not have existing obligations under shareholders' agreements to pay dividends to non-controlling interest partners of our subsidiaries or joint ventures.

The amount of dividends received and paid in the year are disclosed in the consolidated statement of cash flows.

**Potential cash outflows from option agreements and similar arrangements**

In respect of our interest in Vodafone India Limited (VIL), Piramal Healthcare (Piramal) acquired approximately 11% shareholding in VIL from Essar during the 2012 financial year. In April 2014 Piramal sold its total shareholding in VIL to Vodafone Group. The combined consideration for these shares and the indirect equity interest held by Analjit Singh and Neelu Analjit Singh (completed in March 2014) was £1.0 billion.

Under the terms of the sale and purchase agreement governing the disposal of the US Group, including the 45% interest in Verizon Wireless, the Group retains the responsibility for any tax liabilities of the US Group, excluding

those relating to the Verizon Wireless partnership, for periods up to the completion of the transaction on 21 February 2014.

### **Off-balance sheet arrangements**

We do not have any material off-balance sheet arrangements as defined in item 5.E.2. of the SEC's Form 20-F. Please refer to notes 29 and 30 for a discussion of our commitments and contingent liabilities.

## **23. Capital and financial risk management**

This note details our treasury management and financial risk management objectives and policies, as well as the exposure and sensitivity of the Group to credit, liquidity, interest and foreign exchange risk, and the policies in place to monitor and manage these risks.

### **Accounting policies**

#### **Financial instruments**

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

#### **Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### **Put option arrangements**

The potential cash payments related to put options issued by the Group over the equity of subsidiary companies are accounted for as financial liabilities when such options may only be settled by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary.

The amount that may become payable under the option on exercise is initially recognised at present value within borrowings with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interests, adjacent to non-controlling interests in the net assets of consolidated subsidiaries. The Group recognises the cost of writing such put options, determined as the excess of the present value of the option over any consideration received, as a financing cost.

Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable; the charge arising is recorded as a financing cost. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

#### **Derivative financial instruments and hedge accounting**

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates which it manages using derivative financial instruments.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy. Changes in values of all derivatives of a financing nature are included within investment income and financing costs in the income statement. The Group does not use derivative financial instruments for speculative purposes.



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Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date. The Group designates certain derivatives as:

- g hedges of the change of fair value of recognised assets and liabilities ( fair value hedges ); or
- g hedges of highly probable forecast transactions or hedges of foreign currency or interest rate risks of firm commitments ( cash flow hedges ); or
- g hedges of net investments in foreign operations.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting, or if the Company chooses to end the hedging relationship.

**Fair value hedges**

The Group's policy is to use derivative instruments (primarily interest rate swaps) to convert a proportion of its fixed rate debt to floating rates in order to hedge the interest rate risk arising, principally, from capital market borrowings. The Group designates these as fair value hedges of interest rate risk with changes in fair value of the hedging instrument recognised in the income statement for the period together with the changes in the fair value of the hedged item due to the hedged risk, to the extent the hedge is effective. Gains or losses relating to any ineffective portion are recognised immediately in the income statement.

**Cash flow hedges**

Cash flow hedging is used by the Group to hedge certain exposures to variability in future cash flows. The portion of gains or losses relating to changes in the fair value of derivatives that are designated and qualify as effective cash flow hedges is recognised in other comprehensive income; gains or losses relating to any ineffective portion are recognised immediately in the income statement.

When the hedged item is recognised in the income statement amounts previously recognised in other comprehensive income and accumulated in equity for the hedging instrument are reclassified to the income statement. However, when the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

When hedge accounting is discontinued, any gain or loss recognised in other comprehensive income at that time remains in equity and is recognised in the income statement when the hedged transaction is ultimately recognised in the income statement. If a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

### Net investment hedges

Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments (which include bonds, commercial paper, cross currency swaps and foreign exchange contracts) designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective; these amounts are included in exchange differences on translation of foreign operations as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of.

### Capital management

The following table summarises the capital of the Group:

	2014	Restated 2013
	£m	£m
<b>Financial assets:</b>		
Cash and cash equivalents	(10,134)	(7,531)
Fair value through the income statement (held for trading)	(5,293)	(6,803)
Derivative instruments in designated hedge relationships	(955)	(1,117)
<b>Financial liabilities:</b>		
Fair value through the income statements (held for trading)	471	1,057
Derivative instruments in designated hedge relationships	410	44
Financial liabilities held at amortised cost	29,201	39,704
<b>Net debt</b>	<b>13,700</b>	<b>25,354</b>
Equity	71,781	72,488
<b>Capital</b>	<b>85,481</b>	<b>97,842</b>

The Group's policy is to borrow centrally using a mixture of long-term and short-term capital market issues and borrowing facilities to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are loaned internally or contributed as equity to certain subsidiaries. The Board has approved three internal debt protection ratios being: net interest to operating cash flow (plus dividends from associates); retained cash flow (operating cash flow plus dividends from associates less interest, tax, dividends to non-controlling shareholders and equity dividends) to net debt; and operating cash flow (plus dividends from associates) to net debt. These internal ratios establish levels of debt that the Group should not exceed other than for relatively short periods of time and are shared with the Group's debt rating agencies being Moody's, Fitch Ratings and Standard & Poor's. The Group complied with these ratios throughout the financial year and we expect these ratios to be complied with in the next 12 months.

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Notes to the consolidated financial statements (continued)

**23. Capital and financial risk management (continued)****Financial risk management**

The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk management.

Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by the Board, most recently on 27 March 2012. A treasury risk committee comprising of the Group's Chief Financial Officer, Group General Counsel and Company Secretary, Group Financial Controller, Group Treasury Director and Director of Financial Reporting meets three times a year to review treasury activities and its members receive management information relating to treasury activities on a quarterly basis. The Group's accounting function, which does not report to the Group Treasury Director, provides regular update reports of treasury activity to the Board. The Group's internal auditor reviews the internal control environment regularly.

The Group uses a number of derivative instruments for currency and interest rate risk management purposes only that are transacted by specialist treasury personnel. The Group mitigates banking sector credit risk by the use of collateral support agreements.

**Credit risk**

The Group considers its exposure to credit risk at 31 March to be as follows:

	2014	Restated 2013
	£m	£m
Bank deposits	1,498	1,304
Repurchase agreements	4,799	2,550
Cash held in restricted deposits	524	404
UK government bonds	852	1,076
Money market fund investments	3,648	3,494

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Derivative financial instruments	2,443	3,032
Other investments – debt and bonds	5,525	3,427
Trade receivables	3,859	3,317
Other receivables	1,546	1,765
Short-term securitised investments	1,019	826
	<b>25,713</b>	<b>21,195</b>

The Group invested in UK index linked government bonds on the basis that they generated a floating rate return in excess of £ LIBOR and are amongst the most creditworthy of investments available.

The Group has a managed investment fund. This fund holds fixed income sterling securities and the average credit quality is high double A.

Money market investments are in accordance with established internal treasury policies which dictate that an investment's long-term credit rating is no lower than mid BBB. Additionally, the Group invests in AAA unsecured money market mutual funds where the investment is limited to 7.5% of each fund.

The Group has investments in repurchase agreements which are fully collateralised investments. The collateral is sovereign and supranational debt of major EU countries with at least one AAA rating denominated in euros, sterling and US dollars and can be readily converted to cash. In the event of any default, ownership of the collateral would revert to the Group. Detailed below is the value of the collateral held by the Group at 31 March 2014.

		Restated
	2014	2013
	£m	£m
Sovereign	4,464	2,081
Supranational	335	469
	<b>4,799</b>	<b>2,550</b>

In respect of financial instruments used by the Group's treasury function, the aggregate credit risk the Group may have with one counterparty is limited by (i) reference to the long-term credit ratings assigned for that counterparty by Moody's, Fitch Ratings and Standard & Poor's, (ii) that counterparty's five year credit default swap (CDS) spread, and (iii) the sovereign credit rating of that counterparty's principal operating jurisdiction. Furthermore, collateral support agreements were introduced from the fourth quarter of 2008. Under collateral support agreements the Group's exposure to a counterparty with whom a collateral support agreement is in place is reduced to the extent that the counterparty must post cash collateral when there is value due to the Group under outstanding derivative contracts that exceeds a contractually agreed threshold amount. When value is due to the counterparty the Group is required to post collateral on identical terms. Such cash collateral is adjusted daily as necessary.

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In the event of any default ownership of the cash collateral would revert to the respective holder at that point. Detailed below is the value of the cash collateral, which is reported within short-term borrowings, held by the Group at 31 March 2014:

	2014	2013
	£m	£m
Cash collateral	1,185	1,151

The majority of the Group's trade receivables are due for maturity within 90 days and largely comprise amounts receivable from consumers and business customers. At 31 March 2014 £2,360 million (2013: £1,733 million) of trade receivables were not yet due for payment. Total trade receivables consisted of £1,219 million (2013: £1,265 million) relating to the Europe region, and £280 million (2013: £319 million) relating to the AMAP region. Accounts are monitored by management and provisions for bad and doubtful debts raised where it is deemed appropriate.

The following table presents ageing of receivables that are past due and provisions for doubtful receivables that have been established.

	Gross	Less	2014 Net	Gross	Less	Restated 2013 Net
	receivables	provisions	receivables	receivables	provisions	receivables
	£m	£m	£m	£m	£m	£m
30 days or less	1,327	(356)	971	1,460	(390)	1,070
Between 31 - 60 days	218	(27)	191	166	(14)	152
Between 61 - 180 days	187	(53)	134	222	(44)	178
Greater than 180 days	516	(313)	203	609	(424)	185
	<b>2,248</b>	<b>(749)</b>	<b>1,499</b>	<b>2,457</b>	<b>(872)</b>	<b>1,585</b>

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated. Due to this management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables. Amounts charged to administrative expenses during the year ended 31 March 2014 were £347 million (2013: £360 million; 2012: £357 million) (see note 15 Trade and other receivables).

As discussed in note 30 Contingent liabilities, the Group has covenanted to provide security in favour of the Trustee of the Vodafone Group UK Pension Scheme in respect of the funding deficit in the scheme. The security takes the form of an English law pledge over UK index linked government bonds.

## Liquidity risk

At 31 March 2014 the Group had 3.9 billion and US\$4.2 billion syndicated committed undrawn bank facilities and US\$15 billion and £5 billion commercial paper programmes, supported by the 3.9 billion and US\$4.2 billion syndicated committed bank facilities, available to manage its liquidity. The Group uses commercial paper and bank facilities to manage short-term liquidity and manages long-term liquidity by raising funds in the capital markets.

The 3.9 billion syndicated committed facility has a maturity date of 28 March 2019 with the option to (i) extend the facility for a further year prior to the first anniversary of the facility and should such extension be exercised, to (ii) extend the Facility for a further year prior to the second anniversary of the Facility, in both cases if requested by the Company. The US\$4.1 billion syndicated committed facility has a maturity of 9 March 2017; the remaining US\$0.1 billion has a maturity of 9 March 2016. Both facilities have remained undrawn throughout the financial year and since year end and provide liquidity support.

The Group manages liquidity risk on long-term borrowings by maintaining a varied maturity profile with a cap on the level of debt maturing in any one calendar year, therefore minimising refinancing risk. Long-term borrowings mature between one and 29 years.

Liquidity is reviewed daily on at least a 12 month rolling basis and stress tested on the assumption that all commercial paper outstanding matures and is not reissued. The Group maintains substantial cash and cash equivalents which at 31 March 2014, amounted to £10,134 million (2013: £7,531 million).

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Notes to the consolidated financial statements (continued)

**23. Capital and financial risk management (continued)****Market risk****Interest rate management**

Under the Group's interest rate management policy, interest rates on monetary assets and liabilities denominated in euros, US dollars and sterling are maintained on a floating rate basis except for periods up to six years where interest rate fixing has to be undertaken in accordance with treasury policy. Where assets and liabilities are denominated in other currencies interest rates may also be fixed. In addition, fixing is undertaken for longer periods when interest rates are statistically low.

For each one hundred basis point fall or rise in market interest rates for all currencies in which the Group had borrowings at 31 March 2014 there would be a reduction or increase in profit before tax by approximately £42 million (2013: increase or reduce by £144 million) including mark-to-market revaluations of interest rate and other derivatives and the potential interest on outstanding tax issues. There would be no material impact on equity.

**Foreign exchange management**

As Vodafone's primary listing is on the London Stock Exchange its share price is quoted in sterling. Since the sterling share price represents the value of its future multi-currency cash flows, principally in euro, South African rand, Indian rupee and sterling, the Group maintains the currency of debt and interest charges in proportion to its expected future principal multi-currency cash flows and has a policy to hedge external foreign exchange risks on transactions denominated in other currencies above certain de minimis levels. As the Group's future cash flows are increasingly likely to be derived from emerging markets it is likely that a greater proportion of debt in emerging market currencies will be drawn.

The disposal of our US Group in February 2014 necessitated a restructuring of the Group's outstanding US dollar debt, which was achieved via i) the repayment of certain US dollar debt obligations and ii) the use of cross currency swaps to eliminate the US dollar currency risk on certain remaining US dollar debt items. Prior to the disposal date a significant proportion of the Group's future value was derived from its US assets. Going forward the Group will only hold US dollar debt to hedge future US dollar receipts, which primarily consist of floating rate notes as issued by Verizon Communications, received as part of the disposal consideration.

At 31 March 2014, 164% of net debt was denominated in currencies other than sterling (96% euro, 37% India rupee 19% US dollar and 12% other) while 64% of net debt had been purchased forward in sterling in anticipation of sterling denominated shareholder returns via dividends. This allows euro, US dollar and other debt to be serviced in proportion to expected future cash flows and therefore provides a partial hedge against income statement translation exposure, as interest costs will be denominated in foreign currencies.

Under the Group's foreign exchange management policy, foreign exchange transaction exposure in Group companies is generally maintained at the lower of 5 million per currency per month or 15 million per currency over a six month period.

The Group recognises foreign exchange movements in equity for the translation of net investment hedging instruments and balances treated as investments in foreign operations. However, there is no net impact on equity for exchange rate movements on net investment hedging instruments as there would be an offset in the currency translation of the foreign operation.

The following table details the Group's sensitivity of the Group's adjusted operating profit to a strengthening of the Group's major currency in which it transacts. The percentage movement applied to the currency is based on the average movements in the previous three annual reporting periods. Amounts are calculated by retranslating the operating profit of each entity whose functional currency is euro.

	<b>2014</b>
	<b>£m</b>
<b>Euro 3% change</b> Adjusted operating profit	<b>60</b>
At 31 March 2013, sensitivity of the Group's adjusted operating profit was analysed for a strengthening of the euro by 3% and the US dollar by 4%, which represented movements of £106 million and £257 million respectively.	

### Equity risk

The Group has equity investments, which are subject to equity risk. See note 13 Other investments for further details.



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**Fair value of financial instruments**

The table below sets out the valuation basis<sup>1</sup> of financial instruments held at fair value by the Group at 31 March 2014.

	Level 1 <sup>2</sup> Restated		Level 2 <sup>3</sup> Restated		Total Restated	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
<b>Financial assets:</b>						
Fair value through the income statement						
(held for trading)			3,792	4,836	3,792	4,836
Derivative financial instruments:						
Interest rate swaps			1,871	2,625	1,871	2,625
Cross currency interest rate swaps			504	319	504	319
Foreign exchange contracts			68	88	68	88
Interest rate futures			13	52	13	52
			<b>6,248</b>	<b>7,920</b>	<b>6,248</b>	<b>7,920</b>
Financial investments available-for-sale:						
Listed equity securities <sup>4</sup>	6	3			6	3
Unlisted equity securities <sup>4</sup>			154	498	154	498
	<b>6</b>	<b>3</b>	<b>154</b>	<b>498</b>	<b>160</b>	<b>501</b>
	<b>6</b>	<b>3</b>	<b>6,402</b>	<b>8,418</b>	<b>6,408</b>	<b>8,421</b>
<b>Financial liabilities:</b>						
Derivative financial instruments:						
Interest rate swaps			635	1,060	635	1,057
Cross currency interest rate swaps			217		217	
Foreign exchange contracts			29	44	29	44
			<b>881</b>	<b>1,104</b>	<b>881</b>	<b>1,101</b>

Notes:

1 There were no changes made during the year to valuation methods or the processes to determine classification and no transfers were made between the levels in the fair value hierarchy.

2

Level 1 classification comprises financial instruments where fair value is determined by unadjusted quoted prices in active markets for identical assets or liabilities.

- 3 Level 2 classification comprises where fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Fair values for unlisted equity securities are derived from observable quoted market prices for similar items. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market sourced data.
- 4 Details of listed and unlisted equity securities are included in note 13 Other Investments .

### Offsetting of financial assets and financial liabilities

Financial assets and liabilities included in the table above do not meet the required criteria to offset in the balance sheet but derivative financial assets at 31 March of up to £678 million (2013: £857 million) would be settled net in certain circumstances under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default from the other. Under the Group's collateral support agreements described above, under credit risk collateral has been posted of £130 million (2013: £117 million) and received of £1,185 million (2013: £1,151 million). Collateral may be offset and net settled against derivative financial instruments in the event of default by either party. The aforementioned collateral balances are recorded in other short-term investments or short-term debt respectively.

## 24. Directors and key management compensation

This note details the total amounts earned by the Company's directors and members of the Executive Committee.

### Directors

Aggregate emoluments of the directors of the Company were as follows:

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Salaries and fees	4	5	5
Incentive schemes <sup>1</sup>	2	2	3
Other benefits <sup>2</sup>	1	1	1
	<b>7</b>	<b>8</b>	<b>9</b>

Notes:

1 Amounts payable under incentive schemes have been restated to exclude £5 million and £1 million of cash in lieu of long-term incentive scheme dividends for the years ended 31 March 2013 and 31 March 2012, respectively.

2 Includes the value of the cash allowance taken by some individuals in lieu of pension contributions.

The aggregate gross pre-tax gain made on the exercise of share options in the year ended 31 March 2014 by directors who served during the year was £4 million (2013: £2 million; 2012: £nil).

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Notes to the consolidated financial statements (continued)

**24. Directors and key management compensation (continued)****Key management compensation**

Aggregate compensation for key management, being the directors and members of the Executive Committee, was as follows:

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Short-term employee benefits <sup>1</sup>	17	17	16
Share-based payments	21	23	26
	<b>38</b>	<b>40</b>	<b>42</b>

Notes:

- 1 Amounts payable under short-term employee benefits have been restated to exclude £8 million and £2 million of cash in lieu of long-term incentive scheme dividends for the years ended 31 March 2013 and 31 March 2012, respectively.

**25. Employees**

This note shows the average number of people employed by the Group during the year, in which areas of our business our employees work and where they are based. It also shows total employment costs.

<b>2014</b>	Restated	Restated
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	<b>Employees</b>	2013	2012
		Employees	Employees
<b>By activity:</b>			
Operations	14,947	13,736	12,952
Selling and distribution	31,342	29,658	27,190
Customer care and administration	42,857	39,198	37,003
	<b>89,146</b>	<b>82,592</b>	<b>77,145</b>
<b>By segment:</b>			
Germany	10,623	11,088	12,115
Italy	1,123		
Spain	3,552	4,223	4,379
UK	12,979	8,319	8,151
Other Europe	15,392	19,995	16,668
<b>Europe</b>	<b>43,669</b>	<b>43,625</b>	<b>41,313</b>
India	11,925	11,339	10,704
Vodacom	7,176	7,311	7,437
Other Africa, Middle East and Asia Pacific	16,002	12,659	11,431
<b>Africa, Middle East and Asia Pacific</b>	<b>35,103</b>	<b>31,309</b>	<b>29,572</b>
Non-Controlled Interests and Common Functions	10,374	7,658	6,260
<b>Total</b>	<b>89,146</b>	<b>82,592</b>	<b>77,145</b>

The cost incurred in respect of these employees (including directors) was:

	<b>2014</b>	Restated 2013	Restated 2012
	<b>£m</b>	£m	£m
Wages and salaries	3,261	2,989	2,774
Social security costs	364	350	323
Other pension costs (note 26)	158	157	122
Share-based payments (note 27)	92	124	133
	<b>3,875</b>	<b>3,620</b>	<b>3,352</b>

The Group has dialogue with recognised labour unions if required. In particular there are regular meetings with the Vodafone Employee Consultative Council (the EECC). The delegates of this body are locally elected Vodafone employee representatives, most of them union and works council members.

There has been no material disruption to operations as a result of union activity during the financial year.

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**26. Post employment benefits**

We operate a number of defined benefit and defined contribution pension plans for our employees. The Group's largest defined benefit schemes are in the UK. For further details see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies**

For defined benefit retirement plans, the difference between the fair value of the plan assets and the present value of the plan liabilities is recognised as an asset or liability on the statement of financial position. Scheme liabilities are assessed using the projected unit funding method and applying the principal actuarial assumptions at the reporting period date. Assets are valued at market value.

Actuarial gains and losses are taken to the statement of comprehensive income as incurred. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the income statement, including the current service cost, any past service cost and the effect of any curtailment or settlements. The interest cost less the expected return on assets is also charged to the income statement. The amount charged to the income statement in respect of these plans is included within operating costs or in the Group's share of the results of equity accounted operations, as appropriate.

The Group's contributions to defined contribution pension plans are charged to the income statement as they fall due.

Cumulative actuarial gains and losses at 1 April 2004, the date of transition to IFRS, were recognised in the statement of financial position.

**Background**

At 31 March 2014 the Group operated a number of pension plans for the benefit of its employees throughout the world, with varying rights and obligations depending on the conditions and practices in the countries concerned. The Group's pension plans are provided through both defined benefit and defined contribution arrangements. Defined benefit schemes provide benefits based on the employees' length of pensionable service and their final pensionable salary or other criteria. Defined contribution schemes offer employees individual funds that are converted into benefits at the time of retirement.

The Group operates defined benefit schemes in Germany, Ghana, India, Ireland, Italy, the UK and the United States. Defined contribution pension schemes are currently provided in Australia, Egypt, Germany, Greece, Hungary, India, Ireland, Italy, the Netherlands, New Zealand, Portugal, South Africa, Spain and the UK.

## Income statement expense

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Defined contribution schemes	124	118	113
Defined benefit schemes	34	39	9
<b>Total amount charged to income statement (note 25)</b>	<b>158</b>	<b>157</b>	<b>122</b>

## Defined benefit schemes

The Group's principal defined benefit pension schemes are in the UK (the UK Schemes), being the Vodafone Group Pension Scheme (Vodafone UK plan) and the Cable & Wireless Worldwide Retirement Plan (CWWRP). The Vodafone UK plan and the CWWRP plan closed to future accrual on 31 March 2010 and 30 November 2013, respectively. Until 30 November 2013 the CWWRP allowed employees to accrue a pension at a rate of 1/85th of their final salary for each year of service until the retirement age of 60 with a maximum pension of two thirds of final salary. Employees contributed 5% of their salary into the scheme. The CWWRP is expected to merge with the Vodafone UK plan during the second quarter of 2014.

The defined benefit plans are administered by Trustee Boards that are legally separated from the Group. The Trustee Board of each pension fund consists of representatives who are employees, former employees or are independent from the Company. The Board of the pension funds are required by law to act in the best interest of the plan participants and are responsible for setting certain policies, such as investment and contribution policies and the governance of the fund.

The defined benefit pension schemes expose the Group to actuarial risks such as longer than expected longevity of members, lower than expected return on investments and higher than expected inflation, which may increase the liabilities or reduce the value of assets of the plans.

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Notes to the consolidated financial statements (continued)

**26. Post employment benefits (continued)****Actuarial assumptions**

The Group's scheme liabilities are measured using the projected unit credit method using the principal actuarial assumptions set out below:

	<b>2014</b>	2013	2012
	%	%	%
<b>Weighted average actuarial assumptions used at 31 March<sup>1</sup>:</b>			
Rate of inflation <sup>2</sup>	3.2	3.3	3.0
Rate of increase in salaries	3.1	3.8	2.9
Discount rate	4.2	4.3	4.7

Notes:

1 Figures shown represent a weighted average assumption of the individual schemes.

2 The rate of increase in pensions in payment and deferred payment is the rate of inflation.

Mortality assumptions used are based on recommendations from the individual scheme actuaries which include adjustments for the experience of the Group where appropriate. The largest schemes in the Group are the UK schemes. Further life expectancies assumed for the UK schemes (Vodafone UK plan only in 2012) are 23.3 /24.7 years (2013: 23.6/25.3 years; 2012: 23.6/24.4 years) for a male/female pensioner currently aged 65 and 25.9/27.5 years (2013: 26.8/27.9 years; 2012: 27.2/26.7 years) from age 65 for a male/female non-pensioner member currently aged 40.

Charges made to the consolidated income statement and consolidated statement of comprehensive income ( SOCI ) on the basis of the assumptions stated above are:

		Restated	Restated
	2014	2013	2012
	£m	£m	£m
Current service cost	14	27	12
Net interest charge/(credit)	20	12	(3)
<b>Total included within staff costs</b>	<b>34</b>	<b>39</b>	<b>9</b>
Actuarial (gains)/losses recognised in the SOCI	(57)	238	352



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**Fair value of the assets and present value of the liabilities of the schemes**

The amount included in the statement of financial position arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	Restated	Restated
	2014	2013
	2014	2013
	£m	£m
<b>Movement in pension assets:</b>		
1 April	3,723	1,604
Exchange rate movements	(13)	6
Interest income	162	125
Return on plan assets excluding interest income	(114)	210
Employer cash contributions	51	100
Member cash contributions	7	8
Benefits paid	(81)	(60)
Assets assumed in business combinations		1,730
Other movements	107	1
<b>31 March</b>	<b>3,842</b>	<b>3,723</b>
<b>Movement in pension liabilities:</b>		
1 April	4,251	1,865
Exchange rate movements	(17)	9
Service cost	14	27
Interest cost	182	137
Member cash contributions	7	8
Remeasurements:		
Actuarial losses/(gains) arising from changes in demographic assumptions	(35)	
Actuarial losses/(gains) arising from changes in financial assumptions	(44)	441
Actuarial losses/(gains) arising from experience adjustments	(92)	7
Benefits paid	(81)	(60)
Liabilities assumed in business combinations	121	1,772
Other movements	85	45
<b>31 March</b>	<b>4,391</b>	<b>4,251</b>

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An analysis of net (deficit)/assets is provided below for the Group's two largest defined benefit pension schemes in the UK and for the Group as a whole.

	CWWRP		Vodafone UK plan					Group				
	2014	2013	2014	2013	2012	2011	2010	Restated 2014	Restated 2013	Restated 2012	Restated 2011	Restated 2010
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Analysis of net (deficit)/assets:</b>												
at fair value												
of scheme assets	1,780	1,827	1,343	1,328	1,218	1,180	1,131	3,842	3,723	1,604	1,558	1,488
less present value of defined scheme liabilities	(1,732)	(1,874)	(1,677)	(1,647)	(1,444)	(1,127)	(1,276)	(4,325)	(4,239)	(1,853)	(1,488)	(1,622)
<b>Net (deficit)/assets</b>	<b>48</b>	<b>(47)</b>	<b>(334)</b>	<b>(319)</b>	<b>(226)</b>	<b>53</b>	<b>(145)</b>	<b>(483)</b>	<b>(516)</b>	<b>(249)</b>	<b>70</b>	<b>(134)</b>
<b>of funded schemes</b>	<b>48</b>	<b>(47)</b>	<b>(334)</b>	<b>(319)</b>	<b>(226)</b>	<b>53</b>	<b>(145)</b>	<b>(483)</b>	<b>(516)</b>	<b>(249)</b>	<b>70</b>	<b>(134)</b>
less present value of unfunded scheme liabilities								(66)	(12)	(12)	(13)	(13)
<b>Net (deficit)/assets</b>	<b>48</b>	<b>(47)</b>	<b>(334)</b>	<b>(319)</b>	<b>(226)</b>	<b>53</b>	<b>(145)</b>	<b>(549)</b>	<b>(528)</b>	<b>(261)</b>	<b>57</b>	<b>(150)</b>
<b>Net (deficit)/assets analysed</b>												
of assets	48					53		35	52	31	97	31
less liabilities		(47)	(334)	(319)	(226)		(145)	(584)	(580)	(292)	(40)	(180)

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Notes to the consolidated financial statements (continued)

**26. Post employment benefits (continued)**

Funding plans are individually agreed for each of the Group's defined benefit pension schemes with the respective trustees, taking into account local regulatory requirements. It is expected that contributions of £400 million will be paid into the Group's defined benefit pension schemes during the year ending 31 March 2015, including a special one-off contribution 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. The Group has also provided certain guarantees in respect of the UK schemes; further details are provided in note 30, *Contingent liabilities*.

**Duration of the benefit obligations**

The weighted average duration of the defined benefit obligation at 31 March 2014 is 21.7 years (2013: 21.4 years, 2012: 23.6 years).

**Fair value of pension assets**

	<b>2014</b>	2013
	<b>£m</b>	£m
Cash and cash equivalents	65	117
Equity investments:		
With quoted prices in an active market	1,318	1,310
Without quoted prices in an active market	102	129
Debt instruments:		
With quoted prices in an active market	1,320	1,129
Without quoted prices in an active market		
Property	20	36
Derivatives <sup>1</sup>	541	485
Annuity policies	476	517
<b>Total</b>	<b>3,842</b>	<b>3,723</b>

Note:

1 Derivatives include collateral held in the form of cash.

The schemes have no direct investments in the Group's equity securities or in property currently used by the Group.

Each of the plans manage risks through a variety of methods and strategies including equity protection, to limit downside risk in falls in equity markets, inflation and interest rate hedging and, in the CWWRP, a substantial insured pensioner buy-in policy.

The actual return on plan assets over the year to 31 March 2014 was £48 million (2013: £335 million).

### Sensitivity analysis

Measurement of the Group's defined benefit retirement obligation is sensitive to changes in certain key assumptions. The sensitivity analysis below shows how a reasonably possible increase or decrease in a particular assumption would, in isolation, result in an increase or decrease in the present value of the defined benefit obligation as at 31 March 2014.

	Rate of inflation		Ratio of increase in salaries		Discount rate		Life expectancy	
	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Decrease by 0.5%	Increase by 0.5%	Increase by 1 year	Decrease by 1 year
	£m	£m	£m	£m	£m	£m	£m	£m
(Decrease)/increase in present value of defined obligation	(349)	382	(18)	20	512	(439)	103	(103)

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

In presenting this sensitivity analysis, the present value of the defined benefit obligation has been calculated on the same basis as prior years using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

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**27. Share-based payments**

We have a number of share plans used to award shares to directors and employees as part of their remuneration package. A charge is recognised over the vesting period in the consolidated income statement to record the cost of these, based on the fair value of the award on the grant date.

**Accounting policies**

The Group issues equity-settled share-based payments to certain 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 Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. A corresponding increase in retained earnings is also recognised.

Fair value is measured by deducting the present value of expected dividend cash flows over the life of the awards from the share price as at the grant date.

Some share awards have an attached market condition, based on total shareholder return (TSR), which is taken into account when calculating the fair value of the share awards. The valuation for the TSR is based on Vodafone's ranking within the same group of companies, where possible, over the past five years.

The fair value of awards of non-vested shares is equal to the closing price of the Group's shares on the date of grant, adjusted for the present value of future dividend entitlements where appropriate.

The maximum aggregate number of ordinary shares which may be issued in respect of share options or share plans will not (without shareholder approval) exceed:

- g 10% of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the total number of ordinary shares which have been allocated in the preceding ten year period under all plans; and
- g 5% of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the total number of ordinary shares which have been allocated in the preceding ten year period under all plans, other than any plans which are operated on an all-employee basis.

**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 the Vodafone Group 1999 Long-Term Stock Incentive Plan and the Vodafone Global Incentive Plan. These options are normally exercisable between three and ten years from the date of grant. The vesting of some of these options was subject to satisfaction of performance conditions. Grants made to US employees are made in respect of ADSs.

### **Vodafone Group Sharesave Plan**

The Vodafone Group 2008 Sharesave Plan enables UK staff to acquire shares in the Company through monthly savings of up to £250 over a three and/or five year period, at the end of which they may 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 the Company'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 UK staff to acquire shares in the Company 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.

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Notes to the consolidated financial statements (continued)

**27. Share-based payments (continued)**

## Movements in outstanding ordinary share and ADS options

	2014	2013	ADS options 2012	2014	Ordinary share options 2013	2012
	Millions	Millions	Millions	Millions	Millions	Millions
1 April		1	1	40	84	171
Granted during the year				12	7	5
Forfeited during the year				(1)	(1)	(1)
Exercised during the year		(1)		(22)	(41)	(55)
Expired during the year				(2)	(9)	(36)
<b>31 March</b>			<b>1</b>	<b>27</b>	<b>40</b>	<b>84</b>
<b>Weighted average exercise price:</b>						
1 April	US\$22.16	US\$15.20	US\$14.82	£1.41	£1.18	£1.32
Granted during the year				£1.49	£1.45	£1.31
Forfeited during the year				£1.34	£1.64	£1.07
Exercised during the year	US\$29.31	US\$13.88		£1.43	£1.05	£1.37
Expired during the year				£1.37	£0.98	£1.56
<b>31 March</b>		<b>US\$22.16</b>	<b>US\$15.20</b>	<b>£1.42</b>	<b>£1.41</b>	<b>£1.18</b>

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

Outstanding	Weighted	Outstanding	Exercisable	Weighted	Exercisable
shares	average	Weighted	shares	average	Weighted
Millions	exercise	average	Millions	exercise	average
	price	remaining		price	remaining
		contractual			contractual
		life			life
		Months			Months

life

Months

Vodafone Group savings  
related and Sharesave Plan:

£0.01 £1.00

£1.01 £2.00

2 £0.94

21 £1.43

**23 £1.38**

11

37

**34**Vodafone Group 1999  
Long-Term Stock Incentive  
Plan:

£1.01 £2.00

4 £1.60

34

4 £1.60

34

**Share awards**

Movements in non-vested shares are as follows:

	2014		2013		2012	
	Weighted		Weighted			
	average fair		average fair			
	value at		value at		Weighted	
	Millions	grant date	Millions	grant date	Millions	grant date
1 April	294	£1.27	352	£1.08	387	£1.00
Granted	84	£1.58	91	£1.49	120	£1.29
Vested	(81)	£1.11	(118)	£0.91	(116)	£1.12
Forfeited	(54)	£1.19	(31)	£1.19	(39)	£0.81
<b>31 March</b>	<b>243</b>	<b>£1.44</b>	<b>294</b>	<b>£1.27</b>	<b>352</b>	<b>£1.08</b>

**Other information**

The total fair value of shares vested during the year ended 31 March 2014 was £90 million (2013: £107 million; 2012: £130 million).

The compensation cost included in the consolidated income statement in respect of share options and share plans was £92 million (2013: £124 million; 2012: £133 million) which is comprised entirely of equity-settled transactions.

The average share price for the year ended 31 March 2014 was 212.2 pence (2013: 173.0 pence; 2012: 169.9 pence).



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**28. Acquisitions and disposals**

We made a number of acquisitions during the year including the acquisition of a controlling interest in Kabel Deutschland Holding AG and the remaining interest in our business in Italy, Vodafone Omnitel B.V. thus obtaining control. The note below provides details of these transactions as well as those in the prior year. For further details see [Critical accounting judgements](#) in note 1 [Basis of preparation](#) to the consolidated financial statements.

**Accounting policies****Business combinations**

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. Acquisition-related costs are recognised in the income statement as incurred. The acquiree's identifiable assets and liabilities are recognised at their fair values at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree, if any, over the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. The interest of the non-controlling shareholders in the acquiree may initially be measured either at fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets acquired, liabilities and contingent liabilities assumed. The choice of measurement basis is made on an acquisition-by-acquisition basis.

**Acquisition of interests from non-controlling shareholders**

In transactions with non-controlling parties that do not result in a change in control, the difference between the fair value of the consideration paid or received and the amount by which the non-controlling interest is adjusted is recognised in equity.

**Acquisitions**

The aggregate cash consideration in respect of purchases of interests in subsidiaries, net of cash acquired, is as follows:

	£m
<b>Cash consideration paid:</b>	
Kabel Deutschland Holding AG (including fees of £17 million)	4,872
Other acquisitions completed during the year	6
	<b>4,878</b>
Net cash acquired	(599)
	<b>4,279</b>

In addition, the Group acquired a 100% interest in Vodafone Omnitel B.V. as part of the disposal of the Group's interest in Verizon Wireless for consideration of £7,121 million. The purchase consideration has been determined based on the acquisition-date fair value of the equity in Vodafone Omnitel B.V., being considered to be a more reliable method of determining fair value than estimating the attributable proportion of the fair value of the investment in Verizon Wireless. The equity value has been determined on a value in use basis using discounted estimated cash flows using the methodology and assumptions detailed in note 4 Impairment losses .

Total goodwill acquired was £6,859 million and included £3,848 million in relation to Kabel Deutschland Holding AG, £3,007 million in relation to Vodafone Omnitel B.V. and £4 million in relation to other acquisitions completed during the year. Acquisitions and disposals (continued)

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Notes to the consolidated financial statements (continued)

**28. Acquisitions and disposals (continued)****Kabel Deutschland Holding AG ( KDG )**

On 30 July 2013 the Group launched a voluntary public takeover offer for the entire share capital of KDG and on 13 September 2013 announced that the 75% minimum acceptance condition had been met. The transaction completed on 14 October 2013 with the Group acquiring 76.57% of the share capital of KDG for cash consideration of £4,855 million. The primary reason for acquiring the business was to create a leading integrated communications operator in Germany, offering consumer and enterprise customers unified communications services.

The results of the acquired entity have been consolidated in the Group's income statement from 14 October 2013 and contributed £735 million of revenue and a loss of £210 million to the profit attributable to equity shareholders of the Group during the year.

The provisional purchase price allocation is set out in the table below:

	Fair value £m
<b>Net assets acquired:</b>	
Identifiable intangible assets <sup>1</sup>	1,641
Property, plant and equipment	4,381
Investment in associated undertakings	8
Inventory	34
Trade and other receivables	154
Cash and cash equivalents	619
Current and deferred taxation	(1,423)
Short and long-term borrowings	(2,784)
Trade and other payables	(1,190)
Provisions	(63)
Post employment benefits	(62)
<b>Net identifiable assets acquired</b>	<b>1,315</b>
Non-controlling interests <sup>2</sup>	(308)
Goodwill <sup>3</sup>	3,848
<b>Total consideration<sup>4</sup></b>	<b>4,855</b>

Notes:

- 1 Identifiable intangible assets of £1,641 million consisted of customer relationships of £1,522 million, brand of £18 million and software of £101 million.
- 2 Non-controlling interests have been measured using the net fair value of the identifiable assets acquired, liabilities and contingent liabilities assumed.
- 3 The goodwill is attributable to the expected profitability of the acquired business and the synergies expected to arise after the Group's acquisition of KDG.
- 4 Transaction costs of £17 million were charged in the Group's consolidated income statement in the year ended 31 March 2014

**Vodafone Omnitel B.V. ( Vodafone Italy )**

On 21 February 2014, the Group acquired a 100% interest in Vodafone Italy as part of the disposal of the Group's interests in Verizon Wireless for consideration of £7,121 million, having previously held a 76.9% stake in Vodafone Italy which was accounted for as a joint venture.

The results of the acquired entity have been consolidated in the Group's income statement from 21 February 2014 and contributed £522 million of revenue and £5 million of profit attributable to equity shareholders of the Group during the year.

The provisional purchase price allocation is set out in the table below:

	Fair value £m
<b>Net assets acquired:</b>	
Identifiable intangible assets <sup>1</sup>	3,000
Property, plant and equipment	2,017
Inventory	89
Trade and other receivables (net of provisions of £285 million)	1,745
Current and deferred taxation	(155)
Short and long-term borrowings	(19)
Trade and other payables	(2,415)
Provisions	(96)
Post employment benefits	(52)
<b>Net identifiable assets acquired</b>	<b>4,114</b>
Goodwill <sup>2</sup>	3,007
<b>Total consideration</b>	<b>7,121</b>

Notes:

- 1 Identifiable intangible assets of £3,000 million consisted of customer relationships of £1,319 million, licences and spectrum of £1,319 million and software of £362 million.
- 2 The goodwill is attributable to the expected profitability of the acquired business and the synergies expected to arise after the Group's acquisition of Vodafone Italy.

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**Pro-forma full year information**

The following unaudited pro-forma summary presents the Group as if the acquisitions of KDG and the remaining interests in Vodafone Italy had been completed on 1 April 2013. The pro-forma amounts include the results of these acquisitions, amortisation of the acquired intangible assets recognised on acquisition and interest expense on the increase in net debt as a result of the acquisitions. The pro-forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

	2014
	£m
Revenue	44,127
Profit for the financial year	59,024
Profit attributable to equity shareholders	58,959
	Pence
Basic earnings per share	222.72
Diluted earnings per share	220.97

**Other acquisitions**

During the 2014 financial year the Group completed a number of other acquisitions for an aggregate net cash consideration of £6 million, all of which was paid during the year. The aggregate fair values of goodwill, identifiable assets, and liabilities of the acquired operations were £4 million, £3 million and £1 million, respectively. In addition, the Group completed the acquisition of certain non-controlling interests for a net cash consideration of £111 million.

**Cable & Wireless Worldwide plc ( CWW )**

On 27 July 2012 the Group acquired the entire share capital of CWW for cash consideration of approximately £1,050 million before tax and transaction costs. CWW de-listed from the London Stock Exchange on 30 July 2012. CWW provides a wide range of managed voice, data, hosting and IP-based services and applications. The primary reasons for acquiring the business were to strengthen the enterprise business of Vodafone Group in the UK and internationally, and the attractive network and other cost saving opportunities for the Vodafone Group.

The results of the acquired entity have been consolidated in the Group's income statement from 27 July 2012 and contributed £1,234 million of revenue and a loss of £151 million to the profit attributable to equity shareholders of the Group during the year ended 31 March 2013.

The purchase price allocation is set out in the table below:

	Fair value £m
<b>Net assets acquired:</b>	
Identifiable intangible assets <sup>1</sup>	325
Property, plant and equipment	1,207
Inventory	34
Trade and other receivables	452
Cash and cash equivalents	78
Current and deferred taxation	788
Short and long-term borrowings	(306)
Trade and other payables	(754)
Provisions	(249)
Post employment benefits	(47)
<b>Net identifiable assets acquired</b>	<b>1,528</b>
Non-controlling interests	(5)
Negative goodwill <sup>2</sup>	(473)
<b>Total consideration</b>	<b>1,050</b>
Notes:	

1 Identifiable intangible assets of £325 million consisted of customer relationships of £225 million, CWW brand of £54 million and software of £46 million and are amortised in line with Group accounting policies.

2 Transaction costs of £11 million were charged in the Group's consolidated income statement in the year ended 31 March 2013.

The negative goodwill primarily arose from an upward fair value adjustment in relation to acquired property, plant and equipment, the recognition of acquired identifiable intangible assets not previously recognised by CWW together with the recognition of a deferred tax asset resulting from previously unclaimed UK capital allowances. The change in the purchase price allocation from that previously disclosed relates to further deferred tax asset recognition following the completion of new long-term business plans. No deferred tax assets have been recognised in respect of the losses of CWW (see 'Factors affecting the tax charge in future years' on page 122). The income statement credit in respect of the negative goodwill is reported within 'Other income and expense' on the face of the consolidated income statement in the year ended 31 March 2013.

On 27 July 2012 the Group acquired convertible bonds issued by CWW amounting to £245 million which resulted in £6 million of interest being charged to the Group's consolidated income statement in the year ended 31 March 2013.

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**28. Acquisitions and disposals (continued)****TelstraClear Limited ( TelstraClear )**

On 31 October 2012 the Group acquired the entire share capital of TelstraClear for cash consideration of NZ\$863 million (£440 million). The primary reasons for acquiring the business were to strengthen Vodafone New Zealand's portfolio of fixed communications solutions and to create a leading total communications company in New Zealand.

The results of the acquired entity which have been consolidated in the income statement from 31 October 2012 contributed £136 million of revenues and a loss of £23 million to the profit attributable to equity shareholders of the Group during the year ended 31 March 2013.

The purchase price allocation is set out in the table below:

	Fair value £m
<b>Net assets acquired:</b>	
Identifiable intangible assets <sup>1</sup>	84
Property, plant and equipment	345
Trade and other receivables	55
Cash and cash equivalents	5
Current and deferred taxation liabilities	(19)
Trade and other payables	(59)
Provisions	(15)
<b>Net identifiable assets acquired</b>	<b>396</b>
Goodwill <sup>2</sup>	44
<b>Total consideration</b>	<b>440</b>
Notes:	

1 Identifiable intangible assets of £84 million consist of licences and spectrum fees of £27 million, TelstraClear brand of £3 million and customer relationships of £54 million.

2

The goodwill is attributable to the expected profitability of the acquired business and the synergies expected to arise after the Group's acquisition of TelstraClear. None of the goodwill is expected to be deductible for tax purposes.

## Disposals

### Verizon Wireless ( VZW )

On 21 February 2014 the Group sold its US sub-group which included its entire 45% shareholding in VZW to Verizon Communications Inc. for a total consideration of £76.7 billion before tax and transaction costs. The Group recognised a net gain on disposal of £44,996 million, reported in profit for the financial year from discontinued operations.

	£m
Net assets disposed	(27,957)
Total consideration <sup>1</sup>	76,716
Other effects <sup>2</sup>	(3,763)
Net gain on disposal <sup>3,4</sup>	<b>44,996</b>

Notes:

- 1 Consideration of £76.7 billion comprises cash of £35.2 billion, shares in Verizon Communications Inc. of £36.7 billion, loan notes issued by Verizon communications Inc. of £3.1 billion and a 21.3% interest in Vodafone Italy valued at £1.7 billion.
- 2 Other effects include foreign exchange losses transferred to the consolidated income statement.
- 3 Reported in profit for the financial year from discontinued operations in the consolidated income statement.
- 4 Transaction costs of £100 million were charged in the Group's consolidated income statement in the year ended 31 March 2014.

The Group did not separately value the embedded derivatives arising from the agreement to sell the US sub-group for a fixed consideration on 2 September 2013 because it was not able to make a reliable estimate of the valuation of this derivative due to the difficulty in estimating the fair value of the shares in an unlisted entity in the period between 2 September 2013 and transaction completion on 21 February 2014.

### Vodafone Omnitel B.V. ( Vodafone Italy )

On 21 February 2014 the Group completed a deemed disposal of its entire 76.9% shareholding in Vodafone Italy as part of the VZW disposal deal for a total consideration £5.5 billion before tax and transaction costs. The Group recognised a net loss on disposal of £712 million, reported in other income and expense.

	£m
Net assets disposed	(8,480)
Total consideration	5,473
Other effects <sup>1</sup>	2,295
Net loss on disposal <sup>2</sup>	<b>(712)</b>

Notes:

- 1 Other effects include foreign exchange gains transferred to the consolidated income statement.
- 2 Reported in other income and expense in the consolidated income statement.



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**29. Commitments**

A commitment is a contractual obligation to make a payment in the future, mainly in relation to leases and agreements to buy assets such as network infrastructure and IT systems. These amounts are not recorded in the consolidated statement of financial position since we have not yet received the goods or services from the supplier. The amounts below are the minimum amounts that we are committed to pay.

**Accounting policies**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**Operating lease commitments**

The Group has entered into commercial leases on certain properties, network infrastructure, motor vehicles and items of equipment. The leases have various terms, escalation clauses, purchase options and renewal rights, none of which are individually significant to the Group.

Future minimum lease payments under non-cancellable operating leases comprise:

	2014	Restated 2013
	£m	£m
Within one year	1,128	1,094
In more than one year but less than two years	841	914
In more than two years but less than three years	678	721

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In more than three years but less than four years	557	612
In more than four years but less than five years	477	519
In more than five years	2,051	2,243
	<b>5,732</b>	<b>6,103</b>

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £313 million (2013: £314 million).

**Capital commitments**

	Company and subsidiaries		Share of joint operations		Group	
	2014	Restated 2013	Restated 2013	2014	Restated 2013	
	£m	£m	£m	£m	£m	
Contracts placed for future capital expenditure not provided in the financial statements <sup>1</sup>	2,307	1,715	28	18	2,335	1,733

Note:

1 Commitment includes contracts placed for property, plant and equipment and intangible assets.

**Grupo Corporativo Ono, S.A. ( Ono )**

On 17 March 2014, Vodafone agreed to acquire Ono for a total consideration equivalent to 7.2 billion (£6.0 billion) on a debt and cash free basis. Ono has the largest next-generation network in Spain and the acquisition enables Vodafone to take advantage of the rapid increase in the adoption of unified communications products and services in the Spanish market. The acquisition, which is subject to customary terms and conditions including anti-trust clearances by the relevant authorities, is expected to complete in calendar Q3 2014.

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Notes to the consolidated financial statements (continued)

**30. Contingent liabilities**

Contingent liabilities are potential future cash outflows, where the likelihood of payment is considered more than remote, but is not considered probable or cannot be measured reliably.

	2014	Restated 2013
	£m	£m
Performance bonds <sup>1</sup>	442	266
Other guarantees and contingent liabilities <sup>2</sup>	2,500	1,257

Notes:

- 1 Performance bonds require the Group to make payments to third parties in the event that the Group does not perform what is expected of it under the terms of any related contracts or commercial arrangements.
- 2 Other guarantees principally comprise Vodafone Group Plc's guarantee of the Group's 50% share of an AUD 1.7 billion loan facility and a US\$3.5 billion loan facility of its joint venture, Vodafone Hutchison Australia Pty Limited.

**UK pension schemes**

The Group has covenanted to provide security in favour of the Trustee of the Vodafone Group Pension Scheme whilst there is a deficit in the scheme. The deficit is measured on a prescribed basis agreed between the Group and Trustee. In 2010 the Group and Trustee agreed security of a charge over UK index linked gilts ( ILG ) held by the Group. In December 2011, the security was increased by an additional charge over further ILG due to a significant increase in the deficit at that time.

In April 2014, the security was reduced following a reduction in the deficit following the results of the 2013 valuation and a £325 million company contribution to the Scheme (see note 26 Post employment benefits ). The scheme retains security over £186.5 million (notional value) 2017 ILGs. The security may be substituted either on a voluntary or mandatory basis. As and when alternative security is provided, the Group has agreed that the security cover should include additional headroom of 33%, although if cash is used as the security asset the ratio will revert to 100% of the relevant liabilities or where the proposed replacement security asset is listed on an internationally recognised stock

exchange in certain core jurisdictions, the Trustee may decide to agree a lower ratio than 133%. The Company has also provided two guarantees to the scheme for a combined value up to 1.5 billion to provide security over the deficit under certain defined circumstances, including insolvency of the employers.

The Company has also agreed similar guarantees for the Trustees of the Cable & Wireless Worldwide Retirement Plan and THUS Plc Group Scheme up to £1.25 billion and £110 million respectively, following the acquisition of Cable & Wireless Worldwide plc.

### Legal proceedings

The Company and its subsidiaries are currently, and may be from time to time, involved in a number of legal proceedings including inquiries from, or discussions with, governmental authorities that are incidental to their operations. However, save as disclosed below, the Company and its subsidiaries are not currently involved in any legal or arbitration proceedings (including any governmental proceedings which are pending or known to be contemplated) which may have, or have had in the 12 months preceding the date of this report, a significant effect on the financial position or profitability of the Company and its subsidiaries. Due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings outlined below can be made.

Materiality is lower than for the year ended 31 March 2013 as a result of the disposal of the Group's interest in Verizon Wireless and accordingly, certain matters discussed below were not disclosed in prior years.

### Telecom Egypt arbitration

In October 2009 Telecom Egypt commenced arbitration against Vodafone Egypt in Cairo alleging breach of non-discrimination provisions in an interconnection agreement as a result of lower interconnection rates paid to Vodafone Egypt by Mobinil. Telecom Egypt has also sought to join Vodafone International Holdings BV (VIHBV), Vodafone Europe BV (VEBV) and Vodafone Group Plc (which Telecom Egypt alleges should be held jointly liable with Vodafone Egypt) to the arbitration. VIHBV, VEBV and Vodafone Group Plc deny that they were subject to the interconnection agreement or any arbitration agreement with Telecom Egypt. Telecom Egypt initially quantified its claim at approximately 190 million in 2009. This was subsequently amended and increased to 551 million in January 2011 and further increased to its current value of just over 1.2 billion in November 2011. The Company disputes Telecom Egypt's claim (and assertion of jurisdiction over VIHBV, VEBV and Vodafone Group Plc) and will continue to defend the Vodafone companies' position vigorously. The arbitration hearing concluded in November 2013. The parties completed final written submissions in March 2014. A decision is now awaited from the tribunal during 2014.

### Indian tax case

In August 2007 and September 2007, Vodafone India Limited (VIL) and VIHBV respectively received notices from the Indian tax authority alleging potential liability in connection with an alleged failure by VIHBV to deduct withholding tax from consideration paid to the Hutchison Telecommunications International Limited group (HTIL) in respect of HTIL's gain on its disposal to VIHBV of its interests in a wholly-owned subsidiary that indirectly holds interests in VIL. In January 2012 the Indian Supreme Court handed down its judgement, holding that VIHBV's interpretation of the Income Tax Act 1961 was correct, that the HTIL transaction in 2007 was not taxable in India, and that consequently, VIHBV had no obligation to withhold tax from consideration paid to HTIL in respect of the transaction. The Indian Supreme Court quashed the relevant notices and demands issued to VIHBV in respect of withholding tax and interest. On 20 March 2012 the Indian Government returned VIHBV's deposit of INR 25 billion and released the guarantee for INR 85 billion, which was based on the demand for payment issued by the Indian tax authority in October 2010, for tax of INR 79 billion plus interest.

On 16 March 2012, the Indian Government introduced proposed legislation (the Finance Bill 2012 ) purporting to overturn the Indian Supreme Court's judgement with retrospective effect back to 1962. On 17 April 2012, Vodafone International Holdings BV ( VIHBV ) filed a trigger notice under the Dutch-India Bilateral Investment Treaty ( BIT ) signalling its intent to invoke arbitration under the BIT should the new laws be enacted. The Finance Bill 2012 received Presidential assent and became law on 28 May 2012 (the Finance Act 2012 ). The Finance Act 2012 is intended to tax any gain on transfer of shares in a non-Indian company, which derives substantial value from underlying Indian assets, such as VIHBV's transaction with HTIL in 2007. Further it seeks to subject a purchaser, such as VIHBV, to a retrospective obligation to withhold tax.

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The Indian Government commissioned a committee of experts (the Shome committee) consisting of academics, and current and former Indian government officials, to examine, and make recommendations in respect of, aspects of the Finance Act 2012 including the retrospective taxation of transactions such as VIH BV's transaction with HTIL referred to above. On 10 October 2012, the Shome committee published its draft report for comment. The draft report concluded that tax legislation in the Finance Act 2012 should only be applied prospectively or, if applied retrospectively, that only a seller who made a gain should be liable and, in that case, without any liability for interest or penalties. The Shome committee's final report was submitted to the Indian Government on 31 October 2012, but no final report has been published, and it remains unclear what the Indian Government intends to do with the Shome committee's final report or its recommendations.

VIH BV has not received any formal demand for taxation following the Finance Act 2012, but it did receive a letter on 3 January 2013 reminding it of the tax demand raised prior to the Indian Supreme Court's judgement and purporting to update the interest element of that demand to a total amount of INR 142 billion. The separate proceedings taken against VIH BV to seek to treat it as an agent of HTIL in respect of its alleged tax on the same transaction, as well as penalties of up to 100% of the assessed withholding tax for the alleged failure to have withheld such taxes, remain pending despite the issue having been ruled upon by the Indian Supreme Court. Should a further demand for taxation be received by VIH BV or any member of the Group as a result of the new retrospective legislation, we believe it is probable that we will be able to make a successful claim under the BIT. Although this would not result in any outflow of economic benefit from the Group, it could take several years for VIH BV to recover any deposit required by an Indian Court as a condition for any stay of enforcement of a tax demand pending the outcome of VIH BV's BIT claim. However, VIH BV expects that it would be able to recover any such deposit. On 17 January 2014, VIH BV served on the Indian Government an amended trigger notice under the BIT, supplementing the trigger notice filed on 17 April 2012, to add claims relating to an attempt by the Indian Government to tax aspects of the transaction with Hutchison under transfer pricing rules. On 17 April 2014, VIH BV served its notice of arbitration under the BIT, formally commencing the BIT arbitration proceedings.

We did not carry a provision for this litigation or in respect of the retrospective legislation at 31 March 2014, or at previous reporting dates.

**Other Indian tax cases**

VIL and Vodafone India Services Private Limited (VISPL) (formerly 3GSPL) are involved in a number of tax cases with total claims exceeding £1 billion plus interest, and penalties of up to 300% of the principal.

**VIL tax claims**

The claims against VIL range from disputes concerning transfer pricing and the applicability of value-added tax to SIM cards, to the disallowance of income tax holidays. The quantum of the tax claims against VIL is in the region of £0.9 billion. VIL is of the opinion that any finding of material liability to tax, is not probable.

### VISPL tax claims

VISPL has been assessed to owe tax of approximately £240 million (plus interest of £190 million) in respect of (i) a transfer pricing margin charged for the international call centre of Hutchison prior to the transaction with Vodafone; (ii) the sale of the international call centre by VISPL to Hutchison and (iii) the alleged transfer of options held by VISPL for VIL equity shares. The first two of the three heads of tax are subject to an indemnity by Hutchison under the VIH BV Tax Deed of Indemnity. The larger part of the potential claim is not subject to any indemnity. VISPL unsuccessfully challenged the merits of the tax demand in the statutory tax tribunal and the jurisdiction of the tax office to make the demand in the High Court. The case is now in the Tax Appeal Tribunal after VISPL obtained a stay of the tax demand on a deposit of £20 million and a corporate guarantee by VIH BV for the balance. If VISPL loses the appeal, its terms of the stay of demand may be revisited (and could be increased) while VISPL pursues further appeals in the High Court and the Supreme Court.

### Indian regulatory cases

Litigation remains pending in the Telecommunications Dispute Settlement Appellate Tribunal ( TDSAT ), High Courts and the Supreme Court in relation to a number of significant regulatory issues including mobile termination rates ( MTRs ), spectrum and licence fees, licence extension and 3G intra-circle roaming ( ICR ).

### Public interest litigation: Yakesh Anand v Union of India, Vodafone and others

The Petitioner has brought a special leave petition in the Indian Supreme Court on 30 January 2012 against the Government of India and mobile network operators, including VIL, seeking recovery of the alleged excess spectrum allocated to the operators, compensation for the alleged excess spectrum held in the amount of approximately 4.7 billion and a criminal investigation of an alleged conspiracy between government officials and the network operators. A claim with similar allegations was dismissed by the Supreme Court in March 2012, with an order that the Petitioner should pay a fine for abuse of process. The case is pending before the Supreme Court and is expected to be called for hearing at some uncertain future date.

### One time spectrum charges: Vodafone India v Union of India

The Government of India has sought to impose one time spectrum charges of approximately 525 million on certain operating subsidiaries of VIL. We filed a petition before the TDSAT challenging the one time spectrum charges on the basis that they are illegal, violate Vodafone's licence terms and are arbitrary, unreasonable and discriminatory. The tribunal stayed enforcement of the Government's spectrum demand pending resolution of the dispute. The case is now ready for trial.

### 3G inter-circle roaming: Vodafone India and others v Union of India

In April 2013, the Indian Department of Telecommunications issued a stoppage notice to VIL's operating subsidiaries and other mobile operators requiring the immediate stoppage of the provision of 3G services on other operators' mobile networks in an alleged breach of licences. The regulator also imposed a fine of approximately 5.5 million. We applied to the Delhi High Court for an order quashing the regulator's notice. Interim relief from the notice has been granted (but limited to existing customers at the time with the effect that VIL was not able to provide 3G services to new customers on other operators' 3G networks pending a decision on the issue). The dispute was referred to the TDSAT for decision, which ruled on 28 April 2014 that VIL and the other operators were permitted to provide 3G services to their customers (current and future) on other operators' networks. An appeal by the Department of Telecommunications is possible.

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Notes to the consolidated financial statements (continued)

**30. Contingent liabilities (continued)**

**Extension of licences in Delhi, Mumbai and Kolkata: VIL and others v Union of India**

We sought an extension of our existing licences in Delhi, Mumbai and Kolkata along with existing licensed spectrum. That extension was denied by the Department of Telecommunications by order dated 21 March 2013. We appealed that decision to the TDSAT and by its order dated 31 January 2014, the TDSAT denied the extension. The Supreme Court has agreed to hear our appeal on an expedited basis.

**Other cases in the Group**

**Italy**

**British Telecom (Italy) v Vodafone Italy**

The Italian Competition Authority concluded an investigation in 2007 when Vodafone Italy gave certain undertakings in relation to concerns it had abused its dominant position in the wholesale market for mobile termination. In 2010, British Telecom (Italy) brought a civil damages claim against Vodafone Italy on the basis of the Competition Authority's investigation and Vodafone Italy's undertakings. British Telecom (Italy) seeks damages in the amount of 280 million for abuse of dominant position by Vodafone Italy in the wholesale fixed to mobile termination market for the period 1999 to 2007. A court appointed expert has delivered an opinion to the Court that the range of damages in the case are in the region of 10 million to 25 million.

**FASTWEB v Vodafone Italy**

The Italian Competition Authority concluded an investigation in 2007 when Vodafone Italy gave certain undertakings in relation to concerns it had abused its dominant position in the wholesale market for mobile termination. In 2010, FASTWEB brought a civil damages claim against Vodafone Italy on the basis of the Competition Authority's investigation and Vodafone Italy's undertakings. FASTWEB seeks damages in the amount of 360 million for abuse of dominant position by Vodafone Italy in the wholesale fixed to mobile termination market. A court appointed expert has delivered an opinion to the Court that the range of damages in the case are in the region of 0.5 million to 2.3 million.

**Greece**



**Papistas Holdings SA, Mobile Trade Stores (formerly Papistas SA) and Athanasios and Loukia Papistas v Vodafone Greece, Vodafone Group Plc and certain Directors and Officers of Vodafone**

In December 2013, Mr and Mrs Papistas, and companies owned or controlled by them, brought three claims in the Greek court in Athens against Vodafone Greece, Vodafone Group Plc and certain directors and officers of Vodafone Greece and Vodafone Group Plc for purported damage caused by the alleged abuse of dominance and wrongful termination of a franchise arrangement with a Papistas company. Approximately 1.0 billion of the claim is directed exclusively at one former and one current director of Vodafone Greece. The balance of the claim (approximately 285.5 million) is sought from Vodafone Greece and Vodafone Group Plc on a joint and several basis. The cases are scheduled to come to trial in November 2015 and April 2016.

**Tanzania**

**Cats-Net Limited v Vodacom Tanzania Limited**

In 2012, Cats-Net Limited brought a claim for US\$500 million (US\$200 million compensatory and US\$300 million punitive) in damages against Vodacom Tanzania Limited in the Tanzanian High Court. Cats-Net is also seeking an order cancelling Vodacom Tanzania's mobile telecommunications licence. The claim is based on the actions of the Tanzanian Telecommunications Regulatory Authority ( TTRA ) who, following complaints by Vodacom Tanzania of interference caused by transmissions of Cats-Net, allegedly shut down the operations of Cats-Net after conducting its own investigation. Cats-Net alleges collusion between the TTRA and Vodacom Tanzania. Vodacom Tanzania filed an application to strike out the claim. That application has been argued and the parties await a decision of the Court.

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**31. Related party transactions**

The Group has a number of related parties including joint ventures and associates (see note 12 Investments in associates and joint ventures to the consolidated financial statements), pension schemes (see note 26 Post employment benefits to the consolidated financial statements) and directors and Executive Committee members (see note 24 Directors and key management compensation to the consolidated financial statements).

**Transactions with joint ventures and associates**

Related party transactions with the Group's joint ventures and associates primarily comprise fees for the use of products and services including network airtime and access charges, and cash pooling arrangements.

No related party transactions have been entered into during the year which might reasonably affect any decisions made by the users of these consolidated financial statements except as disclosed below.

	2014	Restated 2013	Restated 2012
	£m	£m	£m
Sales of goods and services to associates	231	238	194
Purchase of goods and services from associates	109	97	103
Sales of goods and services to joint ventures	12	27	43
Purchase of goods and services from joint ventures	570	568	381
Net interest expense payable to joint ventures <sup>1</sup>	75	33	20
Trade balances owed:			
by associates	3	21	15
to associates	3	20	17
by joint ventures	82	260	220
to joint ventures	170	48	16
Other balances owed by joint ventures <sup>1</sup>	57	1,065	1,213
Other balances owed to joint ventures <sup>1</sup>	63		

Note:

1 Amounts arise primarily through Vodafone Italy, Vodafone Hutchison Australia, Indus Towers and Cornerstone.

Interest is paid in line with market rates.

Dividends received from associates and joint ventures are disclosed in the consolidated statement of cash flows.

### **Transactions with directors other than compensation**

During the three years ended 31 March 2014, and as of 19 May 2014, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company.

During the three years ended 31 March 2014, and as of 19 May 2014, the Company has not been a party to any other material transaction, or proposed transactions, in which any member of the key management personnel (including directors, any other executive officer, senior manager, any spouse or relative of any of the foregoing or any relative of such spouse) had or was to have a direct or indirect material interest.

### **32. Principal subsidiaries**

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group. We have a large number of subsidiaries and so, for practical reasons, only the principal subsidiaries at 31 March 2014 are detailed below.

### **Accounting policies**

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has existing rights that give it the current ability to direct the activities that affect the Company's returns and exposure or rights to variable returns from the entity. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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Notes to the consolidated financial statements (continued)

**32. Principal subsidiaries (continued)****Principal subsidiaries**

A full list of subsidiaries, joint arrangements, associated undertakings and any significant holdings (as defined in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) as at 15 August 2014 will be annexed to the Company's next annual return filed with the Registrar of Companies. No subsidiaries are excluded from the Group consolidation. Unless otherwise stated the Company's principal subsidiaries all have share capital consisting solely of ordinary shares and are indirectly held. The country of incorporation or registration of all subsidiaries is also their principal place of operation unless otherwise stated.

Name	Principal activity	Country of incorporation or registration	Percentage shareholdings <sup>1</sup>
Vodafone GmbH	Network operator	Germany	100.0
Kabel Deutschland Holding AG <sup>2</sup>	Network operator	Germany	76.6
Vodafone Limited	Network operator	England	100.0
Vodafone Omnitel B.V. <sup>3,4,5</sup>	Network operator	Netherlands	100.0
Vodafone España S.A.U.	Network operator	Spain	100.0
Vodafone Albania Sh.A.	Network operator	Albania	99.9
Vodafone Czech Republic a.s.	Network operator	Czech Republic	100.0
Vodafone-Panafon Hellenic Telecommunications Company S.A.	Network operator	Greece	99.9
Vodafone Magyarország Mobile Tavkozlesi Zartkoruen Mukodo Reszvenytarsasag <sup>6</sup>	Network operator	Hungary	100.0
Vodafone Ireland Limited	Network operator	Ireland	100.0
Vodafone Malta Limited	Network operator	Malta	100.0
Vodafone Libertel B.V.	Network operator	Netherlands	100.0
	Network operator	Portugal	100.0

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Vodafone Portugal-Comunicações Pessoais, S.A. <sup>7</sup>			
Vodafone Romania S.A.	Network operator	Romania	100.0
Vodafone India Limited	Network operator	India	89.0
Vodacom Group Limited	Holding company	South Africa	65.0
Vodacom (Pty) Limited <sup>8</sup>	Network operator	South Africa	60.9
		The Democratic	
Vodacom Congo (RDC) s.p.r.l. <sup>8,9,10</sup>	Network operator	Republic of Congo	33.2
Vodacom Tanzania Limited <sup>8,10</sup>	Network operator	Tanzania	42.3
VM, S.A. <sup>8,11</sup>	Network operator	Mozambique	55.3
Vodacom Lesotho (Pty) Limited <sup>8</sup>	Network operator	Lesotho	52.0
Vodacom Business Africa Group (PTY) Limited <sup>8</sup>	Holding company	South Africa	65.0
Vodafone Egypt Telecommunications S.A.E.	Network operator	Egypt	54.9
Ghana Telecommunications Company Limited	Network operator	Ghana	70.0
Vodafone New Zealand Limited	Network operator	New Zealand	100.0
Vodafone Qatar Q.S.C. <sup>10</sup>	Network operator	Qatar	23.0
Vodafone Telekomunikasyon A.S.	Network operator	Turkey	100.0
Vodafone Group Services Limited <sup>12</sup>	Global products and services provider	England	100.0
Vodafone Sales & Services Limited <sup>13</sup>	Group services provider	England	100.0
Vodafone 6 UK	Holding company	England	100.0
Vodafone Holding GmbH	Holding company	Germany	100.0
Vodafone Holdings Europe S.L.U.	Holding company	Spain	100.0
Vodafone Europe B.V.	Holding company	Netherlands	100.0
Vodafone International Holdings B.V.	Holding company	Netherlands	100.0
Vodafone Investments Luxembourg S.a.r.l.	Holding company	Luxembourg	100.0
Vodafone Procurement Company S.a.r.l.	Group services provider	Luxembourg	100.0
Vodafone Roaming Services S.a.r.l.	Group services provider	Luxembourg	100.0

Notes:

- 1 Effective ownership percentages of Vodafone Group Plc at 31 March 2014, rounded to nearest tenth of one percent.
- 2 Kabel Deutschland Holding AG was acquired on 14 October 2013.
- 3 Vodafone Omnitel B.V. changed its name on 16 December 2013 (previously Vodafone Omnitel N.V.).
- 4 The principal place of operation of Vodafone Omnitel B.V. is Italy.
- 5 Vodafone Omnitel B.V. became a 100% owned subsidiary on 21 February 2014.
- 6 Trades as Vodafone Hungary Mobile Telecommunications Company Limited.
- 7 38.6% of the issued share capital of Vodafone Portugal-Comunicações Pessoais, S.A. is directly held by Vodafone Group Plc.
- 8 Shareholding is indirect through Vodacom Group Limited. The indirect shareholding is calculated using the 65.0% ownership interest in Vodacom.
- 9 The share capital of Vodacom Congo (RDC) s.p.r.l. consists of 1,000,000 ordinary shares and 75,470,588 preference shares.
- 10 The Group has rights that enable it to control the strategic and operating decisions of Vodafone Qatar Q.S.C., Vodacom Congo (RDC) s.p.r.l. and Vodacom Tanzania Limited.
- 11 The share capital of VM, S.A. consists of 60,000,000 ordinary shares and 548,350,646 preference shares.

12 Share capital consists of 1,190 ordinary shares and one deferred share, of which 100% of the shares are indirectly held by Vodafone Group Plc.

13 Vodafone Sales & Services Limited is directly held by Vodafone Group Plc.

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The tables below show selected financial data in respect of subsidiaries that have non-controlling interests that are material to the Group.

	Vodafone Egypt					
	Vodacom Group Limited		Telecommunications S.A.E.		Vodafone Qatar Q.S.C.	
	2014	2013	2014	2013	2014	2013
	£m	£m	£m	£m	£m	£m
<b>Summary comprehensive income information</b>						
Revenue	4,718	5,206	1,163	1,259	342	266
Profit/(loss) for the financial year	730	819	165	183	(43)	(70)
Other comprehensive expense	(9)	(12)				
Total comprehensive income/(expense)	721	807	165	183	(43)	(70)
<b>Other financial information</b>						
Profit/(loss) for the financial year allocated to non-controlling interests	273	298	75	83	(33)	(54)
Dividends paid to non-controlling interests	261	301	3	3		
<b>Summary financial position information</b>						
Non-current assets	4,681	5,766	1,259	1,412	1,197	1,382
Current assets	1,275	1,503	405	298	52	73
<b>Total assets</b>	<b>5,956</b>	<b>7,269</b>	<b>1,664</b>	<b>1,710</b>	<b>1,249</b>	<b>1,455</b>
Non-current liabilities	(360)	(649)	(33)	(52)	(6)	(2)
Current liabilities	(2,005)	(2,171)	(721)	(805)	(267)	(338)
<b>Total assets less total liabilities</b>	<b>3,591</b>	<b>4,449</b>	<b>910</b>	<b>853</b>	<b>976</b>	<b>1,115</b>
Equity shareholders funds	2,899	3,609	575	554	224	256
Non-controlling interests	692	840	335	299	752	859
<b>Total equity</b>	<b>3,591</b>	<b>4,449</b>	<b>910</b>	<b>853</b>	<b>976</b>	<b>1,115</b>

The voting rights held by the Group equal the Group's percentage shareholding as shown on page 168.

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Notes to the consolidated financial statements (continued)

**33. Subsidiaries exempt from audit**

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 March 2014.

Name	Registration number
Vodafone 2.	4083193
Vodafone 4 UK	6357658
Vodafone 5 Limited	6688527
Vodafone 5 UK	2960479
Vodafone Americas 4	6389457
Vodafone Benelux Limited	4200960
Vodafone Cellular Limited	896318
Vodafone Consolidated Holdings Limited	5754561
Vodafone Euro Hedging Limited	3954207
Vodafone Euro Hedging Two	4055111
Vodafone European Investments	3961908
Vodafone European Portal Limited	3973442
Vodafone Europe UK	5798451
Vodafone Finance Luxembourg Limited	5754479
Vodafone Finance Sweden	2139168
Vodafone Finance UK Limited	3922620
Vodafone Financial Operations	4016558
Vodafone Global Content Services Limited	4064873
Vodafone Holdings Luxembourg Limited	4200970
Vodafone Intermediate Enterprises Limited	3869137
Vodafone International Holdings Limited	2797426
Vodafone International Operations Limited	2797438
Vodafone Investments Australia Limited	2011978
Vodafone Investments Limited	1530514
Vodafone Investment UK	5798385
Vodafone Leasing Limited	4201716



Vodafone Marketing UK	6858585
Vodafone Mobile Communications Limited	3942221
Vodafone Mobile Enterprises Limited	3961390
Vodafone Mobile Network Limited	3961482
Vodafone (New Zealand) Hedging Limited	4158469
Vodafone Nominees Limited	1172051
Vodafone Oceania Limited	3973427
Vodafone Overseas Finance Limited	4171115
Vodafone Overseas Holdings Limited	2809758
Vodafone Panafon UK	6326918
Vodafone Property Investments Limited	3903420
Vodafone UK Investments Limited	874784
Vodafone UK Limited	2227940
Vodafone Worldwide Holdings Limited	3294074
Vodafone Yen Finance Limited	4373166
Voda Limited	1847509
Vodaphone Limited	2373469
Vodata Limited	2502373

### 34. Subsequent events

Detailed below are the significant events that happened after our year end date of 31 March 2014 and before the signing of this annual report on 20 May 2014.

On 11 April 2014, the Group acquired the remaining 10.97% of its Indian subsidiary, Vodafone India Limited, from Piramal Enterprises Limited for cash consideration of INR 89.0 billion (£0.9 billion), taking its ownership interest to 100%.

On 19 May 2014 Vodacom announced that it had reached an agreement with the shareholders of Neotel, the second largest provider of fixed telecommunications services in South Africa, to acquire 100% of the issued share capital in, and shareholder loans against, Neotel for a total cash consideration of ZAR 7.0 billion (£0.4 billion). The transaction remains subject to the fulfilment of a number of conditions precedent including applicable regulatory approvals and is expected to close before the end of the financial year.

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**Other unaudited financial information****Prior year operating results**

This section presents our operating performance for the 2013 financial year compared to the 2012 financial year, providing commentary on how revenue and adjusted EBITDA performance of the Group and its operating segments within the Europe and AMAP regions, together with Common Functions, have developed over the last year. These revenue and adjusted EBITDA amounts are extracted from note 2 to the Consolidated Financial Statements. The presentation of segmental revenues and adjusted EBITDA within note 2 to the Consolidated Financial Statements segment is under the management basis as this is assessed as being the most insightful presentation and is how the Group's operating performance is reviewed internally by management. See [Non-GAAP information](#) on page 201 for further information and reconciliations between the management and statutory basis.

**Group<sup>1</sup>**

	Restated <sup>1</sup>	Restated <sup>1</sup>
	2013	2012
	£m	£m
Revenue	38,041	38,821
Service revenue	34,999	35,746
Other revenue	3,042	3,075
Adjusted EBITDA <sup>2</sup>	11,466	11,737
<b>Adjusted operating profit<sup>2</sup></b>	<b>5,590</b>	<b>6,387</b>
Impairment loss	(7,700)	(4,050)
Restructuring costs and other	(311)	(144)
Amortisation of acquired customer bases and brand intangible assets	(249)	(280)
Other income/(expense)	468	3,705
<b>Operating (loss)/profit</b>	<b>(2,202)</b>	<b>5,618</b>
Non-operating income and expense	10	(162)
Net financing costs	(1,291)	(1,312)
Income tax credit/(expense)	(476)	(705)
<b>(Loss)/profit for the financial year from continuing operations</b>	<b>(3,959)</b>	<b>3,439</b>
<b>Profit for the financial year from discontinued operations</b>	<b>4,616</b>	<b>3,555</b>
<b>Profit for the financial year</b>	<b>657</b>	<b>6,994</b>

Notes:

1 2013 results reflect average foreign exchange rates of £1: 1.23 and £1:US\$1.58 (2012: £1: 1.16 and £1:US\$1.60).

2

Adjusted EBITDA and adjusted operating profit have been restated to exclude restructuring costs. Adjusted operating profit has also been redefined to exclude amortisation of customer base and brand intangible assets. See page 201 for Non-GAAP financial information .

## **Revenue**

Group revenue fell by 2.0% to £38.0 billion, with service revenue of £35.0 billion, a decline of 2.1%.

Our performance reflected continued strong demand for data services and good growth in our major emerging markets, offset by adverse foreign exchange movements, regulatory changes, challenging macroeconomic conditions, particularly in Europe, and continued competitive pressures.

## **Adjusted EBITDA and profit**

Group adjusted EBITDA decreased by 2.3% to £11.5 billion, primarily driven by lower revenue, partially offset by operating cost efficiencies.

Adjusted operating profit declined by 12.5%, driven by lower adjusted EBITDA.

The operating (loss)/profit decreased from a profit £5.6 billion in the prior year to a loss of £2.2 billion primarily due to the gains on the disposal of the Group's interests in SFR and Polkomtel in the prior year and the higher impairment charges in the current year, partially offset by the gain on acquisition of CWW of £0.5 billion.

An impairment loss of £7.7 billion was recorded in relation to Italy and Spain, primarily driven by adverse performance against previous plans and adverse movements in discount rates.

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Other unaudited financial information (continued)

**Prior year operating results (continued)**

Europe on a management basis

	Germany	Italy	UK	Spain	Other Europe	Eliminations	Europe	% change			
	£m	£m	£m	£m	£m	£m	£m	£	Organic		
<b>Year ended 31 March 2013</b>											
Revenue	7,857	4,755	5,150	3,904	7,115	(179)	28,602	(5.7)	(5.5)		
Service revenue	7,275	4,380	4,782	3,629	6,610	(175)	26,501	(5.9)	(5.8)		
Other revenue	582	375	368	275	505	(4)	2,101	(3.2)	(1.3)		
Adjusted EBITDA	2,831	1,917	1,210	1,021	2,120		9,099	(11.0)	(8.1)		
Adjusted EBITDA margin	36.0%	40.3%	23.5%	26.2%	29.8%		31.8%				
<b>Year ended 31 March 2012</b>											
Revenue	8,233	5,658	5,397	4,763	6,469	(198)	30,322	0.2	(1.2)		
Service revenue	7,669	5,329	4,996	4,357	5,994	(193)	28,152	(0.9)	(2.1)		
Other revenue	564	329	401	406	475	(5)	2,170	16.4	13.6		
Adjusted EBITDA	3,034	2,521	1,294	1,210	2,160		10,219	(3.4)	(4.8)		
Adjusted EBITDA margin	36.9%	44.6%	24.0%	25.4%	33.4%		33.7%				
								Organic change	Other activity <sup>1</sup>	Foreign exchange	Reported change

	%	pps	pps	%
<b>Revenue Europe</b>	<b>(5.5)</b>	<b>4.4</b>	<b>(4.6)</b>	<b>(5.7)</b>
<b>Service revenue</b>				
Germany	0.5	(0.1)	(5.5)	(5.1)
Italy	(12.8)	(0.1)	(4.9)	(17.8)
UK	(4.0)	(0.3)		(4.3)
Spain	(11.5)	(0.2)	(5.0)	(16.7)
Other Europe	(5.2)	22.4	(6.9)	10.3
<b>Europe</b>	<b>(5.8)</b>	<b>4.5</b>	<b>(4.6)</b>	<b>(5.9)</b>
<b>Adjusted EBITDA</b>				
Germany	(1.7)	0.2	(5.2)	(6.7)
Italy	(19.3)		(4.7)	(24.0)
UK	(6.8)	0.4	(0.1)	(6.5)
Spain	(9.8)	(0.5)	(5.3)	(15.6)
Other Europe	(3.7)	8.1	(6.3)	(1.9)
<b>Europe</b>	<b>(8.1)</b>	<b>1.8</b>	<b>(4.7)</b>	<b>(11.0)</b>
Note:				

1 Other activity includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2011. Refer to Organic growth on page 202 for further detail.

### Germany

Service revenue increased by 0.5%\*, driven by a 1.3%\* increase in mobile revenue. Growth in enterprise and wholesale revenue, despite intense price competition, was offset by lower prepaid revenue. Data revenue increased by 13.6%\* driven by higher penetration of smartphones and an increase in those sold with a data bundle. Vodafone Red, introduced in October 2012, performed in line with expectations and had a positive impact on customer perception. Enterprise revenue grew by 3.0%\*, despite the competitive environment.

The roll-out of 4G services continued and was available in 81 cities, with population coverage of 61% at 31 March 2013.

Adjusted EBITDA declined by 1.7%\*, with a 1.0\* percentage point reduction in adjusted EBITDA margin, driven by higher customer costs, partially offset by operating cost efficiencies and a one-off benefit from a legal settlement during Q2.

### Italy

Service revenue declined by 12.8%\* driven by the severe macroeconomic weakness and intense competition, as well as the impact of MTR cuts starting from 1 July 2012. Data revenue increased by 4.4%\* driven by mobile internet growth and the higher penetration of smartphones, which more than offset the decline in mobile broadband revenue. Vodafone Red plans, branded as Vodafone Relax in Italy, continued to perform well and now account for approximately 30% of the contract customer base at 31 March 2013. The majority of contract additions are Vodafone Relax tariffs. Fixed revenue declined by 6.8%\* driven by intense competition and a reduction in the customer base due to the decision to stop consumer acquisitions in areas where margins are impacted by unfavourable regulated wholesale prices.

4G commercial services were launched in October 2012 and were available in 21 cities at 31 March 2013.

Adjusted EBITDA declined by 19.3%\*, with a 4.3\* percentage point fall in the adjusted EBITDA margin, driven by the decline in service revenue and an increase in commercial costs, partially offset by operating cost efficiencies such

as site sharing agreements and the outsourcing of network maintenance.

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**UK**

Service revenue declined by 4.0%\* driven by the impact of MTR cuts effective from April 2012, intense price competition and macroeconomic weakness, which led to lower out-of-bundle usage. Data revenue grew by 4.2%\* driven by higher penetration of smartphones. Vodafone Red plans, launched in September 2012, performed well, with over one million customers at 31 March 2013.

Following the purchase of additional spectrum in February 2013, preparation for LTE roll-out is underway.

The network sharing joint arrangements between Telefónica UK and Vodafone UK, announced in June 2012, is now operational and the integration of the CWW enterprise businesses into Vodafone UK is proceeding successfully.

Adjusted EBITDA declined by 6.8%\*, with a 0.5\* percentage point reduction in adjusted EBITDA margin, driven by higher retention activity.

**Spain**

Service revenue declined by 11.5%\* driven by continued macroeconomic weakness, high unemployment leading to customers optimising their spend, and a lower customer base following our decision to remove handset subsidies for a period earlier in the year. Competition remains intense with the increased popularity of converged consumer offers in the market. Data revenue grew by 16.5%\* driven by the higher penetration of smartphones and an increase in those sold with a data bundle. Vodafone Red, which was launched in Q3, continues to perform well. Fixed revenue declined by 2.9%\*, primarily due to intense competition, although new converged fixed/mobile tariffs had a positive impact on fixed broadband customer additions during Q4.

In March 2013 Vodafone Spain signed an agreement with Orange to co-invest in a fibre network in Spain, with the intention to reach six million households and workplaces across 50 cities by September 2017. The combined capital expenditure is expected to reach 1 billion.

Adjusted EBITDA declined by 9.8%\*, with a 0.9\* percentage point increase in adjusted EBITDA margin, as lower revenues were offset by commercial and operating cost efficiencies. The adjusted EBITDA margin stabilised in H2, benefiting from lower operating and commercial costs.

**Other Europe**

Service revenue decreased by 5.2%\*, driven by declines in the Netherlands, Greece and Portugal, which more than offset growth in Albania and Malta. In the Netherlands service revenue declined by 2.7%\* due to more challenging macroeconomic conditions and lower out-of-bundle usage. Macroeconomic weakness, intense price competition and an MTR cut resulted in service revenue declines of 13.4%\* and 8.2%\* in Greece and Portugal respectively.

Adjusted EBITDA declined by 3.7%\*, with a 0.1\* percentage point increase in adjusted EBITDA margin as the impact of service revenue declines was largely offset by cost efficiencies.



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Other unaudited financial information (continued)

**Prior year operating results (continued)**

Africa, Middle East and Asia Pacific on a management basis

	India £m	Vodacom £m	Other AMAP £m	Eliminations £m	AMAP £m	% change £ Organic	
<b>Year ended 31 March 2013</b>							
Revenue	4,324	5,206	5,884	(1)	15,413	(1.0)	6.0
Service revenue	3,878	4,415	5,437	(1)	13,729	(2.3)	5.5
Other revenue	446	791	447		1,684	10.9	10.3
Adjusted EBITDA	1,240	1,891	1,401		4,532	3.2	12.3
Adjusted EBITDA margin	28.7%	36.3%	23.8%		29.4%		
<b>Year ended 31 March 2012</b>							
Revenue	4,265	5,638	5,669	(1)	15,571	4.7	10.3
Service revenue	3,922	4,898	5,234	(1)	14,053	3.9	9.6
Other revenue	343	740	435		1,518	12.7	17.5
Adjusted EBITDA	1,122	1,933	1,338		4,393	4.9	10.7
Adjusted EBITDA margin	26.3%	34.3%	23.6%		28.2%		

	Organic change %	Other activity <sup>1</sup> pps	Foreign exchange pps	Reported change %
<b>Revenue AMAP</b>	<b>6.0</b>	<b>0.7</b>	<b>(7.7)</b>	<b>(1.0)</b>
<b>Service revenue</b>				
India	11.2	(0.1)	(12.2)	(1.1)
Vodacom	3.1	(3.2)	(9.8)	(9.9)
Other AMAP	3.8	2.1	(2.0)	3.9
<b>AMAP</b>	<b>5.5</b>	<b>(0.3)</b>	<b>(7.5)</b>	<b>(2.3)</b>

**Adjusted EBITDA**

India	24.0	(0.1)	(13.4)	10.5
Vodacom	10.1	(0.1)	(12.2)	(2.2)
Other AMAP	6.2	(0.1)	(1.4)	4.7
<b>AMAP</b>	<b>12.3</b>	<b>(0.1)</b>	<b>(9.0)</b>	<b>3.2</b>

Note:

1 Other activity includes the impact of M&A activity and the revision to intra-group roaming charges from 1 October 2011. Refer to Organic growth on page 202 for further detail.

**India**

Service revenue grew by 11.2%\* driven by strong growth in mobile voice minutes and data revenue, partially offset by the impact of regulatory changes. Average customer growth slowed in Q4, as Q3 regulatory changes affecting subscriber verification continued to impact gross additions, however customer acquisition costs remained low.

For the year as a whole, growth was negatively impacted by the introduction of new consumer protection regulations on the charging of access fees and the marketing of integrated tariffs and value-added services. However, in Q4 the customer base returned to growth and usage increased. Data revenue grew by 19.8%\* driven by increased data customers and higher smartphone penetration. At 31 March 2013 active data customers totalled 37.3 million including approximately 3.3 million 3G data customers.

There was a lower rate of growth at Indus Towers, our network infrastructure joint venture, with a slow down in tenancies from smaller entrants, some operators exiting sites following licence cancellations and a change in the pricing structure for some existing customers in the first half of the year.

Adjusted EBITDA grew by 24.0%\*, with a 3.3\* percentage point increase in adjusted EBITDA margin, driven by the higher revenue, operating cost efficiencies and the impact of lower customer acquisition costs, partially offset by inflationary pressure.

**Vodacom**

Service revenue grew by 3.1%\* mainly driven by growth in Tanzania, the Democratic Republic of Congo ( DRC ) and Mozambique. In South Africa, service revenue decreased by 0.3%\*, with the growth in data revenue and the success of new prepaid offers being more than offset by MTR reductions, macroeconomic weakness leading to customer spend optimisation with lower out-of-bundle usage, and a weaker performance from independent service providers. Data revenue in South Africa grew by 16.1%\*, with higher smartphone penetration and data bundles offsetting continued pricing pressure. Vodafone Smart and Vodafone Red, our new range of integrated contract price plans, were introduced in South Africa during March 2013.

On 10 October 2012, Vodacom announced the commercial launch of South Africa's first LTE network, with 601 LTE sites operational at 31 March 2013.

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Vodacom's mobile operations outside South Africa delivered strong service revenue growth of 23.4%\*, excluding Vodacom Business Africa, driven by a larger customer base and increasing data take-up. M-Pesa continues to perform well in Tanzania, with approximately 4.9 million active users, and was launched in DRC in November 2012. During the year Vodacom DRC became the first operator to launch 3G services in the DRC.

Adjusted EBITDA grew by 10.1%\*, with a 1.5\* percentage point increase in adjusted EBITDA margin, primarily driven by revenue growth in Vodacom's mobile operations outside South Africa and savings in network costs in South Africa following investment in single RAN and transmission equipment.

**Other AMAP**

Organic service revenue grew by 3.8%\* with growth in Turkey, Egypt, Ghana and Qatar more than offset by revenue declines in Australia and New Zealand. Service revenue in Turkey grew by 17.3%\*, primarily driven by growth in the contract customer base and an increase in data revenue due to mobile internet and higher smartphone penetration. Australia continued to experience steep revenue declines on the back of ongoing service perception issues and a declining customer base. There has been a strong focus on network improvement and arresting the weakness in brand perception. In Egypt the launch of value management initiatives, take-up of data services and the increase in international incoming call volumes and rates drove service revenue growth of 3.7%\*, despite competitive pressures and the uncertain political environment. Data revenue continued to show strong growth of 29.6%\* and fixed line revenue grew by 29.0%\*. In Qatar service revenue grew by 29.8%\*, driven by the growth in the customer base, which is now over one million, supported by successful new propositions. In Ghana, continued strong growth in the customer base and the success of integrated tariffs led to service revenue growth of 24.5%\*.

Adjusted EBITDA increased by 6.2%\*, with adjusted EBITDA margin increasing by 0.5\* percentage points with the impact of service revenue growth in Turkey, Egypt, Qatar and Ghana offsetting declines in Australia and New Zealand.

**Non-Controlled Interests on a management basis****Verizon Wireless<sup>1</sup>**

	2013	2012	% change	
	£m	£m	£	Organic
Revenue	21,972	20,187	8.8	7.8
Service revenue	19,697	18,039	9.2	8.1
Other revenue	2,275	2,148	5.9	5.2
Adjusted EBITDA	8,831	7,689	14.9	13.6
Interest	(25)	(212)	(88.2)	
Tax <sup>2</sup>	13	(287)	(104.5)	

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Group's share of result in VZW 6,500 4,953 31.2 29.8  
In the United States VZW reported 5.9 million net mobile retail connection<sup>3</sup> additions in the year, bringing its closing mobile retail connection base to 98.9 million, up 6.4%.

Service revenue growth of 8.1%\* continued to be driven by the expanding number of accounts and ARPA<sup>4</sup> growth from increased smartphone penetration and a higher number of connections per account.

Adjusted EBITDA margin improved, with efficiencies in operating expenses and direct costs partially offset by higher acquisition and retention costs reflecting the increased new connections and demand for smartphones.

VZW's net debt at 31 March 2013 totalled US\$6.2 billion(2012: US\$6.4 billion<sup>5</sup>). During the year VZW paid a US\$8.5 billion income dividend to its shareholders and completed the acquisition of spectrum licences for

US\$3.7 billion (net).

### Notes:

- 1 All amounts represent the Group's share based on its 45% equity interest, unless otherwise stated.
- 2 The Group's share of the tax attributable to VZW relates only to the corporate entities held by the VZW partnership and certain state taxes which are levied on the partnership. The tax attributable to the Group's share of the partnership's pre-tax profit is included within the Group tax charge.
- 3 The definition of 'connections' reported by VZW is the same as 'customers' as reported by Vodafone.
- 4 Average monthly revenue per account.
- 5 Net debt excludes pending credit card receipts.

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Shareholder information

**Investor calendar**

Ex-dividend date for final dividend	11 June 2014
Record date for final dividend	13 June 2014
Interim management statement	25 July 2014
Annual general meeting	29 July 2014
Final dividend payment	6 August 2014
Half-year financial results	11 November 2014
Ex-dividend date for interim dividend	26 November 2014 <sup>1</sup>
Record date for interim dividend	28 November 2014 <sup>1</sup>
Interim dividend payment	4 February 2015 <sup>1</sup>
Note:	

1 Provisional dates.

**Dividends**

See pages 101 and 124 for details on dividend amount per share.

**Payment of dividends by direct credit**

We pay cash dividends directly to shareholders' bank or building society accounts. This ensures secure delivery and means dividend payments are credited to shareholders' bank or building society accounts on the same day as payment. A consolidated tax voucher covering both the interim and final dividends paid during the financial year is sent to shareholders at the time of the interim dividend in February.

ADS holders may alternatively have their cash dividends paid by cheque.

**Overseas dividend payments**

Holders of ordinary shares resident in the Eurozone (defined for this purpose as a country that has adopted the euro as its national currency) automatically receive their dividends in euros. The sterling/euro exchange rate is determined by us in accordance with our articles of association up to 13 business days before the payment date.

Holders resident outside the UK and Eurozone automatically receive dividends in pounds sterling but may elect to receive dividends in local currency directly into their bank account by registering for our Registrar's (Computershare) Global Payments Service. Visit [investorcentre.co.uk](http://investorcentre.co.uk) for details and terms and conditions.

Cash dividends to ADS holders will be paid by the ADS depository in US dollars. The sterling/US dollar exchange rate for this purpose is determined by us up to ten New York and London business days before the payment date.

See [vodafone.com/dividends](http://vodafone.com/dividends) for further information about dividend payments or, alternatively, please contact our Registrar or the ADS depository, as applicable. See page 183 for their contact information.

### **Dividend reinvestment plan**

We offer a dividend reinvestment plan which allows holders of ordinary shares, who choose to participate, to use their cash dividends to acquire additional shares in the Company. These are purchased on their behalf by the plan administrator through a low cost dealing arrangement.

For ADS holders BNY Mellon maintains a Global BuyDIRECT Plan which is a direct purchase and sale plan for depository receipts with a dividend reinvestment facility.

### **Managing your shares via Investor Centre**

Computershare operates a portfolio service for investors in ordinary shares, called Investor Centre. This provides our shareholders with online access to information about their investments as well as a facility to help manage their holdings online, such as being able to:

**g** update dividend mandate bank instructions and review dividend payment history;

**g** update member details and address changes; and

**g** register to receive Company communications electronically.

Computershare also offers an internet and telephone share dealing service to existing shareholders.

The service can be obtained at [investorcentre.co.uk](http://investorcentre.co.uk). Shareholders with any queries regarding their holding should contact Computershare. See page 183 for their contact details.

Shareholders may also find the investors section of our corporate website, [vodafone.com/investor](http://vodafone.com/investor), useful for general queries and information about the Company.

### Shareholder communications

A growing number of our shareholders have opted to receive their communications from us electronically using email and web-based communications. The use of electronic communications, rather than printed paper documents, means information about the Company can be received as soon as it is available and has the added benefit of reducing costs and our impact on the environment. Each time we issue a shareholder communication, shareholders registered for electronic communications will be sent an email alert containing a link to the relevant documents.

We encourage all our shareholders to sign up for this service by providing us with an email address. You can register your email address via our registrar at [investorcentre.co.uk](http://investorcentre.co.uk) or contact them via the telephone number provided on page 183. See [vodafone.com/investor](http://vodafone.com/investor) for further information about this service.

### Annual general meeting

Our thirtieth AGM will be held at the Hilton Metropole Hotel, 225 Edgware Road, London W2 1JU on Tuesday 29 July 2014 at 11.00 a.m.

The AGM will be transmitted via a live webcast which can be viewed on our website at [vodafone.com/agm](http://vodafone.com/agm) on the day of the meeting. A recording will be available to view after that date.

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**ShareGift**

We support ShareGift, the charity share donation scheme (registered charity number 1052686). Through ShareGift, shareholders who have only a very small number of shares, which might be considered uneconomic to sell, are able to donate them to charity. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities.

See [sharegift.org](http://sharegift.org) or call +44 (0)20 7930 3737 for further details.

**Landmark Asset Search**

We participate in an online service which provides a search facility for solicitors and probate professionals to quickly and easily trace UK shareholdings relating to deceased estates. Visit [www.landmarkfas.co.uk](http://www.landmarkfas.co.uk) or call +44 (0)844 844 9967 for further information.

**Warning to shareholders ( boiler room scams)**

Over recent years we have become aware of investors who have received unsolicited calls or correspondence, in some cases purporting to have been issued by us, concerning investment matters. These callers typically make claims of highly profitable opportunities in UK or US investments which turn out to be worthless or simply do not exist. These approaches are usually made by unauthorised companies and individuals and are commonly known as boiler room scams. Investors are advised to be wary of any unsolicited advice or offers to buy shares. If it sounds too good to be true, it often is.

See the FCA website [fca.org.uk/consumers/scams](http://fca.org.uk/consumers/scams) for more detailed information about this or similar activity.

**Registrar and transfer office****The Registrar**

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road, Bristol BS99 6ZZ, England  
Telephone: +44 (0)870 702 0198  
[investorcentre.co.uk/contactus](http://investorcentre.co.uk/contactus)

**Holders of ordinary shares resident in Ireland:**

Computershare Investor Services (Ireland) Ltd  
PO Box 9742  
Dublin 18, Ireland  
Telephone: +353 (0)818 300 999  
[investorcentre.co.uk/contactus](http://investorcentre.co.uk/contactus)

**ADS depositary**

BNY Mellon Shareowner Services

PO Box 30170  
 College Station, TX 77842-3170  
 Telephone: +1 800 233 5601 (toll free) or, for calls outside the United States,  
 +1 201 680 6837 (not toll free) and enter company number 2160  
 Email: shrrelations@cpushareownerservices.com

### Share price history

On flotation of the Company on 11 October 1988 the ordinary shares were valued at 170 pence each. When the Company was finally demerged on 16 September 1991 the base cost of Racal Electronics Plc shares for UK taxpayers was apportioned between the Company and Racal Electronics Plc for capital gains tax purposes in the ratio of 80.036% and 19.964% respectively. Opening share prices on 16 September 1991 were 332 pence for each Vodafone share and 223 pence for each Racal share.

On 21 July 1994 the Company effected a bonus issue of two new shares for every one then held and on 30 September 1999 it effected a bonus issue of four new shares for every one held at that date. The flotation and demerger share prices therefore may be restated as 11.333 pence and 22.133 pence respectively.

On 31 July 2006 the Group returned approximately £9 billion to shareholders in the form of a B share arrangement. As part of this arrangement, and in order to facilitate historical share price comparisons, the Group's share capital was consolidated on the basis of seven new ordinary shares for every eight ordinary shares held at this date.

On 21 February 2014 the Group disposed of its interest in Verizon Wireless ( VZW ) to Verizon Communications Inc. As part of this transaction the Group returned US\$85 billion to shareholders in cash and Verizon shares. On 24 February 2014 the Group's share capital was consolidated on the basis of six new ordinary shares for every eleven existing ordinary shares.

The closing share price at 31 March 2014 was 220.25 pence (31 March 2013: 186.60 pence). The closing share price on 19 May 2014 was 217.95 pence.

The following tables set out, for the periods indicated, (i) the reported high and low middle market quotations of ordinary shares on the

London Stock Exchange, and (ii) the reported high and low sales prices of ADSs on the New York Stock Exchange ( NYSE )/NASDAQ. The Company transferred its ADS listing from the NYSE to NASDAQ on 29 October 2009.

Year ended 31 March	London Stock Exchange		NYSE/NASDAQ	
	Pounds per ordinary share		Dollars per ADS	
	High	Low	High	Low
2010	1.54	1.11	24.04	17.68
2011	1.85	1.27	32.70	18.21
2012	1.84	1.54	29.46	24.31
2013	1.92	1.54	30.07	24.42
2014	2.52	1.80	41.57	27.74

Quarter	London Stock Exchange Pounds per ordinary share		NYSE/NASDAQ Dollars per ADS	
	High	Low	High	Low
2012/2013				
First quarter	1.82	1.64	28.39	26.00
Second quarter	1.92	1.73	30.07	27.47
Third quarter	1.82	1.54	29.46	24.95
Fourth quarter	1.90	1.56	28.73	24.42
2013/2014				
First quarter	1.99	1.80	30.80	27.81
Second quarter	2.24	1.92	35.79	29.15
Third quarter	2.44	2.20	39.99	35.03
Fourth quarter	2.52	2.18	36.01	41.57
2014/2015				
First quarter <sup>1</sup>	2.27	2.11	38.26	35.37

Note:

1 Covering period up to 19 May 2014.



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Shareholder information (continued)

Month	London Stock Exchange Pounds per ordinary share		NASDAQ Dollars per ADS	
	High	Low	High	Low
November 2013	2.40	2.32	38.06	36.91
December 2013	2.43	2.30	39.99	37.39
January 2014	2.46	2.28	39.90	37.44
February 2014	2.52	2.21	41.57	36.01
March 2014	2.49	2.18	41.50	36.05
April 2014	2.24	2.11	37.96	35.37
May 2014 <sup>1</sup>	2.27	2.17	38.26	36.28

1 Covering period up to 19 May 2014.

**Inflation and foreign currency translation****Inflation**

Inflation has not had a significant effect on the Group's results of operations and financial condition during the three years ended 31 March 2014.

**Foreign currency translation**

The following table sets out the pound sterling exchange rates of the other principal currencies of the Group, being:

euros , or eurocents , the currency of the European Union ( EU ) member states which have adopted the euro as their currency, and US dollars , US\$ , cents or ¢ , the currency of the US.

Currency (=£1)	2014	31 March 2013	% Change
<b>Average:</b>			
Euro	1.19	1.23	(3.3)
US dollar	1.59	1.58	0.6
<b>At 31 March:</b>			
Euro	1.21	1.19	1.7
US dollar	1.67	1.52	9.9

The following table sets out, for the periods and dates indicated, the period end, average, high and low exchanges rates for pound sterling expressed in US dollars per £1.00.

Year ended 31 March	31 March	Average	High	Low
2010	1.52	1.60	1.70	1.44
2011	1.61	1.56	1.64	1.43
2012	1.60	1.60	1.67	1.53
2013	1.52	1.58	1.63	1.49
2014	1.67	1.59	1.67	1.49

The following table sets out, for the periods indicated, the high and low exchange rates for pounds sterling expressed in US dollars per £1.00.

Month	High	Low
November 2013	1.64	1.59
December 2013	1.66	1.63
January 2014	1.66	1.63
February 2014	1.67	1.63
March 2014	1.67	1.65
April 2014	1.69	1.66

### Markets

Ordinary shares of Vodafone Group Plc are traded on the London Stock Exchange and in the form of ADSs on NASDAQ. We had a total market capitalisation of approximately £57 billion at 19 May 2014 making us the sixth largest listing in The Financial Times Stock Exchange 100 index and the 76th largest company in the world based on market capitalisation at that date.

ADSs, each representing ten ordinary shares, are traded on NASDAQ under the symbol **VOD**. The ADSs are evidenced by ADRs issued

by BNY Mellon, as depositary, under a deposit agreement, dated as of 12 October 1988, as amended and restated on 26 December 1989, 16 September 1991, 30 June 1999 and 31 July 2006 between the Company, the depositary and the holders from time to time of ADRs issued thereunder.

ADS holders are not members of the Company but may instruct BNY Mellon on the exercise of voting rights relative to the number of ordinary shares represented by their ADSs. See Articles of association and applicable English law Rights attaching to the Company's shares Voting rights on page 185.

### Shareholders at 31 March 2014

Number of ordinary shares held	Number of accounts	% of total issued shares
1 1,000	444,094	0.31
1,001 5,000	52,522	0.39
5,001 50,000	14,687	0.60
50,001 100,000	513	0.12
100,001 500,000	721	0.58
More than 500,000	1,135	98.00
	513,672	100.00

### Major shareholders

BNY Mellon, as custodian of our ADR programme, held approximately 17.95% of our ordinary shares of 20<sup>20</sup>/<sub>21</sub> US cents each at 19 May 2014 as nominee. The total number of ADRs outstanding at 19 May 2014 was 517,135,941. At this date 1,473 holders of record of ordinary shares had registered addresses in the United States and in total held approximately 0.007% of the ordinary shares of the Company.

At 31 March 2014 the following percentage interests in the ordinary share capital of the Company, disclosable under the Disclosure and Transparency Rules, (DTR 5), have been notified to the directors. No changes in the interests disclosed to the Company have been notified between 31 March 2014 and 19 May 2014.

Shareholder	Shareholding
Black Rock, Inc.	6.90%

The rights attaching to the ordinary shares of the Company held by this shareholder are identical in all respects to the rights attaching to all the ordinary shares of the Company. The directors are not aware, at 19 May 2014, of any other interest of 3% or more in the ordinary share capital of the Company. The Company is not directly or indirectly owned or controlled by any foreign government or any other legal entity. There are no arrangements known to the Company that could result in a change of control of the Company.

### Articles of association and applicable English law

The following description summarises certain provisions of the Company's articles of association and applicable English law. This summary is qualified in its entirety by reference to the Companies Act 2006 of England and Wales and the Company's articles of association. See Documents on display on page 187 for information on where copies of the articles of association can be obtained.

The Company is a public limited company under the laws of England and Wales. The Company is registered in England and Wales under the name Vodafone Group Public Limited Company with the registration number 1833679.

All of the Company's ordinary shares are fully paid. Accordingly, no further contribution of capital may be required by the Company from the holders of such shares.

English law specifies that any alteration to the articles of association must be approved by a special resolution of the shareholders.

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**Articles of association**

By a special resolution passed at the 2010 AGM the Company removed its object clause together with all other provisions of its memorandum of association which, by virtue of the Companies Act 2006, are treated as forming part of the Company's articles of association. Accordingly, the Company's articles of association do not specifically restrict the objects of the Company.

**Directors**

The Company's articles of association provide for a Board of directors, consisting of not fewer than three directors, who shall manage the business and affairs of the Company.

The directors are empowered to exercise all the powers of the Company subject to any restrictions in the articles of association, the Companies Act (as defined in the articles of association) and any special resolution.

Under the Company's articles of association a director cannot vote in respect of any proposal in which the director, or any person connected with the director, has a material interest other than by virtue of the director's interest in the Company's shares or other securities. However, this restriction on voting does not apply to resolutions (i) giving the director or a third party any guarantee, security or indemnity in respect of obligations or liabilities incurred at the request of or for the benefit of the Company, (ii) giving any guarantee, security or indemnity to the director or a third party in respect of obligations of the Company for which the director has assumed responsibility under an indemnity or guarantee, (iii) relating to an offer of securities of the Company in which the director is entitled to participate as a holder of shares or other securities or in the underwriting of such shares or securities, (iv) concerning any other company in which the director (together with any connected person) is a shareholder or an officer or is otherwise interested, provided that the director (together with any connected person) is not interested in 1% or more of any class of the Company's equity share capital or the voting rights available to its shareholders, (v) relating to the arrangement of any employee benefit in which the director will share equally with other employees and (vi) relating to any insurance that the Company purchases or renews for its directors or any group of people including directors.

The directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all liabilities and obligations of the Group outstanding at any time shall not exceed an amount equal to 1.5 times the aggregate of the Group's share capital and reserves calculated in the manner prescribed in the articles of association unless sanctioned by an ordinary resolution of the Company's shareholders.

The Company can make market purchases of its own shares or agree to do so in the future provided it is duly authorised by its members in a general meeting and subject to and in accordance with section 701 of the Companies Act 2006.

At each AGM all directors who were elected or last re-elected at or before the AGM held in the third calendar year before the current year shall automatically retire. In 2005 the Company reviewed its policy regarding the retirement and re-election of directors and, although it is not intended to amend the Company's articles of association in this regard, the Board has decided in the interests of good corporate governance that all of the directors wishing to continue in office should offer themselves for re-election annually.

Directors are not required under the Company's articles of association to hold any shares of the Company as a qualification to act as a director, although executive directors participating in long-term incentive plans must comply with the Company's share ownership guidelines. In accordance with best practice in the UK for corporate governance, compensation awarded to executive directors is decided by a Remuneration Committee consisting exclusively of non-executive directors.

In addition, as required by The Directors' Remuneration Report Regulations, the Board has, since 2003, prepared a report to shareholders on the directors' remuneration which complies with the regulations (see pages 69 to 85). The report is also subject to a shareholder vote.

### **Rights attaching to the Company's shares**

At 31 March 2014 the issued share capital of the Company was comprised of 50,000 7% cumulative fixed rate shares of £1.00 each, 26,439,960,221 ordinary shares (excluding treasury shares) of 20<sup>20</sup>/<sub>21</sub> US cents each and 33,737,176,433 deferred shares of US\$0.00001 each.

### **Dividend rights**

Holders of 7% cumulative fixed rate shares are entitled to be paid in respect of each financial year, or other accounting period of the Company, a fixed cumulative preferential dividend of 7% per annum on the nominal value of the fixed rate shares. A fixed cumulative preferential dividend may only be paid out of available distributable profits which the directors have resolved should be distributed. The fixed rate shares do not have any other right to share in the Company's profits.

Holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the directors. The Board of directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Dividends on ordinary shares can be paid to shareholders in whatever currency the directors decide, using an appropriate exchange rate for any currency conversions which are required. Holders of the Company's deferred shares have no right to dividends.

If a dividend has not been claimed for one year after the date of the resolution passed at a general meeting declaring that dividend or the resolution of the directors providing for payment of that dividend, the directors may invest the dividend or use it in some other way for the benefit of the Company until the dividend is claimed. If the dividend remains unclaimed for 12 years after the relevant resolution either declaring that dividend or providing for payment of that dividend, it will be forfeited and belong to the Company.

### **Voting rights**

The Company's articles of association provide that voting on substantive resolutions (i.e. any resolution which is not a procedural resolution) at a general meeting shall be decided on a poll. On a poll, each shareholder who is entitled to vote and is present in person or by proxy has one vote for every share held. Procedural resolutions (such as a resolution to adjourn a general meeting or a resolution on the choice of Chairman of a general meeting) shall be decided on a show of hands, where each shareholder who is present at the meeting has one vote regardless of the

number of shares held, unless a poll is demanded. In addition, the articles of association allow persons appointed as proxies of shareholders entitled to vote at general meetings to vote on a show of hands, as well as to vote on a poll and attend and speak at general meetings. The articles of association also allow persons appointed as proxies by two or more shareholders entitled to vote at general meetings to vote for and against a resolution on a show of hands.

Under English law two shareholders present in person constitute a quorum for purposes of a general meeting unless a company's articles of association specify otherwise. The Company's articles of association do not specify otherwise, except that the shareholders do not need to be present in person and may instead be present by proxy to constitute a quorum.

Under English law shareholders of a public company such as the Company are not permitted to pass resolutions by written consent.

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Shareholder information (continued)

Record holders of the Company's ADSs are entitled to attend, speak and vote on a poll or a show of hands at any general meeting of the Company's shareholders by the depositary's appointment of them as corporate representatives with respect to the underlying ordinary shares represented by their ADSs. Alternatively holders of ADSs are entitled to vote by supplying their voting instructions to the depositary or its nominee who will vote the ordinary shares underlying their ADSs in accordance with their instructions.

Employees are able to vote any shares held under the Vodafone Group Share Incentive Plan and My ShareBank (a vested nominee share account) through the respective plan's trustees.

Holders of the Company's 7% cumulative fixed rate shares are only entitled to vote on any resolution to vary or abrogate the rights attached to the fixed rate shares. Holders have one vote for every fully paid 7% cumulative fixed rate share.

Holders of the Company's deferred shares are not entitled to attend or vote at general meetings of the Company.

### Liquidation rights

In the event of the liquidation of the Company, after payment of all liabilities and deductions in accordance with English law, the holders of the Company's 7% cumulative fixed rate shares would be entitled to a sum equal to the capital paid up on such shares, together with certain dividend payments, in priority to holders of the Company's ordinary shares. The holders of the fixed rate shares do not have any other right to share in the Company's surplus assets. The holders of ordinary shares have priority over holders of deferred shares.

### Pre-emptive rights and new issues of shares

Under section 549 of the Companies Act 2006 directors are, with certain exceptions, unable to allot the Company's ordinary shares or securities convertible into the Company's ordinary shares without the authority of the shareholders in a general meeting. In addition, section 561 of the Companies Act 2006 imposes further restrictions on the issue of equity securities (as defined in the Companies Act 2006 which include the Company's ordinary shares and securities convertible into ordinary shares) which are, or are to be, paid up wholly in cash and not first offered to existing shareholders. The Company's articles of association allow shareholders to authorise directors for a period specified in

the relevant resolution to allot (i) relevant securities generally up to an amount fixed by the shareholders and (ii) equity securities for cash other than in connection with a pre-emptive offer up to an amount specified by the shareholders and free of the pre-emption restriction in section 561. At the 2013 AGM the amount of relevant securities fixed by shareholders under (i) above and the amount of equity securities specified by shareholders under (ii) above were both in line with corporate governance guidelines. The directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise. In order to retain such maximum flexibility, the directors propose to renew the authorities granted by shareholders in 2013 at this year's AGM. Further details of such proposals are provided in the 2014 notice of AGM.

### **Disclosure of interests in the Company's shares**

There are no provisions in the articles of association whereby persons acquiring, holding or disposing of a certain percentage of the Company's shares are required to make disclosure of their ownership percentage although such requirements exist under rules derived from the Disclosure and Transparency Rules ( DTRs ).

The basic disclosure requirement upon a person acquiring or disposing of shares that are admitted to trading on a regulated market and carrying voting rights is an obligation to provide written notification to the Company, including certain details as set out in DTR 5, where the percentage of the person's voting rights which he holds as shareholder or through his direct or indirect holding of financial instruments (falling within DTR 5.3.1R) reaches or exceeds 3% and reaches, exceeds or falls below each 1% threshold thereafter.

Under section 793 of the Companies Act 2006 the Company may, by notice in writing, require a person that the Company knows or has reasonable cause to believe is, or was during the preceding three years, interested in the Company's shares to indicate whether or not that is correct and, if that person does or did hold an interest in the Company's shares, to provide certain information as set out in the Companies Act 2006. DTR 3 deals with the disclosure by persons discharging managerial responsibility and their connected persons of the occurrence of all transactions conducted on their account in the shares of the Company. Part 28 of The Companies Act 2006 sets out the statutory functions of the Panel on Takeovers & Mergers (the Panel ). The Panel is responsible for issuing and administering the Code on Takeovers & Mergers which includes disclosure requirements on all parties to a takeover with regard to dealings in the securities of an offeror or offeree company and also on their respective associates during the course of an offer period.

### **General meetings and notices**

Subject to the articles of association, annual general meetings are held at such times and place as determined by the directors of the Company. The directors may also, when they think fit, convene other general meetings of the Company. General meetings may also be convened on requisition as provided by the Companies Act 2006.

An annual general meeting needs to be called by not less than 21 days' notice in writing. Subject to obtaining shareholder approval on an annual basis, the Company may call other general meetings on 14 days' notice. The directors may determine that persons entitled to receive notices of meetings are those persons entered on the register at the close of business on a day determined by the directors but not later than 21 days before the date the relevant notice is sent. The notice may also specify the record date, the time of which shall be determined in accordance with the articles of association and the Companies Act 2006.

Shareholders must provide the Company with an address or (so far as the Companies Act 2006 allows) an electronic address or fax number in the UK in order to be entitled to receive notices of shareholders' meetings and other notices and documents. In certain circumstances the Company may give notices to shareholders by publication on the Company's website and advertisement in newspapers in the UK. Holders of the Company's ADSs are entitled to receive notices under the terms of the deposit agreement relating to the ADSs.



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Under section 336 of the Companies Act 2006 the annual general meeting of shareholders must be held each calendar year and within six months of the Company's year end.

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**Electronic communications**

The Company has previously passed a resolution allowing it to communicate all shareholder information by electronic means, including making such information available on the Company's website. Those shareholders who have positively elected for website communication (or are deemed to have consented to receive electronic communication in accordance with the Companies Act 2006) will receive written notification whenever shareholder documentation is made available on the website.

**Variation of rights**

If at any time the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act 2006, either with the consent in writing of the holders of three quarters in nominal value of the shares of that class or at a separate meeting of the holders of the shares of that class.

At every such separate meeting all of the provisions of the articles of association relating to proceedings at a general meeting apply, except that (i) the quorum is to be the number of persons (which must be at least two) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class or, if such quorum is not present on an adjourned meeting, one person who holds shares of the class regardless of the number of shares he holds, (ii) any person present in person or by proxy may demand a poll and (iii) each shareholder will have one vote per share held in that particular class in the event a poll is taken. Class rights are deemed not to have been varied by the creation or issue of new shares ranking equally with or subsequent to that class of shares in sharing in profits or assets of the Company or by a redemption or repurchase of the shares by the Company.

**Limitations on voting and shareholding**

As far as the Company is aware there are no limitations imposed on the transfer, holding or voting of the Company's ordinary shares other than those limitations that would generally apply to all of the shareholders. No shareholder has any securities carrying special rights with regard to control of the Company.

**Documents on display**

The Company is subject to the information requirements of the Exchange Act applicable to foreign private issuers. In accordance with these requirements the Company files its annual report on Form 20-F and other related documents with the SEC. These documents may be inspected at the SEC's public reference rooms located at 100 F Street, NE Washington, DC 20549. Information on the operation of the public reference room can be obtained in the United States by calling the SEC on +1-800-SEC-0330. In addition, some of the Company's SEC filings, including all those filed on or after 4 November 2002, are available on the SEC's website (sec.gov). Shareholders can also obtain copies of the Company's articles of association from our website at [vodafone.com/governance](http://vodafone.com/governance) or from the Company's

registered office.

### Material contracts

At the date of this annual report the Group is not party to any contracts that are considered material to the Group's results or operations except for its US\$4.2 billion and 3.9 billion revolving credit facilities which are discussed in note 22 Liquidity and capital resources to the consolidated financial statements and the stock purchase agreement for the sale of the Group's entire 45% shareholding in VZW to Verizon Communications Inc.

### Exchange controls

There are no UK government laws, decrees or regulations that restrict or affect the export or import of capital, including but not limited to, foreign exchange controls on remittance of dividends on the ordinary shares or on the conduct of the Group's operations.

### Taxation

As this is a complex area investors should consult their own tax advisor regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances.

This section describes, primarily for a US holder (as defined below), in general terms, the principal US federal income tax and UK tax consequences of owning or disposing of shares or ADSs in the Company held as capital assets (for US and UK tax purposes). This section does not, however, cover the tax consequences for members of certain classes of holders subject to special rules including, for example, US expatriates and former long-term residents of the US and officers of the Company, employees and holders that, directly or indirectly, hold 10% or more of the Company's voting stock.

A US holder is a beneficial owner of shares or ADSs that is for US federal income tax purposes:

g a citizen or resident of the US;

g a US domestic corporation;

g an estate, the income of which is subject to US federal income tax regardless of its source; or

g a trust, if a US court can exercise primary supervision over the trust's administration and one or more US persons are authorised to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for US federal income tax purposes.

If an entity treated as a partnership for US federal income tax purposes holds the shares or ADSs, the US federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in an entity treated as a partnership for US federal income tax purposes holding the shares or ADSs should consult its tax advisor with regard to the US federal income tax treatment of an investment in the shares or ADSs.

This section is based on the US Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, and on the tax laws of the UK and the Double Taxation Convention between the US and the UK (the treaty), all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the depositary and assumes that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

For purposes of the treaty and the US-UK double taxation convention relating to estate and gift taxes (the Estate Tax Convention), and for US federal income tax and UK tax purposes, this section is based on the assumption that a holder of ADRs evidencing ADSs will be treated as the owner of the shares in the Company represented by those ADSs. Investors should note that a ruling by the first-tier tax tribunal in the UK has cast doubt on this view, but HMRC have stated that they will continue to apply their long-standing practice of regarding the holder of such ADRs as holding the beneficial interest in the underlying shares. Investors should note, however, that this is an area of some uncertainty that may be subject to further developments in the future. Generally exchanges of shares for ADRs and ADRs for shares will not be subject to US federal income tax or to UK tax other than stamp duty or stamp duty reserve tax (see the section on these taxes on page 189).

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Shareholder information (continued)

**Taxation of dividends****UK taxation**

Under current UK tax law no withholding tax will be deducted from the dividends we pay. Shareholders who are within the charge to UK corporation tax will be subject to corporation tax on the dividends we pay unless the dividends fall within an exempt class and certain other conditions are met. It is expected that the dividends we pay would generally be exempt.

A shareholder in the Company who is an individual resident for UK tax purposes in the UK, is entitled in calculating their liability to UK income tax, to a tax credit on cash dividends we pay on our shares or ADSs and the tax credit is equal to one-ninth of the cash dividend.

**US federal income taxation**

Subject to the passive foreign investment corporation ( PFIC ) rules described below, a US holder is subject to US federal income taxation on the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for US federal income tax purposes). Dividends paid to a non-corporate US holder that constitute qualified dividend income will be taxable to the holder at the special reduced rate normally applicable to long-term capital gains provided that the ordinary shares or ADSs are held for more than 60 days during the 121 day period beginning 60 days before the ex-dividend date and the holder meets other holding period requirements. Dividends paid by us with respect to the shares or ADSs will generally be qualified dividend income. A US holder is not subject to a UK withholding tax. The US holder includes in gross income for US federal income tax purposes only the amount of the dividend actually received from us and the receipt of a dividend does not entitle the US holder to a foreign tax credit.

Dividends must be included in income when the US holder, in the case of shares, or the depositary, in the case of ADSs, actually or constructively receives the dividend and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Dividends will be income from sources outside the US. For the purpose of the foreign tax credit limitation, foreign source income is classified in one of two baskets and the credit for foreign taxes on income in any basket is limited to US federal

income tax allocable to that income. Generally the dividends we pay will constitute foreign source income in the passive income basket.

In the case of shares, the amount of the dividend distribution to be included in income will be the US dollar value of the pound sterling payments made determined at the spot pound sterling/US dollar rate on the date of the dividend distribution regardless of whether the payment is in fact converted into US dollars. Generally any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is to be included in income to the date the payment is converted into US dollars will be treated as ordinary income or loss. Generally the gain or loss will be income or loss from sources within the US for foreign tax credit limitation purposes.

### **Taxation of capital gains**

#### **UK taxation**

A US holder may be liable for both UK and US tax in respect of a gain on the disposal of our shares or ADSs if the US holder is:

**g** a citizen of the US resident for UK tax purposes in the UK;

**g** a citizen of the US who has been resident for UK tax purposes in the UK, ceased to be so resident for a period of five years or less and who disposed of the shares or ADSs during that period (a temporary nonresident), unless the shares or ADSs were also acquired during that period, such liability arising on that individual's return to the UK;

**g** a US domestic corporation resident in the UK by reason of being centrally managed and controlled in the UK; or

**g** a citizen of the US or a US domestic corporation that carries on a trade, profession or vocation in the UK through a branch or agency or, in the case of US domestic companies, through a permanent establishment and that has used the shares or ADSs for the purposes of such trade, profession or vocation or has used, held or acquired the shares or ADSs for the purposes of such branch or agency or permanent establishment.

Under the treaty capital gains on dispositions of the shares or ADSs are generally subject to tax only in the country of residence of the relevant holder as determined under both the laws of the UK and the US and as required by the terms of the treaty. However, the treaty provides that individuals who are residents of either the UK or the US and who have been residents of the other jurisdiction (the US or the UK, as the case may be) at any time during the six years immediately preceding the relevant disposal of shares or ADSs may be subject to tax with respect to capital gains arising from the dispositions of the shares or ADSs not only in the country of which the holder is resident at the time of the disposition but also in that other country (although, in respect of UK taxation, generally only to the extent that such an individual comprises a temporary non-resident).

We published tax information relating to the return of value here: [vodafone.com/investor](http://vodafone.com/investor).

### US federal income taxation

Subject to the passive foreign investment company rules described below, a US holder that sells or otherwise disposes of our shares or ADSs will recognise a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realised and the holder's tax basis, determined in US dollars, in the shares or ADSs. Generally a capital gain of a non-corporate US holder is taxed at a maximum US federal income tax rate of 20% provided the holder has a holding period of more than one year and does not have taxable income in excess of certain thresholds. The gain or loss will generally be income or loss from sources within the US for foreign tax credit limitation purposes. The deductibility of losses is subject to limitations.

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**Additional tax considerations****UK inheritance tax**

An individual who is domiciled in the US (for the purposes of the Estate Tax Convention) and is not a UK national will not be subject to UK inheritance tax in respect of our shares or ADSs on the individual's death or on a transfer of the shares or ADSs during the individual's lifetime, provided that any applicable US federal gift or estate tax is paid, unless the shares or ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base used for the performance of independent personal services. Where the shares or ADSs have been placed in trust by a settlor they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the US and was not a UK national. Where the shares or ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the estate tax convention generally provides a credit against US federal tax liabilities for UK inheritance tax paid.

**UK stamp duty and stamp duty reserve tax**

Stamp duty will, subject to certain exceptions, be payable on any instrument transferring our shares to the custodian of the depositary at the rate of 1.5% on the amount or value of the consideration if on sale or on the value of such shares if not on sale. Stamp duty reserve tax (SDRT), at the rate of 1.5% of the price or value of the shares, could also be payable in these circumstances and on issue to such a person but no SDRT will be payable if stamp duty equal to such SDRT liability is paid.

A ruling by the European Court of Justice has determined that the 1.5% SDRT charges on issue of shares to a clearance service is contrary to EU law. As a result of that ruling, HMRC indicated that where new shares are first issued to a clearance service or to a depositary within the EU, the 1.5% SDRT charge will not be levied. Subsequently, a decision by the first-tier tax tribunal in the UK extended this ruling to the issue of shares (or, where it is integral to the raising of new capital, the transfer of shares) to depositary receipts systems wherever located. HMRC have stated that they will not seek to appeal this decision and, as such, will no longer seek to impose 1.5% SDRT on the issue of shares (or, where it is integral to the raising of new capital, the transfer of shares) to a clearance service or to a depositary, wherever located. Investors should, however, be aware that this area may be subject to further developments in the future.

No stamp duty will be payable on any transfer of our ADSs provided that the ADSs and any separate instrument of transfer are executed and retained at all times outside the UK. A transfer of our shares in registered form will attract ad valorem stamp duty generally at the rate of 0.5% of the purchase price of the shares. There is no charge to ad valorem stamp duty on gifts.

SDRT is generally payable on an unconditional agreement to transfer our shares in registered form at 0.5% of the amount or value of the consideration for the transfer, but is repayable if, within six years of the date of the agreement,



an instrument transferring the shares is executed or, if the SDRT has not been paid, the liability to pay the tax (but not necessarily interest and penalties) would be cancelled. However, an agreement to transfer our ADSs will not give rise to SDRT.

### PFIC rules

We do not believe that our shares or ADSs will be treated as stock of a PFIC for US federal income tax purposes. This conclusion is a factual determination that is made annually and thus is subject to change. If we are treated as a PFIC, any gain realised on the sale or other disposition of the shares or ADSs would in general not be treated as capital gain unless a US holder elects to be taxed annually on a mark-to-market basis with respect to the shares or ADSs. Otherwise a US holder would be treated as if he or she has realised such gain and certain excess distributions rateably over the holding period for the shares or ADSs and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated. An interest charge in respect of the tax attributable to each such year would also apply. Dividends received from us would not be eligible for the preferential tax rate applicable to qualified dividend income for certain noncorporate holders.

### Backup withholding and information reporting

Payments of dividends and other proceeds to a US holder with respect to shares or ADSs, by a US paying agent or other US intermediary will be reported to the Internal Revenue Service ( IRS ) and to the US holder as may be required under applicable regulations. Backup withholding may apply to these payments if the US holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its US federal income tax returns. Certain US holders are not subject to backup withholding. US holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

### Foreign financial asset reporting

US taxpayers that own certain foreign financial assets, including debt and equity of foreign entities, with an aggregate value in excess of US\$50,000 at the end of the taxable year or US\$75,000 at any time during the taxable year (or, for certain individuals living outside the United States and married individuals filing joint returns, certain higher thresholds) may be required to file an information report with respect to such assets with their tax returns. The shares constitute foreign financial assets subject to these requirements unless the shares are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). US holders should consult their tax advisors regarding the application of the rules relating to foreign financial asset reporting.

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**History and development**

The Company was incorporated under English law in 1984 as Racal Strategic Radio Limited (registered number 1833679). After various name changes, 20% of Racal Telecom Plc share capital was offered to the public in October 1988. The Company was fully demerged from Racal Electronics Plc and became an independent company in September 1991, at which time it changed its name to Vodafone Group Plc.

Since then we have entered into various transactions which enhanced our international presence. The most significant of these transactions were as follows:

- g** the merger with AirTouch Communications, Inc. which completed on 30 June 1999. The Company changed its name to Vodafone AirTouch Plc in June 1999 but then reverted to its former name, Vodafone Group Plc, on 28 July 2000;
- g** the completion on 10 July 2000 of the agreement with Bell Atlantic and GTE to combine their US cellular operations to create the largest mobile operator in the United States, Verizon Wireless, resulting in the Group having a 45% interest in the combined entity;

g the acquisition of Mannesmann AG which completed on 12 April 2000. Through this transaction we acquired businesses in Germany and Italy and increased our indirect holding in Société Française du Radiotéléphone S.A. ( SFR );

g through a series of business transactions between 1999 and 2004 we acquired a 97.7% stake in Vodafone Japan. This was then disposed of on 27 April 2006;

g on 8 May 2007 we acquired companies with controlling interests in Vodafone India Limited ( VIL ), formerly Vodafone Essar Limited, for US\$10.9 billion (£5.5 billion); and

g on 20 April 2009 we acquired an additional 15.0% stake in Vodacom for cash consideration of ZAR 20.6 billion (£1.6 billion). On 18 May 2009 Vodacom became a subsidiary.

Other transactions that have occurred since 31 March 2010 are as follows:

**10 September 2010** China Mobile Limited: We sold our entire 3.2% interest in China Mobile Limited for cash consideration of £4.3 billion.

**30/31 March 2011** India: The Essar Group exercised its underwritten put option over 22.0% of VIL, following which we exercised our call option over the remaining 11.0% of VIL owned by the Essar Group. The total consideration due under these two options was US\$5 billion (£3.1 billion).

**16 June 2011** SFR: We sold our entire 44% interest in SFR to Vivendi for a cash consideration of 7.75 billion (£6.8 billion) and received a final dividend from SFR of 200 million (£176 million).

**1 June/1 July 2011** India: We acquired an additional 22% stake in VIL from the Essar Group for a cash consideration of US\$4.2 billion (£2.6 billion) including withholding tax.

**18 August 2011/8 February 2012** Vodafone assigned its rights to purchase 11% of VIL to Piramal Healthcare Limited ( Piramal ). On 18 August 2011 Piramal purchased 5.5% of VIL from the Essar Group for a cash consideration of INR 28.6 billion (£368 million). On 8 February 2012, they purchased a further 5.5% of VIL from the Essar Group

for a cash consideration of approximately INR 30.1 billion (£399 million) taking Piramal's total shareholding in VIL to approximately 11%.

**9 November 2011** Poland: We sold our entire 24.4% interest in Polkomtel in Poland for cash consideration of approximately 920 million (£784 million) before tax and transaction costs.

**27 July 2012** UK: We acquired the entire share capital of Cable & Wireless Worldwide plc for a cash consideration of approximately £1,050 million.

**31 October 2012** New Zealand: We acquired TelstraClear Limited, for a cash consideration of NZ\$840 million (£440 million).

**13 September 2013** Germany: We acquired a 76.57% interest in Kabel Deutschland Holding AG for a cash consideration of 5.8 billion (£4.9 billion).

**21 February 2014** On 2 September 2013 Vodafone announced that it had reached agreement to dispose of its US Group whose principal asset was its 45% interest in Verizon Wireless ( VZW ) to Verizon Communications Inc. ( Verizon ), Vodafone's joint venture partner, for a total consideration of US\$130 billion (£79 billion) including the remaining 23.1% minority interest in Vodafone Italy. Following completion on 21 February 2014, Vodafone shareholders received Verizon shares and cash totalling US\$85 billion (£51 billion).

**17 March 2014** Spain: We agreed to acquire Group Corporativo Ono, S.A. ( Ono ) for a total consideration equivalent to 7.2 billion (£6.0 billion) on a debt and cash free basis. The acquisition, which is subject to customary terms and conditions including anti-trust clearances by the relevant authorities, is expected to complete in calendar Q3 2014.

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**Regulation**

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Our operating companies are generally subject to regulation governing the operation of their business activities. Such regulation typically takes the form of industry specific law and regulation covering telecommunications services and general competition (antitrust) law applicable to all activities.

The following section describes the regulatory frameworks and the key regulatory developments at the global and supranational level and in selected countries in which we have significant interests during the year ended 31 March 2014. Many of the regulatory developments reported in the following section involve ongoing proceedings or consideration of potential proceedings that have not reached a conclusion. Accordingly, we are unable to attach a specific level of financial risk to our performance from such matters.

**European Union ( EU )**

In September 2013, the European Commission (the Commission ) delivered major regulatory proposals aimed at building a telecoms single market and delivering a Connected Continent . These proposals have been amended by the European Parliament and will now be reviewed by the European Council. The Commission s proposals include the following:

g a simplified notification process for telecommunications operators across the EU;

g removal of all roaming surcharges after June 2016;

g increased transparency requirements for consumers;

g harmonisation of Spectrum allocation rules; and

g net neutrality requirements, which include restrictions on blocking, slowing down or discriminating against any internet content.

## **Roaming**

The current roaming regulation came into force in July 2012 and requires mobile operators to supply voice, text and data roaming services under retail price caps. Wholesale price caps also apply to voice, text and data roaming services.

The roaming regulation also requires a number of additional measures which are intended to increase competition in the retail market for roaming and thereby facilitate the withdrawal of price caps. These include a requirement that users be able, from July 2014, to purchase roaming services from a provider other than their current domestic provider and to retain the same phone number when roaming.

## **Fixed network regulation**

In September 2013, the Commission published its recommendation on costing methodologies and non-discrimination which aims to encourage Next Generation Access ( NGA ) investment. NGA networks of operators with Significant Market Power ( SMP ) may be exempt from cost-oriented wholesale prices if access is provided on the basis of equivalence of inputs (i.e. exactly the same products, prices and processes are offered to competitors) with effective margin squeeze tests to ensure technical and economic replicability. Copper wholesale network prices are expected to remain within a guide price band of 8 to 10 per month.

## **Europe region**

### **Germany**

The Federal Network Agency ( BNetzA ) has indicated that the envisaged merger of Telefónica Deutschland and E-plus will have implications for spectrum allocation, and this is expected to impact the current proceedings on 700MHz, 900MHz, 1500MHz and 1800MHz licensing (Project 2016). BNetzA is unlikely to decide on the further procedure until the envisaged Telefónica Deutschland/E-plus merger is finally decided in mid-2014.

The national regulator is currently consulting on new mobile termination rates ( MTR s ), with a decision due to be announced in December 2014.

### **Italy**

Vodafone Italy, along with other Italian mobile operators, is the subject of an investigation by the Italian Antitrust Authority following a dawn raid in November 2012. This followed a complaint from an MVNO that it had been excluded from the market. The investigation is ongoing and Vodafone Italy is cooperating with the Antitrust Authority.

Vodafone Italy has appealed against the injunction of the national regulator ( AGCOM ) ordering them to adopt all measures required under the Roaming Regulation in relation to roaming charges within a tariff.

For information on litigation in Italy, see note 30 Contingent liabilities .

### **United Kingdom**

In October 2013, the national regulator ( Ofcom ) began a consultation on revising the annual licence fees payable on licences for the use of spectrum in the 900MHz and 1800MHz bands, to reflect market value and with regard to the sums bid in the 4G auction. The 900MHz, 1800MHz and 2.1GHz licences have been made technology-neutral, allowing them to be used for 4G.

### **Spain**

In June 2013, the Spanish Parliament adopted Act 3/2013 creating the National Markets and Competition Commission ( CNMC ) as the new national regulator, responsible for both competition and regulatory matters.

In August 2013, Vodafone Spain filed a competition complaint with the competition authority against Telefónica and Yoigo for an alleged unauthorised transfer of the use of Yoigo's spectrum to Telefónica with a parallel complaint filed to the Ministry in September 2013. The Ministry rejected that complaint in November 2013 and Vodafone Spain has submitted an administrative appeal against this decision in December 2013, stating that Yoigo and Telefónica are undertaking an unauthorised spectrum sharing arrangement. The Ministry has not yet announced its decision.

In February 2014, Vodafone Spain lodged a competition claim before the national regulator against Telefónica citing abuse of its dominant position in both its fibre roll-out and fibre retail offers as well as subscribing to anticompetitive agreements with Jazztel.

In March 2014, the national regulator concluded there were no sanctions to apply against Telefónica, Orange and Vodafone in the margin squeeze case that was originally brought to them by a MVNO in January 2012.

The fines applied to Telefónica, Orange and Vodafone Spain in December 2012 for abuse of dominant position by imposing excessive pricing of wholesale SMS/MMS services on MVNOs, remain suspended until the judicial review is concluded.

### **Netherlands**

In November 2013, the investigation of the Dutch competition authority ( ACM ) into the three mobile operators (KPN, T-Mobile and Vodafone Netherlands) concluded without any fine being imposed. ACM determined that there were no price-fixing agreements in the mobile-telecommunications market. However, ACM did establish that public statements about future market behaviour could carry antitrust risks. The three operators have therefore made a commitment to ACM that they will refrain from making certain statements about future market behaviour in public to avoid any risk of illegal collusive behaviour in the future.

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Regulation (continued)

**Ireland**

In December 2012, Vodafone Ireland judicially challenged the decision of the Commission for Communications Regulation ( ComReg ), to impose an interim MTR based on a BEREC benchmark rather than a MTR based on a full cost model. In August 2013, the Irish High Court found the decision to be unlawful and by Court order, set a maximum MTR rate for the Irish market of 2.60 eurocents per minute, to apply from 1 July 2013. This rate will apply until a MTR based on a fully modelled price is available which is expected in September 2014. ComReg has appealed the Irish High Court's decision, to the Irish Supreme Court.

**Portugal**

In July 2013, following a complaint from Optimus, the Portuguese Competition Authority ( PCA ) opened an administrative inquiry into TMN, Vodafone Portugal and Optimus to assess the existence of a potential abuse of individual dominant position by TMN and Vodafone Portugal or a potential abuse of collective dominant position by these companies on the mobile communications services retail markets, consisting of a rate discrimination (i.e. the application of dissimilar conditions to equivalent services) between the on-net prices of voice calls and SMS and the off-net prices of voice calls and SMS. The inquiry also covers the potential abuse of individual dominant position by TMN and Vodafone Portugal in their respective wholesale SMS termination markets. We submitted preliminary remarks in September 2013.

**Romania**

An investigation by the Romanian Competition Council ( RCA ) commenced in April 2011 for alleged margin squeeze by all MNOs between 2006 and 2011 on wholesale termination tariffs. In May 2012, at the request of the MNOs, the RCA accepted to enter into a commitment procedure in order to close the investigation. Their concerns on MTRs have been resolved by the national regulator's decision on a new long-run incremental cost model that means from 1 April 2014, the maximum termination rates in Romania will decrease from 0.67 eurocents per minute to 0.14 eurocents per minute for fixed call termination and, respectively, from 3.07 eurocents per minute to 0.96 eurocents per minute for mobile call termination.



A cross-border spectrum coordination agreement with Ukraine was signed in June 2013, ensuring interference free use of the E-GSM 900MHz band at the border. Although the agreement entered into force on 1 January 2014, the Ukrainian operators are not currently fulfilling their obligations under the agreement, resulting in the Vodafone Romania E-GSM spectrum facing heavy interference in some areas, especially on the south-east side of the country. Vodafone Romania, with the help of the national regulator, is working to find a timely and efficient solution with the Ukrainian operators, before the entry into force of the new GSM licences.

New spectrum licenses comprising 2x10MHz in 800MHz, 2x10MHz in 900MHz, 2x30MHz in 1800MHz and 1x15MHz in 2.6GHz, came into force on 5 April 2014.

### **Greece**

Offers for tender for the National Rural Broadband Network construction opened in February 2014. The fixed incumbent (OTE) and the consortium of Intrakat, Intracom Holdings and Hellas Online (Vodafone Greece has an 18.5% interest in Hellas Online) are the only two parties in the tender process.

In March 2014, the Hellenic Telecommunications & Post Commission ( EETT ) announced that spectrum in the 800MHz and 2.6 GHz bands is expected to be auctioned after July 2014.

### **Czech Republic**

The Czech Telecommunications Office ( CTU ), the national regulator, has not resolved the issues with their draft analysis on access and call origination published in 2012.

Vodafone Czech Republic acquired 2x10MHz of 800MHz spectrum, 2x4MHz of 1800MHz spectrum and 2x20MHz of 2.6GHz spectrum for CZK 3.1 billion in a spectrum auction in November 2013. The Czech Telecommunication Office plans to sell the remaining spectrum in the 1800MHz and 2.6GHz bands later in 2014. The 800MHz and 1800MHz frequencies reserved for a new entrant remain unsold. Using our technology neutral licence, we launched a 4G network on 2x3MHz in the 900MHz band, in November 2013.

### **Hungary**

Further to the Commission withdrawing its initiative to prepare an infringement procedure against the Hungarian government's telecommunications tax, in August 2013 the telecommunications tax was raised from HUF 2 to HUF 3 per voice minute and SMS and the cap on business subscriptions has been doubled from HUF 2,500 to HUF 5,000 per month. In the year ended 31 March 2014, Vodafone Hungary's telecommunications tax liability is HUF 10 billion.

Vodafone Hungary's original 900MHz and 1800MHz licences which were due to expire in July 2014, have been extended to 2022 following negotiations with the National Media and Infocommunications Authority Hungary ( NMIAH ) in September 2013. The NMIAH is preparing to offer the 4G bands (800MHz and 2.6GHz) together with some remaining frequencies in the 900MHz and 1800MHz bands.

### **Albania**

In January 2014, the Albanian Competition Authority ( ACA ) issued recommendations to the Electronic and Postal Communications Authority ( AKEP ) for measures to reduce the differentiation between on-net and off-net calls. The AKEP has imposed new account separation rules, which apply to the mobile operators and fixed incumbent from 2014.

AKEP is also reviewing MTR rates, targeting pure long run incremental cost ( LRIC ) benchmarking levels with glide-path reducing current MTRs to 1.0 eurocents per minute in 2015. Vodafone Albania is opposing the proposal to apply asymmetric rates for the two smaller players.

In February 2014, following an investigation into the potential abuse of dominance by Vodafone Albania in the telephony market, the ACA found that Vodafone was dominant in the retail market for the period from January 2011 to December 2012. No abuse of this status has been found and no charges were imposed.

### **Malta**

In March 2014, the MCA set the MTR at 0.40 eurocents per minute to which Vodafone has submitted an appeal to the Administrative Review Tribunal on the basis that there was a lack of transparency in the consultation process.

### **Africa, Middle East and Asia Pacific region**

#### **India**

In January 2013, Vodafone India's application for a ten year extension to their existing 900MHz licences in Delhi, Mumbai and Kolkata was unsuccessful and the Department of Telecommunications ( DoT ) included that spectrum in their 2013 auction plan. Vodafone India challenged this decision in the courts and in February 2014, the Supreme Court found in favour of the DoT. The 900MHz spectrum along with the 1800MHz spectrum was auctioned in February 2014 and Vodafone India acquired an aggregate of 2x23MHz of spectrum in the 900MHz band and 2x49MHz of spectrum in the 1800MHz band at a cost of INR 19.6 billion, which will be paid as an initial up-front payment followed by 10 annual instalments (following a two year moratorium).

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As a mandatory condition of acquiring the 900MHz spectrum in Delhi, Mumbai and Kolkata, Vodafone India has applied for the new Unified Licence and is negotiating the agreement of specific terms prior to the commencement of the new spectrum in November 2014. Further spectrum licences expire in December 2016 and new licences are expected to be auctioned later in the current financial year.

For information on litigation in India, see note 30 Contingent liabilities .

**Vodacom: South Africa**

The Ministry of Trade and Industry ( DTI ) published revised generic Codes of Good Practice on Broad-based Black Economic Empowerment ( BEE ) during October 2013, following an intensive consultation process. These revised codes will come into effect in April 2015. In addition, the Broad-based Black Economic Empowerment Amendment Act No. 46 of 2013 was promulgated in January 2014. This Act will come into force on a date still to be proclaimed by the President. A provision for BEE legislation to take precedence over sectoral legislation contained in the Act will only be effective 12 months after the proclamation date.

In October 2013, Cell C lodged a complaint with the Competition Commission of South Africa ( CompCom ) against Vodacom (and MTN), in relation to alleged discriminatory pricing of on-net and off-net calls. Vodacom submitted its response in January 2014 however CompCom has decided to proceed with the formal investigation of Cell C 's complaint.

In December 2013, the Ministry of Communications published the final National Broadband Policy which sets out the Government 's national broadband policy objective of 100% broadband penetration by 2030. Amongst the measures being considered to achieve this objective is the establishment of a single national wholesale network. The Ministry of Communications has appointed a National Broadband Council (comprising of experts in the field) to advise on the implementation of the National Broadband Policy, including the desirability and business case of a single national wholesale network.

In January 2014, the Ministry of Communications commenced the consultation process on the National Integrated ICT Policy Green Paper (the Green Paper ) to, amongst other things, define the allocation of 4G spectrum, the rural broadband coverage plans and the future organisational structure of the national regulatory authority (the NRA ). After the consultation process on the Green Paper, the paper will mutate into a National Integrated Information Communications Technology Policy White Paper (the White Paper ). The tentative timeline for the publication of the White Paper is August 2014.

In February 2014, the NRA published Call Termination Regulations ( CTR ) determining the cost of terminating a call on a Mobile Network Operator ( MNO ) to be ZAR 0.10. The target rate of ZAR 0.10, so the NRA decreed, would be reached over three years after a decline to ZAR 0.20 in year one followed by another decline to ZAR 0.15 in year two. Asymmetrical rates, as an additional regulatory remedy ranging between 120% and 300%, were also imposed in the

same CTRs for the benefit of Cell C and Telkom Mobile (the two smallest MNOs ). Vodacom and MTN (the two largest mobile MNOs ) challenged the validity and legality of the NRA 2014 CTRs in the Johannesburg High Court, South Africa (the High Court ) on the grounds that in setting the new MTRs, the NRA had acted arbitrarily and irrationally without any regard to the requirements of the Promotion of Administrative Justice Act ( PAJA ) and the Electronic Communications Act (the ECA ).

On 31 March 2014, the High Court upheld Vodacom and MTN 's challenge and ruled that the NRA 2014 CTRs were invalid and unlawful. However, the High Court invoked its judicial discretion to suspend this order in the public interest for a period of six months. During this period, MTRs will decline from ZAR 0.40 to ZAR 0.20. Vodacom and MTN will pay an asymmetrical rate of ZAR 0.44 for their calls terminating on Cell C and Telkom Mobile 's networks. ICASA is required during this window period of six months to develop legally tenable CTRs.

### **Turkey**

From January 2014, the price cap for national SMS was reduced by 20% from 41.54 Kr to 33.25 Kr. In addition, the requirement for the on net price to be higher than 1.7 times MTR has been extended to tariff campaigns for operators who have significant market power.

In February 2014, the new Basket Law amending Law No. 5651 (Internet Cyber Crimes) provides that an Access Providers Union shall be established to require telecommunications operators to monitor and intercept internet services, where required by the law.

### **Australia**

In September 2013, a range of fixed services reviews were initiated by the Australian Communications and Media Authority ( ACMA ) including for unbundled local loop and regional transmission services. In addition, the change of Government has resulted in a range of reviews to reduce the cost of the roll-out of the National Broadband Network. This will reduce the amount of fibre to the premises ( FTTP ) to be deployed and increase more fibre to the node ( FTTN ) technology.

### **Egypt**

In October 2013, the Administrative Court issued a ruling in the lawsuit for the case filed by Vodafone Egypt against Telecom Egypt and the national regulator ( NTRA ) regarding the authority to set MTRs between mobile and fixed operators and we expect to receive the formal Court ruling later this year.

In April 2014, the Minister of Communications and Information Technology announced the proposed framework of the unified telecoms licence, with the expectation that all matters would be finalised in June 2014. The Minister 's proposal, which is subject to negotiation, provides the opportunity for Telecom Egypt to purchase their own mobile licence whilst providing Vodafone Egypt with a number of options on purchasing virtual local loop unbundling ( VLLU ), part ownership of an infrastructure licence and its own international gateway licence. A requirement of the current proposal is for Telecom Egypt to sell its 45% share in Vodafone Egypt within 12 months of 30 June 2014.

### **New Zealand**

In January 2014, Vodafone New Zealand secured 2x15MHz of 700MHz spectrum for the reserve price of NZ\$66 million. A second phase of the auction to determine the allocation of specific sub-bands to licensees is ongoing.

### **Safaricom: Kenya**

Safaricom Limited is in the process of renewing its operating licence for ten years with effect from 1 July 2014. The renewed licence will include Safaricom Limited's spectrum resources in 900MHz and 1800MHz. Safaricom also holds spectrum resources in the 2.1GHz band, under its 3G licence.

## **Qatar**

In December 2013, the Ministry of Information and Communications Technology ( MICT ) released a national broadband plan to guide policy on the development of broadband. One objective of the plan, is for 98% of households to have access to 100 Mbps download and 50 Mbps upload speeds and a choice of at least two service providers. This includes an intention to consolidate the access network infrastructure of the incumbent Ooredoo and the Qatar National Broadband Network, both of which are deploying FTTP networks.

An Emiri Decree was issued in February 2014, establishing the MICT and the national regulator, the Communications Regulatory Authority ( CRA ), as separate bodies. Formerly, the two entities were part of the secretariat of the Supreme Council of Information and Communication Technology ( ictQATAR ).

During 2014, the Communications Regulatory Authority intends to grant Vodafone Qatar additional spectrum of 2x5MHz in the 1800MHz band and 2x10MHz in the 800MHz band, to support 4G deployment subject to speed and coverage obligations.

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Regulation (continued)

**Overview of spectrum licences**

by region	800MHz		900MHz		1800MHz		2.1GHz		2
region	Quantity <sup>1</sup>	Expiry date	Quantity <sup>1</sup>	Expiry date	Quantity <sup>1</sup>	Expiry date	Quantity <sup>1</sup>	Expiry date	Quantity <sup>1</sup>
y	2x10	2025	2x12.4	2016	2x5.4	2016	2x10+ 5	2020 <sup>2</sup>	2x20 + 25
	2x10	2029	2x10	2015	2x15	2015 <sup>3</sup>	2x15 + 5	2025	2x15
	2x10	2029	2x10	2015	2x5	2029	2x15 + 5	2021	
	2x10	2033	2x17.4	See note <sup>4</sup>	2x5.8	See note <sup>4</sup>	2x15	See note <sup>4</sup>	2x20 + 25
	2x10	2030	2x11	2028	2x20	2030	2x15 + 5	2030	2x20 + 20
ands	2x10	2029	2x10	2030	2x20	2030	2x20 + 5	2030	2x10
	2x10	2030	2x10	2030	2x25	2015	2X15 + 5	2022	
					2x15	2030 <sup>5</sup>			
	2x10	2027	2x10	2021 <sup>6</sup>	2x6	2021 <sup>6</sup>	2x20	2016	2x20 + 25
			2x3	2015	2x14	2027			
a	2x10	2029	2x10	2029	2x30	2029	2x15 + 5	2020	1x15
		n/a	2x15	2027	2x10	2026 <sup>7</sup>	2x20 + 5	2021	
					2x15	2016			
epublic	2x10	2029	2x10	2021	2x18	2021	2x20	2025	2x20
					2x4	2029 <sup>8</sup>			
y		n/a	2x10	2022 <sup>9</sup>	2x15	2022 <sup>9</sup>	2x15 + 5	2019	
		n/a	8.2	2016	2x9	2016	2x15 + 5	2025	
		n/a	2x15	2026	2x25	2026	2x20 + 5	2020	
<b>Middle East and Asia Pacific</b>									
	n/a		2014	2024	2014	2027		2030	
m:									
frica		n/a	2x11	See note <sup>11</sup>	2x24	See note <sup>11</sup>	2x15 + 5	See note <sup>11</sup>	
		n/a	2x11	2023		n/a	2x15 + 5	2029	
a <sup>12</sup>	2x10	2028	2x8	2028	2x30	annual	2x25 + 5	2016	
	(850MHz)								

	band)	n/a	2x12.5	2020	2x10	2020	2x15	2020	
Ireland	2x15 (700MHz	TBD	2x15.2	2031	2x25	2021	2x25 + 10	2021	2x15 + 5
	band)	n/a	2x10	2024	2x10	2024	2x10	2022	
Vodacom: Kenya		n/a	2x8	2019	2x10	2019	2x15	2023 <sup>13</sup>	
		n/a	2x11	2028	2x20	2028	2x15	2028	

Notes:

- 1 Single (or unpaired) blocks of spectrum are used for asymmetric data (non-voice) use.
- 2 Germany 2x5MHz (out of 2x15MHz) of 2.1GHz spectrum will expire in December 2025.
- 3 Italy 2x5MHz (out of 2x20MHz) of 1800MHz spectrum will expire in 2029.
- 4 UK 900MHz, 1800MHz and 2.1GHz indefinite licence with a five year notice of revocation.
- 5 Ireland The licence for 2x25MHz spectrum commences in 2015.
- 6 Portugal 2x3MHz (out of 2x13MHz) of 900MHz must be released by December 2015 and 2x14MHz (out of 2x20MHz) of 1800MHz spectrum does not expire until March 2027.
- 7 Greece 2x15MHz (out of 2x25MHz) of the 1800MHz spectrum will expire in August 2016.
- 8 Czech Republic The licence for 2x4MHz commences in 2014.
- 9 Hungary 900MHz and 1800MHz options to extend these licences.
- 10 India comprises 22 separate service area licences with a variety of expiry dates.
- 11 Vodacom's South African spectrum licences are renewed annually. As part of the migration to a new licensing regime the national regulator has issued Vodacom a service licence and a network licence which will permit Vodacom to offer mobile and fixed services. The service and network licences have a 20 year duration and will expire in 2028. Vodacom also holds licences to provide 2G and/or 3G services in the Democratic Republic of Congo, Lesotho, Mozambique and Tanzania.
- 12 Australia VHA has 2x5MHz in 850MHz rural; 2x25MHz in 1800MHz and 2x20MHz in 2.1GHz in Brisbane/Adelaide/Perth; 2x5MHz in 1800MHz and 2.1GHz in Canberra/Darwin/Hobart; 2x5MHz in 2.1GHz in rural.
- 13 Ghana The national regulator has issued provisional licences with the intention of converting these to full licences once the national regulator board has been reconvened.

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**Mobile Termination Rates ( MTRs )**

National regulators are required to take utmost account of the Commission's existing recommendation on the regulation of fixed and mobile termination rates. This recommendation requires MTRs to be set using a long run incremental cost methodology. At March 2014, the MTRs effective for our subsidiaries within the EU, were as follows:

Country by region	2012 <sup>1</sup>	2013 <sup>1</sup>	2014 <sup>1</sup>	1 April 2014 <sup>2</sup>
<b>Europe</b>				
Germany ( cents)	3.33	1.84	1.79	
Italy ( cents)	5.30	1.50	0.98	
UK (GB £ pence)	3.02	1.50	0.85	
Spain ( cents)	3.16	2.89	1.09	
Netherlands ( cents)	2.70	2.40	1.86	
Ireland ( cents)	4.04	2.60	2.60	
Portugal ( cents)	2.77	1.27	1.27	
Romania ( cents)	4.05	3.07	0.96	
Greece ( cents)	4.95	1.27	1.19	
Czech Republic (CZK)	1.08	0.41	0.27	
Hungary (HUF)	9.46	7.06	7.06	
Albania (ALL)	7.57	6.10	4.57	2.66
Malta ( cents)	4.18	2.07	2.07	0.40
<b>Africa, Middle East and Asia Pacific</b>				
India (rupees)	0.20	0.20	0.20	
Vodacom: South Africa (ZAR)	0.64	0.49	0.40	0.20 <sup>3</sup>
Turkey (lira)	0.032	0.0258	0.0258	
Australia (AUD cents)	6.00	4.80	3.60	
Egypt (PTS/piastres)	10.00	10.00	10.00	
New Zealand (NZD cents)	5.88	3.97	3.72	3.56
Safaricom: Kenya (shilling)	1.44	1.44	1.15	
Ghana (peswas)	5.00	4.50	4.00	
Qatar (dirhams)	16.60	16.60	16.60	

Notes:

1 All MTRs are based on end of financial year values.

2 MTRs established from 1 April 2014 are included where a glide path or a final decision has been determined by the regulatory authority.



3 Please see Vodacom on page 193.

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**Principal risk factors and uncertainties**

**Identification and assessment of the Group's key risks**

The Board acknowledges it is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. A Group wide risk assessment exercise is formally conducted annually to help fulfil this responsibility.

**Local market risk assessment**

Risk coordinators in each local market facilitate the identification of the top 10 risks and associated mitigating actions for their entity. With the oversight and approval of local executive teams and Audit Committees, these risks are assessed for their likelihood and impact after consideration is given to existing mitigating controls.

An overall market view of the major risks is obtained by identifying similar risks that are then aggregated and categorised into the following risk categories:

g strategy;

g reputational damage;

g legal and regulatory compliance;

g financial;

g operational; and

g malicious events.

### **Assess the current risk exposure for the Group**

Using the market view of the major risks, an exercise is conducted with Group executives and functional leaders to determine the top Group risks and identify the current net risk exposure level for each risk.

### **Compare the current risk exposure to the acceptable level of risk**

The exposure from each of the Group's top risks is then compared with the desired level of acceptable risk. The result of this assessment highlights the perceived tolerance for the exposure associated with a particular risk and indicates whether specific, additional action is required.

Three tolerance categories are used:

1. We don't believe that Vodafone should do more;

2. We believe that Vodafone should do more and has plans in place to reduce the net risk to an acceptable level; and
  
3. We are not sufficiently prepared and immediate action is necessary.

### **Confirmation of key risks and mitigations commensurate with Vodafone's risk tolerances**

The risk exposure assessment and comparison to the acceptable level of risk identifies the key risks and associated mitigations that are reviewed and approved by the Group Executive Committee, the Audit and Risk Committee and the Board.

### **Changes from prior year risk assessment**

One new risk for 2014 has been added:

- g** The integration of newly acquired businesses does not provide the benefits anticipated at the time of acquisition . The risk is that we do not deliver the revenue benefits and/or the cost synergies expected from recently acquired businesses and that, as a consequence of this, we subsequently need to write down the carrying value of the assets.

### **Revised existing risks**

Two existing risks from prior year have been revised into a single combined risk:

g Our business could be adversely affected by a failure or significant interruption to our telecommunications networks or IT systems and Failure to deliver enterprise service offerings may adversely affect our business have been combined into the former risk: Our business could be adversely affected by a failure or significant interruption to our telecommunications networks or IT systems .

The description of the risk has been revised to more specifically reflect the level of dependence enterprise customers have on our telecommunications infrastructure to provide their services and the resilience needed in our infrastructure to meet our committed service level agreements.

The Group s key risks are outlined below:

**1. Our business could be adversely affected by a failure or significant interruption to our telecommunications networks or IT systems.**

**Risk:** We are dependent on the continued operation of our telecommunications networks. The importance of mobile and fixed communication in everyday life is increasing, especially during times of crisis. Individuals and organisations who rely on our networks and systems 24 hours per day, 365 days per year to provide their products and services, look to us to maintain service. Major failures in the network, our IT systems or a failure to maintain our infrastructure to the required levels of resilience (and associated service level agreement) may result in our services being interrupted, resulting in serious damage to our reputation, a consequential customer and revenue loss and the risk of financial penalties.

There is a risk that an attack by a malicious individual or group could be successful on our networks and impact the availability of critical systems. Our network is also susceptible to interruption due to a physical attack and theft of our network components as the value and market for network components increases (for example copper, batteries, generators and fuel).

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**2. We could suffer loss of consumer confidence and/or legal action due to a failure to protect our customer information.**

**Risk:** Our networks carry and store large volumes of confidential personal and business voice traffic and data. We host increasing quantities and types of customer data in both enterprise and consumer segments. We need to ensure our service environments are sufficiently secure to protect us from loss or corruption of customer information. Failure to adequately protect customer information could have a material adverse effect on our reputation and may lead to legal action against the Group.

**3. Increased competition may reduce our market share and profitability.**

**Risk:** We face intensifying competition; in particular competing with established competitors in mature markets and competing with new entrants in emerging markets, where all operators are looking to secure a share of the potential customer base. Competition could lead to a reduction in the rate at which we add new customers, a decrease in the size of our market share and a decline in our average revenue per customer, if customers choose to receive telecommunications services or other competing services from alternate providers. Competition can also lead to an increase in customer acquisitions and retention costs. The focus of competition in many of our markets has shifted from acquiring new customers to retaining existing customers, as the market for mobile telecommunications has become increasingly mature.

**4. Regulatory decisions and changes in the regulatory environment could adversely affect our business.**

**Risk:** We have ventures in both emerging and mature markets, spanning a broad geographical area including Europe, Africa, Middle East, and Asia Pacific. We need to comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of our telecommunications networks and services. Pressure on political and regulatory institutions both to deliver direct consumer benefit and protect consumers' interests, particularly in recessionary periods, can lead to adverse impacts on our business. Financial pressures on smaller competitors can drive them to call for regulators to protect them. Increased financial pressures on governments may lead them to target foreign investors for further taxes or licence fees.

**5. Our existing service offerings could become disadvantaged as compared to those offered by converged competitors or other technology providers (over the top OTT competitors).**

**Risk:** In a number of markets, we face competition from providers who have the ability to sell converged services (combinations of fixed line, broadband, public Wi-Fi, TV and mobile) on their existing infrastructure which we cannot

either replicate or cannot provide at a similar price point. Additionally, the combination of services may allow competitors to subsidise the mobile component of their offering. This could lead to an erosion of our customer base and reduce the demand for our core mobile services and impact our future profitability.

Advances in smartphone technology places more focus on applications, operating systems, and devices, rather than the underlying services provided by mobile operators. The development of applications which make use of the internet as a substitute for some of our more traditional services, such as messaging and voice, could erode revenue. Reduced demand for our core services of voice, messaging and data and the development of services by application developers, operating system providers, and handset suppliers (commonly referred to as over the top or OTT competition) could significantly impact our future profitability.

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Principal risk factors and uncertainties (continued)

**6. Continuing weak economic conditions could impact one or more of our markets.**

**Risk:** Economic conditions in many of the markets we operate, especially in Europe, continue to stagnate or show nominal levels of growth. These conditions combined with the impact of continuing austerity measures results in lower levels of disposable income and may result in significantly lower revenues as customers give up their mobile phones or move to cheaper tariffs.

There is also a possibility of adverse economic conditions impacting currency exchange rates in countries where the Group has operations, leading to a reduction in our revenue and impairment of our financial and non-financial assets.

**7. Our business may be impacted by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment.**

**Risk:** Concerns have been expressed that electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks. Authorities including the World Health Organization ( WHO ) agree there is no evidence that convinces experts that exposure to radio frequency fields from mobile devices and base stations operated within guideline limits has any adverse health effects. A change to this view could result in a range of impacts from a change to national legislation, to a major reduction in mobile phone usage or to major litigation.

**8. The integration of newly acquired businesses do not provide the benefits anticipated at the time of acquisition.**

**Risk:** In line with its strategy to be a scale data player, a strong player in Enterprise, a leader in emerging markets and a selective innovator in services; we have acquired, and will continue to acquire, new businesses. The price paid for these businesses is based upon their current cash flows, as well as the expected incremental cash flows that will be generated from increased revenues and lower costs that being part of the Vodafone Group will generate. There is a risk that we fail to deliver these expected benefits and synergies which could result in an impairment of the carrying value of the acquired business.



**9. We depend on a number of key suppliers to operate our business.**

**Risk:** 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. Our operations could be adversely impacted by the failure of a key supplier who could no longer support our existing infrastructure; from a key supplier commercially exploiting their monopolistic/oligopolistic position in a product area following the corporate failures of, or the withdrawal from, a specific market by competitors; or from major suppliers significantly increasing prices on long term programmes where the cost or technical feasibility of switching supplier becomes a significant barrier.

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**10. We may not satisfactorily resolve major tax disputes.**

**Risk:** We operate in many jurisdictions around the world and from time to time have disputes on the amount of tax due. In particular, in spite of the positive India Supreme Court decision relating to an on-going tax case in India, the Indian Government has introduced retroactive tax legislation which would in effect overturn the Court's decision and has raised challenges around the pricing of capital transactions. Such or similar types of action in other jurisdictions, including changes in local or international tax rules or new challenges by tax authorities, may expose us to significant additional tax liabilities which would affect the results of the business.

**11. Changes in assumptions underlying the carrying value of certain Group assets could result in impairment.**

**Risk:** Due to the substantial carrying value of goodwill, revisions to the assumptions used in assessing its recoverability, including discount rates, estimated future cash flows or anticipated changes in operations, could lead to the impairment of certain Group assets. While impairment does not impact reported cash flows, it does result in a non-cash charge in the consolidated income statement and thus no assurance can be given that any future impairment would not affect our reported distributable reserves and therefore, our ability to make dividend distributions to our shareholders or repurchase our shares.

**Currency related risks**

The Group continues to face currency, operational and financial risks resulting from the challenging economic conditions particularly in the Eurozone. We continue to keep our policies and procedures under review to endeavour to minimise the Group's economic exposure and to preserve our ability to operate in a range of potential conditions that may exist in the future.

Our ability to manage these risks needs to take appropriate account of our needs to deliver a high quality service to our customers, meet licence obligations and the significant capital investments we may have made and may need to continue to make in the markets most impacted.

While our share price is denominated in sterling, the majority of our financial results are generated in other currencies. As a result the Group's operating profit is sensitive to either a relative strengthening or weakening of the major currencies in which we transact.

The Operating results section of the annual report on pages 40 to 45 sets out a discussion and analysis of the relative contributions from each of our regions and the major geographical markets within each, to the Group's service revenue on a management basis and adjusted EBITDA performance. On a management basis our markets in Greece, Ireland, Italy, Portugal and Spain continue to be the most directly impacted by the current market conditions and in order of

contribution represent 12% (Italy), 6% (Spain), 3% (Ireland and Greece combined) and 2% (Portugal) of the Group's adjusted EBITDA for the year ended 31 March 2014. An average 3% decline in the sterling equivalent of these combined geographical markets due to currency revaluation would reduce the Group's adjusted EBITDA by approximately £0.1 billion. Our foreign currency earnings were for the year ended 31 March 2014, diversified through our 45% equity interest in Verizon Wireless (VZW), which operates in the United States and generates its earnings in US dollars. Our interest in VZW, which was equity accounted to 2 September 2013, contributed 40% of the Group's adjusted operating profit for the year ended 31 March 2014. Our interest in VZW was disposed of on 21 February 2014.

We employ a number of mechanisms to manage elements of exchange rate risk at a transaction, translation and economic level. At the transaction level our policies require foreign exchange risks on transactions denominated in other currencies above certain de minimis levels to be hedged. Further, since the Company's sterling share price represents the value of its future multi-currency cash flows, principally in euro and to a lesser extent sterling, the Indian rupee and South African rand following the disposal of our interest in VZW, we aim to align the currency of our debt and interest charges in proportion to our expected future principal multi-currency cash flows, thereby providing an economic hedge in terms of reduced volatility in the sterling equivalent value of the Group and a partial hedge against income statement translation exposure, as interest costs will be denominated in foreign currencies.

In the event of a country's exit from the Eurozone, this may necessitate changes in one or more of our entities' functional currency and potentially higher volatility of those entities' trading results when translated into sterling, potentially adding further currency risk.

A summary of this sensitivity of our operating results and our foreign exchange risk management policies is set out within note 23 'Capital and financial risk management' to the consolidated financial statements.

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Principal risk factors and uncertainties (continued)

**Risk of change in carrying amount of assets and liabilities**

The main potential short-term financial statement impact of the current economic uncertainties is the potential impairment of non-financial and financial assets.

We have significant amounts of goodwill, other intangible assets and plant, property and equipment allocated to, or held by, companies operating in the Eurozone.

We have performed impairment testing for each country in Europe as at 31 March 2014 and identified aggregate impairment charges of £6.6 billion in relation to Vodafone Germany, Spain, Portugal, Czech Republic and Romania. See note 4 Impairment losses to the consolidated financial statements for further detail on this exercise, together with the sensitivity of the results to reasonably possible adverse assumptions.

Our operating companies in Italy, Ireland, Greece, Portugal and Spain have billed and unbilled trade receivables totalling £2.1 billion. IFRS contains specific requirements for impairment assessments of financial assets. We have a range of credit exposures and provisions for doubtful debts that are generally made by reference to consistently applied methodologies overlaid with judgements determined on a case-by-case basis reflecting the specific facts and circumstances of the receivable. See note 23 Capital and financial risk management to the consolidated financial statements for detailed disclosures on provisions against loans and receivables as well as disclosures about any loans and receivables that are past due at the end of the period, concentrations of risk and credit risk more generally.

**Additional risk**

The significant areas of additional risk for the Group are investment risk, particularly in relation to the management of the counterparties holding our cash and liquid investments; trading risks primarily in relation to procurement and related contractual matters; and business continuity risks focused on cash management in the event of disruption to banking systems.

**Financial/investment risk:** We remain focused on counterparty risk management and in particular the protection and availability of cash deposits and investments. We carefully manage counterparty limits with financial institutions holding the Group's liquid investments and maintain a significant proportion of liquid investments in sterling and US

dollar denominated holdings. Our policies require cash sweep arrangements, to ensure no operating company has more than 5 million on deposit on any one day. Further, we have had collateral support agreements in place for a number of years, with a significant number of counterparties, to pass collateral to the Group under certain circumstances. We have a net £1,055 million of collateral assets in our statement of financial position at 31 March 2014. For further details see note 13 Other investments and note 23 Capital and financial risk management to the consolidated financial statements.

**Trading risks:** We continue to monitor and assess the structure of certain procurement contracts to place the Group in a better position in the event of the exit of a country from the Eurozone.

**Business continuity risks:** Key business continuity priorities are focused on planning to facilitate migration to a more cash-based business model in the event banking systems are frozen, developing dual currency capability in contract customer billing systems or ensuring the ability to move these contract customers to prepaid methods of billing, and the consequential impacts to tariff structures. We also have in place contingency plans with key suppliers that would assist us to continue to support our network infrastructure, retail operations and employees.

We continue to maintain appropriate levels of cash and short-term investments in many currencies, with a carefully controlled group of counterparties, to minimise the risks to the ongoing access to that liquidity and therefore our ability to settle debts as they become due. For further details see Capital and financial risk management in note 23 to the consolidated financial statements.

### Going concern

The Group believes it adequately manages or mitigates its solvency and liquidity risks through two primary processes, described below.

### Business planning process and performance management

The Group's forecasting and planning cycle consists of three in year forecasts, a budget and a long range plan. These cycles all consist of a bottom up process whereby the Group's operating companies submit income statement, cash flow and net debt projections. These are then consolidated and the results assessed by Group management and the Board.

Each forecast is compared with prior forecasts and actual results so as to identify variances and understand the drivers of the changes and their future impact so as to allow management to take action where appropriate. Additional analysis is undertaken to review and sense check the key assumptions underpinning the forecasts as well as stress-testing the results through sensitivity analysis.

### Cash flow and liquidity reviews

The business planning process provides outputs for detailed cash flow and liquidity reviews, to ensure that the Group maintains adequate liquidity throughout the forecast periods. The prime output is a two year liquidity forecast which is prepared and updated on a daily basis which highlights the extent of the Group's liquidity based on controlled cash flows and the headroom under the Group's undrawn revolving credit facility (RCF).

The key inputs into this forecast are:

g free cash flow forecasts, with the first three months inputs being sourced directly from the operating companies (analysed on a daily basis), with information beyond this taken from the latest forecast/budget cycle;

g bond and other debt maturities; and

g expectations for shareholder returns, spectrum auctions and M&A activity.

The liquidity forecast shows two scenarios assuming either maturing commercial paper is refinanced or no new commercial paper issuance. The liquidity forecast is reviewed by the Group CFO and included in each of his reports to the Board.

In addition, the Group continues to manage its foreign exchange and interest rate risks within the framework of policies and guidelines authorised and reviewed by the Board, with oversight provided by the Treasury Risk Committee.

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**Non-GAAP information**

In the discussion of our reported financial position, operating results and cash flows, information is presented to provide readers with additional financial information that is regularly reviewed by management. However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such non-GAAP measures should not be viewed in isolation or as an alternative to the equivalent GAAP measure.

**Management basis**

The discussion of our operating results and cash flows in the strategic report on pages 1 to 47 is shown on a management basis, consistent with how the business is managed, operated and reviewed by management, and includes the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis. This differs to the Consolidated financial statements which are presented on an IFRS basis, and includes the results of the Group's joint ventures using the equity accounting basis. Pursuant to IFRS 8 our segmental results are presented within note 2 Segmental analysis to the Consolidated Financial Statements on a management basis because that is the basis on which performance of the operating segments is assessed by management. Therefore when presented on a country basis these management basis figures represent a GAAP measure. However, when presented on a consolidated basis management basis amounts are considered to be non-GAAP performance measures. A reconciliation of country revenue on a management basis to consolidated revenue on an IFRS basis is presented in note 2 Segmental analysis to the Consolidated Financial Statements.

We present certain consolidated performance measures on a management basis because we believe that the management basis metrics, which are not intended to be a substitute for, or superior to, our reported metrics, provide useful and necessary information to investors and other interested parties as they are used internally for performance analysis and resource allocation purposes of the operations where we have control or joint control. A reconciliation of management basis adjusted EBITDA to IFRS adjusted operating profit is summarised below. A reconciliation of adjusted operating profit (IFRS basis) to IFRS operating profit is presented in note 2 Segmental analysis to the Consolidated Financial Statements and a reconciliation from operating profit to net profit is presented on the face of the consolidated income statement.

	Restated	Restated
	2014	2013
	£m	£m
<b>Adjusted EBITDA (management basis)</b>	<b>12,831</b>	<b>13,566</b>
		2012
		£m
		<b>14,606</b>

Depreciation and amortisation	(8,181)	(7,543)	(7,625)
Share of results in associates and joint ventures	3,224	6,554	5,049
<b>Adjusted operating profit (management basis)</b>	<b>7,874</b>	<b>12,577</b>	<b>12,030</b>
Presentation adjustments	(395)	(487)	(690)
Discontinued operations	(3,169)	(6,500)	(4,953)
<b>Adjusted operating profit (IFRS basis)</b>	<b>4,310</b>	<b>5,590</b>	<b>6,387</b>

Presentation adjustments relate to the restatement of the Group's joint ventures from a proportionate consolidation basis to an equity accounted basis. Discontinued items relate to the results of Verizon Wireless.

### Adjusted EBITDA

Adjusted EBITDA is operating profit excluding share in results of associates, depreciation and amortisation, gains/losses on the disposal of fixed assets, impairment losses, restructuring costs, other operating income and expense and significant items that are not considered by management to be reflective of the underlying performance of the Group. We use adjusted EBITDA, in conjunction with other GAAP and non-GAAP financial measures such as adjusted operating profit, operating profit and net profit, to assess our operating performance. We believe that adjusted EBITDA is an operating performance measure, not a liquidity measure, as it includes non-cash changes in working capital and is reviewed by the Chief Executive on a management basis (see above) to assess internal performance in conjunction with adjusted EBITDA margin, which is an alternative sales margin figure. We believe it is both useful and necessary to report adjusted EBITDA as a performance measure as it enhances the comparability of profit across segments.

Because adjusted EBITDA does not take into account certain items that affect operations and performance, adjusted EBITDA has inherent limitations as a performance measure. To compensate for these limitations, we analyse adjusted EBITDA in conjunction with other GAAP and non-GAAP operating performance measures. Adjusted EBITDA should not be considered in isolation or as a substitute for a GAAP measure of operating performance. A reconciliation of adjusted EBITDA to the closest equivalent GAAP measure, operating profit, is provided in note 2 Segmental analysis to the consolidated financial statements and to Profit for the financial year, below.

	2014	Restated 2013	Restated 2012
	£m	£m	£m
<b>Adjusted EBITDA</b>	<b>11,084</b>	<b>11,466</b>	<b>11,737</b>
Depreciation and amortisation	(7,098)	(6,502)	(6,516)
Share of results in associates and joint ventures	324	626	1,166
<b>Adjusted operating profit</b>	<b>4,310</b>	<b>5,590</b>	<b>6,387</b>
Impairment loss	(6,600)	(7,700)	(4,050)
Restructuring costs and other	(355)	(311)	(144)
Amortisation of acquired customer bases and brand intangible assets	(551)	(249)	(280)
Other income/(expense)	(717)	468	3,705
<b>Operating (loss)/profit</b>	<b>(3,913)</b>	<b>(2,202)</b>	<b>5,618</b>
Non-operating income and expense	(149)	10	(162)
Net financing costs	(1,208)	(1,291)	(1,312)
Income tax credit/(expense)	16,582	(476)	(705)
<b>Profit/(loss) for the financial year from continuing operations</b>	<b>11,312</b>	<b>(3,959)</b>	<b>3,439</b>
<b>Profit for the financial year from discontinued operations</b>	<b>48,108</b>	<b>4,616</b>	<b>3,555</b>
<b>Profit for the financial year</b>	<b>59,420</b>	<b>657</b>	<b>6,994</b>





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Non-GAAP information (continued)

**Restatement of adjusted EBITDA and adjusted operating profit**

In the year ended 31 March 2014 we have redefined adjusted EBITDA and adjusted operating profit to exclude restructuring costs and adjusted operating profit to exclude amortisation charges in relation to acquired customer base and acquired brand intangible assets. This change was made to allow management to clearly assess ongoing internal performance, enable better comparability with other companies and in relation to the adjustment for amortisation charges for acquired customer base and acquired brand intangible assets, to facilitate the comparison of the performance of acquired and non-acquired businesses. We have restated comparatives to reflect this new presentation.

**Group adjusted operating profit and adjusted earnings per share**

Group adjusted operating profit excludes non-operating income of associates, impairment losses, restructuring costs, amortisation of customer bases and brand intangible assets, other operating income and expense and other significant one-off items. Adjusted earnings per share also excludes certain foreign exchange rate differences, together with related tax effects. We believe that it is both useful and necessary to report these measures for the following reasons:

**g** these measures are used in setting director and management remuneration; and

**g** they are useful in connection with discussion with the investment analyst community and debt rating agencies.

A reconciliation of adjusted operating profit to the respective closest equivalent GAAP measure, operating profit, is provided above and in note 2 Segmental analysis to the consolidated financial statements. A reconciliation of adjusted earnings per share to basic earnings per share, is provided in the Operating Review on page 45.

### Cash flow measures

In presenting and discussing our reported results, management basis free cash flow and operating free cash flow are calculated and presented even though these measures are not recognised within IFRS. We believe that it is both useful and necessary to communicate free cash flow to investors and other interested parties, for the following reasons:

- g free cash flow allows us and external parties to evaluate our liquidity and the cash generated by our operations. Free cash flow does not include payments for licences and spectrum included within intangible assets, items determined independently of the ongoing business, such as the level of dividends, and items which are deemed discretionary, such as cash flows relating to acquisitions and disposals or financing activities. In addition, it does not necessarily reflect the amounts which we have an obligation to incur. However, it does reflect the cash available for such discretionary activities, to strengthen the consolidated statement of financial position or to provide returns to shareholders in the form of dividends or share purchases;
  
- g free cash flow facilitates comparability of results with other companies although our measure of free cash flow may not be directly comparable to similarly titled measures used by other companies;
  
- g these measures are used by management for planning, reporting and incentive purposes; and
  
- g these measures are useful in connection with discussion with the investment analyst community and debt rating agencies.

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A reconciliation of cash generated by operations, the closest equivalent GAAP measure, to operating free cash flow and free cash flow, is provided below.

	2014			Restated 2013		
	Management Presentation		Reported	Management Presentation		Reported
	basis	adjustments		basis	adjustments	
	£m	£m	£m	£m	£m	£m
Cash generated by operations	13,462	(1,315)	12,147	13,727	(2,234)	11,493
Capital expenditure	(7,102)	789	(6,313)	(6,266)	974	(5,292)
Working capital movement in respect of capital expenditure	411	45	456	71	3	74
Disposal of property, plant and equipment	106	(27)	79	153	(48)	105
Taxation	(3,547)	98	(3,449)	(2,933)	363	(2,570)
Dividends received from associates	2,810	32	2,842	2,420	712	3,132
Dividends paid to non-controlling shareholders in subsidiaries	(264)		(264)	(379)		(379)
Interest received and paid	(1,471)	156	(1,315)	(1,185)	127	(1,058)
<b>Free cash flow</b>	<b>4,405</b>	<b>(222)</b>	<b>4,183</b>	<b>5,608</b>	<b>(103)</b>	<b>5,505</b>

Other

Certain of the statements within the section titled "Chief Executive's review" on pages 12 and 13 contain forward-looking non-GAAP financial information for which at this time there is no comparable GAAP measure and which at this time cannot be quantitatively reconciled to comparable GAAP financial information. Certain of the statements within the section titled "Guidance" on pages 13 and 39 contain forward-looking non-GAAP financial information which at this time cannot be quantitatively reconciled to comparable GAAP financial information.

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**Organic growth**

All amounts in this document marked with an \* represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and foreign exchange rates. We believe that organic growth, which is not intended to be a substitute for or superior to reported growth, provides useful and necessary information to investors and other interested parties for the following reasons:

g it provides additional information on underlying growth of the business without the effect of certain factors unrelated to the operating performance of the business;

g it is used for internal performance analysis; and

g it facilitates comparability of underlying growth with other companies, although the term organic is not a defined term under IFRS and may not, therefore, be comparable with similarly titled measures reported by other companies. Reconciliation of organic growth to reported growth is shown where used, or in the table below:

Organic change	Other activity <sup>2</sup>	Foreign exchange	Reported change	Presentation adjustments	Reported change
%	pps	pps	%	pps	%

**31 March 2014****Group**

Revenue	(3.5)	3.7	(2.1)	(1.9)	2.7	0.8
Service revenue	(4.3)	3.8	(1.9)	(2.4)	2.9	0.5
Other revenue	4.9	2.7	(4.1)	3.5	0.2	3.7
Adjusted EBITDA	(7.4)	3.8	(1.8)	(5.4)	2.1	(3.3)

**Europe**

Revenue	(9.3)	4.7	2.5	(2.1)	3.5	1.4
Service revenue	(9.1)	4.6	2.5	(2.0)	4.0	2.0
Other revenue	(10.8)	4.4	2.5	(3.9)	(1.8)	(5.7)
Europe mobile in-bundle revenue	3.1	0.4	2.6	6.1	(0.1)	6.0
Europe enterprise revenue	(8.5)	14.2	2.8	8.5	4.4	12.9
Germany service revenue	(6.2)	9.0	3.6	6.4		6.4
Germany mobile in-bundle revenue	2.7		3.5	6.2		6.2
Germany mobile out-of-bundle revenue	(22.6)	0.3	2.9	(19.4)		(19.4)
Italy service revenue	(17.1)	2.2	3.1	(11.8)	11.8	
Italy mobile in-bundle revenue	15.2	4.0	3.8	23.0	(23.0)	
Italy fixed line revenue	(3.2)	3.1	3.6	3.5	(3.5)	
Italy operating expenses	7.1	(2.7)	(3.5)	0.9	(0.9)	
UK service revenue	(4.4)	31.9		27.5		27.5
UK mobile in-bundle revenue	0.6			0.6		0.6
UK mobile out-of-bundle revenue	(7.2)			(7.2)		(7.2)
Spain service revenue	(13.4)	(0.7)	3.1	(11.0)		(11.0)
Spain mobile in-bundle revenue	(0.4)		3.4	3.0		3.0
Spain fixed line revenue	(0.2)		3.4	3.2		3.2
Spain operating expenses	9.4		(3.3)	6.1		6.1
Netherlands service revenue	(5.6)	(0.6)	3.4	(2.8)		(2.8)
Netherlands mobile in-bundle revenue	3.4		3.5	6.9		6.9
Portugal service revenue	(8.4)	(0.6)	3.3	(5.7)		(5.7)
Greece service revenue	(14.1)	(0.8)	3.2	(11.7)		(11.7)
Other Europe service revenue growth	(7.1)	(17.5)	1.8	(22.8)		(22.8)
Adjusted EBITDA	(18.3)	5.6	2.5	(10.2)	5.2	(5.0)
Germany adjusted EBITDA	(18.2)	10.2	3.3	(4.7)		(4.7)
Germany percentage point change in adjusted EBITDA margin	(4.3)	0.8	0.1	(3.4)		(3.4)
Italy adjusted EBITDA	(24.9)	2.2	2.8	(19.9)	19.9	
Italy percentage point change in adjusted EBITDA margin	(4.8)		0.1	(4.7)	39.5	34.8
UK adjusted EBITDA	(9.8)	26.9	0.1	17.2		17.2
UK percentage point change in adjusted EBITDA margin	(1.0)	(0.4)		(1.4)		(1.4)
Spain adjusted EBITDA	(23.9)	(1.8)	2.8	(22.9)		(22.9)
Spain percentage point change in adjusted EBITDA margin	(3.4)	(0.4)	0.1	(3.7)		(3.7)
Other Europe adjusted EBITDA growth	(14.0)	(6.2)	2.1	(18.1)	(0.1)	(18.2)
Other Europe percentage point change in adjusted EBITDA margin	(2.1)	3.6	0.1	1.6		1.6

		Other				
	Organic change £bn	activity <sup>2</sup> £bn	Foreign exchange £bn	Reported change £bn	Presentation adjustments £bn	Reported change £bn
Reduction in European and common functions operating expenses	(0.3)	0.5	0.1	0.3	0.2	0.5

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Non-GAAP information (continued)

	Organic change %	Other activity <sup>2</sup> pps	Foreign exchange pps	Reported change %	Presentation adjustments pps	Reported change %
<b>AMAP</b>						
Revenue	8.4	0.7	(12.0)	(2.9)	1.1	(1.8)
Service revenue	6.1	0.7	(11.5)	(4.7)	1.2	(3.5)
Other revenue	27.4	0.6	(16.1)	11.9	4.9	16.8
India service revenue	13.0		(11.7)	1.3		1.3
Vodacom service revenue	4.1	(2.8)	(13.7)	(12.4)		(12.4)
South Africa service revenue	0.3		(16.2)	(15.9)		(15.9)
South Africa data revenue	23.5		(20.3)	3.2		3.2
South Africa mobile in-bundle revenue	9.7		(17.9)	(8.2)		(8.2)
Vodacom's international operations service revenue	18.9		(3.8)	15.1		15.1
Turkey service revenue	7.9	(0.5)	(11.6)	(4.2)		(4.2)
Turkey mobile in-bundle revenue	25.0		(14.1)	10.9		10.9
Egypt service revenue	2.6		(11.2)	(8.6)		(8.6)
Ghana service revenue	19.3	(0.2)	(17.3)	1.8		1.8
Australia service revenue	(9.0)		(9.1)	(18.1)	18.1	
Other AMAP service revenue	2.8	4.0	(9.4)	(2.6)	4.0	1.4
Adjusted EBITDA	16.2	1.0	(13.9)	3.3	(4.5)	(1.2)
India adjusted EBITDA	26.4		(13.7)	12.7	(5.1)	7.6
India percentage point change in adjusted EBITDA margin	3.3	(0.1)	(0.1)	3.1	(1.3)	1.8
Vodacom adjusted EBITDA	6.6	0.2	(16.1)	(9.3)		(9.3)
Vodacom percentage point change in adjusted EBITDA margin	(0.3)	0.8	(0.4)	0.1		0.1
Other AMAP adjusted EBITDA	19.3	3.2	(10.7)	11.8	(8.3)	3.5
	3.1	(0.2)		2.9	(3.2)	(0.3)



Other AMAP percentage point change in adjusted EBITDA margin						
Australia percentage point change in adjusted EBITDA margin	14.8		(0.2)	14.6		(14.6)

**31 March 2013****Group**

Revenue	(1.4)	2.8	(5.6)	(4.2)	2.2	(2.0)
Service revenue	(1.9)	2.6	(5.6)	(4.9)	2.8	(2.1)
Other revenue	4.0	5.3	(6.3)	3.0	(4.1)	(1.1)
Adjusted EBITDA	(1.9)	0.6	(5.8)	(7.1)	4.8	(2.3)

**Europe**

Revenue	(5.5)	4.4	(4.6)	(5.7)	2.3	(3.4)
Service revenue	(5.8)	4.5	(4.6)	(5.9)	2.8	(3.1)
Other revenue	(1.3)	2.4	(4.3)	(3.2)	(3.0)	(6.2)
Germany service revenue	0.5	(0.1)	(5.5)	(5.1)		(5.1)
Germany mobile service revenue	1.3	(0.2)	(5.5)	(4.4)		(4.4)
Germany data revenue	13.6		(6.0)	7.6		7.6
Germany enterprise revenue	3.0		(5.6)	(2.6)		(2.6)
Italy service revenue	(12.8)	(0.1)	(4.9)	(17.8)	17.8	
Italy data revenue	4.4		(5.7)	(1.3)	1.3	
Italy fixed line revenue	(6.8)		(5.1)	(11.9)	11.9	
UK service revenue	(4.0)	(0.3)		(4.3)		(4.3)
UK data revenue	4.2			4.2		4.2
Spain service revenue	(11.5)	(0.2)	(5.0)	(16.7)		(16.7)
Spain data revenue	16.5		(6.1)	10.4		10.4
Spain fixed line revenue	(2.9)		(5.0)	(7.9)		(7.9)
Netherlands service revenue	(2.7)	(0.2)	(5.4)	(8.3)		(8.3)
Greece service revenue	(13.4)	(0.4)	(5.0)	(18.8)		(18.8)
Portugal service revenue	(8.2)	(0.2)	(5.2)	(13.6)		(13.6)
Other Europe service revenue growth	(5.2)	22.4	(6.9)	10.3		10.3
Adjusted EBITDA	(8.1)	1.8	(4.7)	(11.0)	4.3	(6.7)
Germany adjusted EBITDA	(1.7)	0.2	(5.2)	(6.7)		(6.7)
Germany percentage point change in adjusted EBITDA margin	(1.0)	0.1		(0.9)		(0.9)
Italy adjusted EBITDA	(19.3)		(4.7)	(24.0)	24.0	
Italy percentage point change in adjusted EBITDA margin	(4.3)			(4.3)	4.2	(0.1)
UK adjusted EBITDA	(6.8)	0.4	(0.1)	(6.5)		(6.5)
UK percentage point change in adjusted EBITDA margin	(0.5)			(0.5)		(0.5)

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	Other					
	Organic change %	activity <sup>2</sup> pps	Foreign exchange pps	Reported change %	Presentation adjustments pps	Reported change %
Spain adjusted EBITDA	(9.8)	(0.5)	(5.3)	(15.6)		(15.6)
Spain percentage point change in adjusted EBITDA margin	0.9	(0.1)	0.0	0.8		0.8
Other Europe adjusted EBITDA	(3.7)	8.1	(6.3)	(1.9)		(1.9)
Other Europe percentage point change in adjusted EBITDA margin	0.1	(3.6)	(0.1)	(3.6)		(3.6)
<b>AMAP</b>						
Revenue	6.0	0.7	(7.7)	(1.0)	0.3	(0.7)
Service revenue	5.5	(0.3)	(7.5)	(2.3)	1.1	(1.2)
Other revenue	10.3	10.3	(9.7)	10.9	(5.3)	5.6
India service revenue	11.2	(0.1)	(12.2)	(1.1)		(1.1)
India data revenue	19.8		(13.5)	6.3		6.3
Vodacom service revenue	3.1	(3.2)	(9.8)	(9.9)		(9.9)
South Africa service revenue	(0.3)		(11.7)	(12.0)		(12.0)
South Africa data revenue	16.1		(13.8)	2.3		2.3
Vodacom's international operations service revenue	23.4		(1.2)	22.2		22.2
Turkey service revenue	17.3	(1.8)	(3.1)	12.4		12.4
Egypt service revenue	3.7		(3.0)	0.7		0.7
Egypt data revenue	29.6		(4.2)	25.4		25.4
Egypt fixed line revenue	29.0		(2.9)	26.1		26.1
Ghana service revenue	24.5		(19.2)	5.3		5.3
Qatar service revenue	29.8		1.7	31.5		31.5
Other AMAP service revenue	3.8	2.1	(2.0)	3.9	5.7	9.6
Adjusted EBITDA	12.3	(0.1)	(9.0)	3.2	1.1	4.3
India adjusted EBITDA	24.0	(0.1)	(13.4)	10.5	2.6	13.1
India percentage point change in adjusted EBITDA margin	3.3	(1.0)	0.1	2.4	1.1	3.5
Vodacom adjusted EBITDA	10.1	(0.1)	(12.2)	(2.2)		(2.2)
Vodacom percentage point change in adjusted EBITDA margin	1.5	1.0	(0.5)	2.0		2.0
Other AMAP adjusted EBITDA	6.2	(0.1)	(1.4)	4.7	3.2	7.9
Other AMAP percentage point change in adjusted EBITDA margin	0.5	(0.4)	0.1	0.2	(0.5)	(0.3)

**Verizon Wireless ( VZW )**

Revenue	7.8		1.0	8.8	(8.8)	
Service revenue	8.1		1.1	9.2	(9.2)	
Adjusted EBITDA	13.6	0.1	1.2	14.9	(14.9)	
Group's share of result of VZW	29.8		1.4	31.2		31.2

**31 March 2012****Group**

Revenue	2.2	(0.3)	(0.7)	1.2	0.8	2.0
Service revenue	1.4	(0.4)	(0.7)	0.3	0.8	1.1
Other revenue	12.3	0.9	(1.3)	11.9	1.2	13.1
Adjusted EBITDA		(0.3)	(0.4)	(0.7)	1.9	1.2

**Europe**

Revenue	(1.2)	0.1	1.3	0.2	0.3	0.5
Service revenue	(2.1)		1.2	(0.9)	0.2	(0.7)
Other revenue	13.6	1.8	1.0	16.4	0.5	16.9
Adjusted EBITDA	(4.8)		1.4	(3.4)	0.4	(3.0)

**AMAP**

Revenue	10.3	(0.1)	(5.5)	4.7	0.7	5.4
Service revenue	9.6	(0.2)	(5.5)	3.9	0.6	4.5
Other revenue	17.5		(4.8)	12.7	4.0	16.7
Adjusted EBITDA	10.7	(0.3)	(5.5)	4.9	2.8	7.7

Notes:

- 1 Management basis includes the results of the Group's joint ventures, Vodafone Italy, Vodafone Hutchison Australia, Vodafone Fiji and Indus Towers, on a proportionate basis. The statutory basis includes the results of these joint ventures, using the equity accounting basis rather than on a proportionate consolidation basis.
- 2 Other activity includes the impact of M&A activity, the revision to intra-group roaming charges from 1 October 2011, and the impact of Indus Towers revising its accounting for energy cost recharges. Refer to 'Organic growth' on page 202 for further detail.

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**Form 20-F cross reference guide**

This annual report on Form 20-F for the fiscal year ended 31 March 2014 has not been approved or disapproved by the SEC nor has the SEC passed judgement upon the adequacy or accuracy of this document. The table below sets out the location in this document of the information required by SEC Form 20-F.

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**Forward-looking statements**

This document contains forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to the Group's financial condition, results of operations and businesses and certain of the Group's plans and objectives.

In particular, such forward-looking statements include statements with respect to:

- g** the Group's expectations and guidance regarding its financial and operating performance, including statements contained within the Chief Executive's review on pages 12 to 13, statements regarding the Group's future dividends and the guidance statement for the 2015 financial year and free cash flow guidance on page 13 and 39, the performance of associates and joint ventures, other investments and newly acquired businesses including CWW, KDG, Ono and Neotel and expectations regarding the Project Spring organic investment programme;
- g** intentions and expectations regarding the development of products, services and initiatives introduced by, or together with, Vodafone or by third parties, including new mobile technologies, such as the Vodafone M-Pesa money transfer service, M2M connections, Vodafone Red, cloud hosting, tablets and an increase in download speeds, Vodafone One-Net, mWallet, Smartpass and 4G/3G services;
- g** expectations regarding the global economy and the Group's operating environment and market position, including future market conditions, growth in the number of worldwide mobile phone users and other trends, including increased mobile data usage and increased mobile penetration in emerging markets;

g revenue and growth expected from the Group's enterprise and total communications strategy, including data revenue growth, and its expectations with respect to long-term shareholder value growth;

g mobile penetration and coverage rates, mobile termination rate cuts, the Group's ability to acquire spectrum, expected growth prospects in the Europe and AMAP regions and growth in customers and usage generally, and plans for sustained investment in high speed data networks and the anticipated Group standardisation and simplification programme;

g anticipated benefits to the Group from cost efficiency programmes;

g possible future acquisitions, including increases in ownership in existing investments, the timely completion of pending acquisition transactions and pending offers for investments, including licence and spectrum acquisitions, and the expected funding required to complete such acquisitions or investments;

g expectations and assumptions regarding the Group's future revenue, operating profit, adjusted EBITDA, adjusted EBITDA margin, free cash flow, depreciation and amortisation charges, foreign exchange rates, tax rates and capital expenditure;

g expectations regarding the Group's access to adequate funding for its working capital requirements and share buyback programmes, and the Group's future dividends or its existing investments; and

- g the impact of regulatory and legal proceedings involving the Group and of scheduled or potential regulatory changes.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as will , anticipates , aims , could , may , should , expects , believes , intends , plans or targets . By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- g general economic and political conditions in the jurisdictions in which the Group operates and changes to the associated legal, regulatory and tax environments;

- g increased competition, from both existing competitors and new market entrants, including mobile virtual network operators;

- g levels of investment in network capacity and the Group's ability to deploy new technologies, products and services in a timely manner, particularly data content and services;

- g rapid changes to existing products and services and the inability of new products and services to perform in accordance with expectations, including as a result of third-party or vendor marketing efforts;

- g the ability of the Group to integrate new technologies, products and services with existing networks, technologies, products and services;
  
- g the Group's ability to generate and grow revenue from both voice and non-voice services and achieve expected cost savings;
  
- g a lower than expected impact of new or existing products, services or technologies on the Group's future revenue, cost structure and capital expenditure outlays;
  
- g slower than expected customer growth, reduced customer retention, reductions or changes in customer spending and increased pricing pressure;
  
- g the Group's ability to expand its spectrum position, win 3G and 4G allocations and realise expected synergies and benefits associated with 3G and 4G;

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Forward-looking statements (continued)

g the Group's ability to secure the timely delivery of high quality, reliable handsets, network equipment and other key products from suppliers;

g loss of suppliers, disruption of supply chains and greater than anticipated prices of new mobile handsets;

g changes in the costs to the Group of, or the rates the Group may charge for, terminations and roaming minutes;

g the impact of a failure or significant interruption to the Group's telecommunications, networks, IT systems or data protection systems;



- g the Group's ability to realise expected benefits from acquisitions, partnerships, joint ventures, franchises, brand licences, platform sharing or other arrangements with third parties, particularly those related to the development of data and internet services;
  
- g acquisitions and divestments of Group businesses and assets and the pursuit of new, unexpected strategic opportunities which may have a negative impact on the Group's financial condition and results of operations;
  
- g the Group's ability to integrate acquired business or assets and the imposition of any unfavourable conditions, regulatory or otherwise, on any pending or future acquisitions or dispositions;
  
- g the extent of any future write-downs or impairment charges on the Group's assets, or restructuring charges incurred as a result of an acquisition or disposition;
  
- g developments in the Group's financial condition, earnings and distributable funds and other factors that the Board takes into account in determining the level of dividends;
  
- g the Group's ability to satisfy working capital requirements through borrowing in capital markets, bank facilities and operations;

- g changes in foreign exchange rates, including particularly the exchange rate of pounds sterling to the euro, Indian rupee, South African rand and the US dollar;
  
- g changes in the regulatory framework in which the Group operates, including the commencement of legal or regulatory action seeking to regulate the Group's permitted charging rates;
  
- g the impact of legal or other proceedings against the Group or other companies in the communications industry; and
  
- g changes in statutory tax rates and profit mix, the Group's ability to resolve open tax issues and the timing and amount of any payments in respect of tax liabilities.

Furthermore, a review of the reasons why actual results and developments may differ materially from the expectations disclosed or implied within forward-looking statements can be found under "Principal risk factors and uncertainties" on pages 196 to 200 of this document. All subsequent written or oral forward-looking statements attributable to the Company or any member of the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurances can be given that the forward-looking statements in this document will be realised. Subject to compliance with applicable law and regulations, Vodafone does not intend to update these forward-looking statements and does not undertake any obligation to do so.

The Company's independent auditors, Deloitte LLP have not compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

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<b>Definition of terms</b>		<b>211</b>
<b>2G</b>	2G networks are operated using global system for mobile ( GSM ) technology which offer services such as voice, text messaging and low speed data. In addition, all the Group's controlled networks support general packet radio services ( GPRS ), often referred to as 2.5G. GPRS allows mobile devices to access IP based data services such as the internet and email.	
<b>3G</b>	A cellular technology based on wide band CDMA delivering voice and faster data services.	
<b>4G/LTE</b>	4G or long-term evolution ( LTE ) technology offers even faster data transfer speeds than 3G/HSPA.	
<b>Acquisition costs</b>	The total of connection fees, trade commissions and equipment costs relating to new customer connections.	
<b>ADR</b>	American depository receipts is a mechanism designed to facilitate trading in shares of non-US companies in the US stock markets. The main purpose is to create an instrument which can easily be settled through US stock market clearing systems.	
<b>ADS</b>	American depository shares are shares evidenced by American depository receipts. ADSs are issued by a depository bank and represent one or more shares of a non-US issuer held by the depository bank. The main purpose of ADSs is to facilitate trading in shares of non-US companies in the US markets and, accordingly, ADRs which evidence ADSs are in a form suitable for holding in US clearing systems.	
<b>AGM</b>	Annual general meeting.	
<b>AMAP</b>	The Group's region: Africa, Middle East and Asia Pacific.	
<b>Applications ( apps )</b>	Apps are software applications usually designed to run on a smartphone or tablet device and provide a convenient means for the user to perform certain tasks. They cover a wide range of activities including banking, ticket purchasing, travel arrangements, social networking and games. For example, the My Vodafone app lets customers check their bill totals on their smartphone and see the minutes, texts and data allowance remaining.	
<b>ARPU</b>	Average revenue per user, defined as mobile in-bundle customer revenue plus mobile out-of-bundle customer revenue and mobile incoming revenue divided by average customers.	
<b>Capital expenditure ( capex )</b>	This measure includes the aggregate of capitalised property, plant and equipment additions and capitalised software costs.	
<b>CDMA</b>	This is a channel access method used by various radio communication technologies.	
<b>Churn</b>	Total gross customer disconnections in the period divided by the average total customers in the period.	
<b>Cloud services</b>		

This means the customer has little or no equipment at their premises and all the equipment and capability associated with the service is run from the Vodafone network and data centres instead. This removes the need for customers to make capital investments and instead they have an operating cost model with a recurring monthly fee.

<b>Controlled and jointly controlled</b>	Controlled and jointly controlled measures include 100% for the Group's mobile operating subsidiaries and the Group's share for joint ventures, and the Group's proportionate share for joint operations.
<b>Customer costs</b>	Customer costs include acquisition costs and retention costs.
<b>Depreciation and other amortisation</b>	The accounting charge that allocates the cost of a tangible or intangible asset to the income statement over its useful life. This measure includes the profit or loss on disposal of property, plant and equipment and computer software.
<b>Direct costs</b>	Direct costs include interconnect costs and other direct costs of providing services.
<b>Enterprise Adjusted EBITDA</b>	The Group's customer segment for businesses. Operating profit excluding share of results in associates, depreciation and amortisation, gains/losses on the disposal of fixed assets, impairment losses, restructuring costs and other operating income and expense. The Group's definition of adjusted EBITDA may not be comparable with similarly titled measures and disclosures by other companies.
<b>Fixed broadband customer</b>	A fixed broadband customer is defined as a customer with a connection or access point to a fixed line data network.
<b>FRC</b>	Financial Reporting Council.
<b>Free cash flow</b>	Operating free cash flow after cash flows in relation to taxation, interest, dividends received from associates and investments and dividends paid to non-controlling shareholders in subsidiaries but before licence and spectrum payments. For the year ended 31 March 2014 and 31 March 2013 other items excluded the income dividends received from Verizon Wireless and payments in respect of a tax case settlement.
<b>FCA</b>	Financial Conduct Authority (previously Financial Services Authority).
<b>HSPA+</b>	An evolution of high speed packet access ( HSPA ) or third generation ( 3G ) technology that enhances the existing 3G network with higher speeds for the end user.
<b>Impairment</b>	A downward revaluation of an asset.
<b>Interconnect costs</b>	A charge paid by Vodafone to other fixed line or mobile operators when a Vodafone customer calls a customer connected to a different network.
<b>ICT</b>	Information and communications technology.
<b>IFRS</b>	International Financial Reporting Standards
<b>IP</b>	Internet protocol ( IP ) is the format in which data is sent from one computer to another on the internet.
<b>IP-VPN</b>	A virtual private network ( VPN ) is a network that uses a shared telecommunications infrastructure, such as the internet, to provide remote offices or individual users with secure access to their organisation's network.
<b>M2M</b>	Machine-to-machine. M2M communications, or telemetry, enable devices to communicate with one another via built-in mobile SIM cards.
<b>Mark-to-market</b>	Mark-to-market or fair value accounting refers to accounting for the value of an asset or liability based on the current market price of the asset or liability.

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Definition of terms (continued)

<b>Mobile broadband</b>	Also known as mobile internet (see below).
<b>Mobile customer</b>	A mobile customer is defined as a subscriber identity module ( SIM ), or in territories where SIMs do not exist, a unique mobile telephone number, which has access to the network for any purpose, including data only usage.
<b>Mobile internet</b>	Mobile internet allows internet access anytime, anywhere through a browser or a native application using any portable or mobile device such as smartphone, tablet, laptop connected to a wireless network.
<b>Mobile termination rate ( MTR )</b>	A per minute charge paid by a telecommunications network operator when a customer makes a call to another mobile or fixed line network operator.
<b>MVNO</b>	Mobile virtual network operators, companies that provide mobile phone services under wholesale contracts with a mobile network operator, but do not have their own licence of spectrum or the infrastructure required to operate a network.
<b>Net debt</b>	Long-term borrowings, short-term borrowings and mark-to-market adjustments on financing instruments less cash and cash equivalents.
<b>Net promoter score ( NPS )</b>	Net promoter score is a customer loyalty metric used to monitor customer satisfaction.
<b>Operating expenses</b>	Operating expenses comprise primarily network and IT related expenditure, support costs from HR and finance and certain intercompany items.
<b>Operating free cash flow</b>	Cash generated from operations after cash payments for capital expenditure (excludes capital licence and spectrum payments) and cash receipts from the disposal of intangible assets and property, plant and equipment.
<b>Organic growth</b>	All amounts marked with an * represent organic growth which presents performance on a comparable basis, both in terms of merger and acquisition activity and movements in foreign exchange rates. From 1 April 2013 the Group revised its intra-group roaming charges. These changes have had an impact on reported service revenue for the Group and by country and regionally since 1 April 2013. Whilst prior period reported revenue has not been restated, to ensure comparability in organic growth rates, Group, country and regional revenue in the prior financial periods have been recalculated based on the new pricing structure to form the basis for our organic calculations.
<b>Partner markets</b>	Markets in which the Group has entered into a partner agreement with a local mobile operator enabling a range of Vodafone s global products and services to be marketed in that operator s territory and extending Vodafone s reach into such

	markets.
<b>Penetration</b>	Number of SIMs in a country as a percentage of the country's population. Penetration can be in excess of 100% due to customers owning more than one SIM.
<b>Petabyte</b>	A petabyte is a measure of data usage. One petabyte is a million gigabytes.
<b>Pps</b>	Percentage points.
<b>Reported growth</b>	Reported growth is based on amounts reported in pound sterling as determined under IFRS.
<b>RAN</b>	Radio access network is the part of a mobile telecommunications system which provides cellular coverage to mobile phones via a radio interface, managed by thousands of base stations installed on towers and rooftops across the coverage area, and linked to the core nodes through a backhaul infrastructure which can be owned, leased or a mix of both.
<b>Retention costs</b>	The total of trade commissions, loyalty scheme and equipment costs relating to customer retention and upgrade.
<b>Roaming</b>	Allows customers to make calls, send and receive texts and data on other operators' mobile networks while travelling abroad.
<b>Service revenue</b>	Service revenue comprises all revenue related to the provision of ongoing services including, but not limited to, monthly access charges, airtime usage, roaming, incoming and outgoing network usage by non-Vodafone customers and interconnect charges for incoming calls.
<b>Smartphone devices</b>	A smartphone is a mobile phone offering advanced capabilities including access to email and the internet.
<b>Smartphone penetration</b>	The number of smartphone devices divided by the number of registered SIMs (excluding data only SIMs) and telemetric applications.
<b>SME</b>	Small to medium-sized enterprises.
<b>SoHo</b>	Small-office home-office.
<b>Spectrum</b>	The radio frequency bands and channels assigned for telecommunication services.
<b>Supranational</b>	An international organisation, or union, whereby member states go beyond national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping.
<b>Tablets</b>	A tablet is a slate shaped, mobile or portable computing device equipped with a finger operated touchscreen or stylus, for example, the Apple iPad.
<b>Telemetrics</b>	Telemetric applications include, but are not limited to, asset and equipment tracking, mobile payment and billing functionality, e.g. vending machines and meter readings, and include voice enabled customers whose usage is limited to a central service operation, e.g. emergency response applications in vehicles. Telemetric customers are not included in mobile customers.
<b>VZW</b>	Verizon Wireless, the Group's former associate in the United States.
<b>VZW income dividends</b>	Distributions (other than tax distributions) by Verizon Wireless as agreed from time to time by the Board of Verizon Wireless.
<b>VZW tax distributions</b>	Specific distributions made by the Verizon Wireless to its partners based on the taxable income.

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**Selected financial data**

The selected financial data shown below for the years ended 31 March 2014, 2013 and 2012 is presented on an IFRS basis, reflecting the Group's adoption of IFRS 11, Joint Arrangements and the revisions to IAS 19, Employee benefits, and includes the Group's joint ventures using the equity accounting basis as detailed in note 1 Basis of preparation to the consolidated financial statements. The financial data for the years ended 31 March 2011 and 2010 has not been restated as it would involve unreasonable effort and expense. The financial data for the years ended 31 March 2011 and 2010 therefore includes the Group's joint ventures on a proportionate consolidation basis, rather than on an equity accounting basis.

At/for the year ended 31 March	2014	Restated 2013	Restated 2012	2011	2010
<b>Consolidated income statement data (£m)</b>					
Revenue	38,346	38,041	38,821	45,884	44,472
Operating (loss)/profit	(3,913)	(2,202)	5,618	1,085	5,368
(Loss)/profit before taxation	(5,270)	(3,483)	4,144	5,057	4,626
Profit/(loss) for financial year from continuing operations	11,312	(3,959)	3,439	4,566	5,537
Profit for the financial year	59,420	657	6,994	7,870	8,618
<b>Consolidated statement of financial position data (£m)</b>					
Total assets	121,840	138,324	135,450	151,220	156,985
Total equity	71,781	72,488	78,202	87,561	90,810
Total equity shareholders' funds	70,802	71,477	76,935	87,555	90,381
<b>Earnings per share<sup>1,2</sup></b>					
Weighted average number of shares (millions)					
Basic	26,472	26,831	27,624	52,408	52,595
Diluted	26,682	26,831	27,938	52,748	52,849
Basic earnings per ordinary share	223.84p	1.54p	25.15p	15.20p	16.44p
Diluted earnings per ordinary share	222.07p	1.54p	24.87p	15.11p	16.36p
Basic earnings per share from continuing operations	42.10p	(15.66p)	12.28p	8.90p	10.58p
<b>Cash dividends<sup>1,3</sup></b>					
Amount per ordinary share (pence)	11.00p	10.19p	13.52p	8.90p	8.31p
Amount per ADS (pence)	110.0p	101.9p	135.2p	89.0p	83.1p
Amount per ordinary share (US cents)	18.31c	15.49c	21.63c	14.33c	12.62c
Amount per ADS (US cents)	183.1c	154.9c	216.3c	143.3c	126.2c
<b>Other data</b>					
Ratio of earnings to fixed charges <sup>4</sup>	0.7	1.7	4.3	5.8	3.6

Notes:

- 1 See note 8 to the consolidated financial statements, Earnings per share . Earnings and dividends per ADS is calculated by multiplying earnings per ordinary share by ten, the number of ordinary shares per ADS. Dividend per ADS is calculated on the same basis.
- 2 On 19 February 2014, we announced a 6 for 11 share consolidation effective 24 February 2014. This had the effect of reducing the number of shares in issue from 52,821,751,216 ordinary shares (including 4,351,833,492 ordinary shares held in Treasury) as at the close of business on 18 February 2014 to 28,811,864,298 new ordinary shares in issue immediately after the share consolidation on 24 February 2014. Earnings per share for the years ended 31 March 2013 and 2012 have been restated accordingly.
- 3 The final dividend for the year ended 31 March 2014 was proposed by the directors on 20 May 2014 and is payable on 6 August 2014 to holders of record as of 13 June 2014. The total dividends have been translated into US dollars at 31 March 2014 for purposes of the above disclosure but the dividends are payable in US dollars under the terms of the ADS depositary agreement.
- 4 For the purposes of calculating these ratios, earnings consist of loss or profit before tax adjusted for fixed charges, dividend income from associates, share of profits and losses from associates, interest capitalised and interest amortised. Fixed charges comprise one third of payments under operating leases, representing the estimated interest element of these payments, interest payable and similar charges, interest capitalised and preferred share dividends.

Vodafone, the Vodafone Speechmark, The Vodafone Portrait, Vodacom, M-Pesa, Vodafone One Net, Vodafone Red, Vodafone Relax, Vodafone Cloud, Vodafone SmartPass, Vodafone Mobile mWallet and The Vodafone Way are trade marks of the Vodafone Group. The Vodafone Rhombus is a registered design of the Vodafone Group. Other product and company names mentioned herein may be the trade marks of their respective owners.

The content of our website (vodafone.com) should not be considered to form part of this annual report or our annual report on

Form 20-F.

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**Cellco Partnership**

(d/b/a Verizon Wireless)

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements

For the years ended

December 31, 2013, 2012 and 2011

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**Cellco Partnership (d/b/a Verizon Wireless)**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Representatives of

Cellco Partnership d/b/a Verizon Wireless:

We have audited the accompanying consolidated balance sheets of Cellco Partnership and subsidiaries d/b/a Verizon Wireless (the Partnership) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows and changes in partners' capital for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

New York, New York

February 27, 2014

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**Table of Contents****Consolidated Statements of Income****Cellco Partnership (d/b/a Verizon Wireless)**

(dollars in millions)	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenue</b> (including \$102, \$83 and \$87 from affiliates)			
Service revenue	<b>\$ 69,033</b>	\$ 63,733	\$ 59,157
Equipment and other	<b>11,990</b>	12,135	10,997
<b>Total operating revenue</b>	<b>81,023</b>	75,868	70,154
<b>Operating Costs and Expenses</b> (including \$2,295, \$1,949 and \$1,708 from affiliates)			
Cost of service (exclusive of items shown below)	<b>7,295</b>	7,711	7,994
Cost of equipment	<b>16,353</b>	16,779	16,092
Selling, general and administrative	<b>22,663</b>	21,696	19,655
Depreciation and amortization	<b>8,202</b>	7,960	7,962
<b>Total operating costs and expenses</b>	<b>54,513</b>	54,146	51,703
<b>Operating Income</b>	<b>26,510</b>	21,722	18,451
<b>Other Income (Expenses)</b>			
Interest expense, net	<b>(65)</b>	(442)	(610)
Other income, net	<b>40</b>	96	56
<b>Income Before Provision for Income Taxes</b>	<b>26,485</b>	21,376	17,897
Provision for income taxes	<b>(150)</b>	(201)	(947)
<b>Net Income</b>	<b>\$ 26,335</b>	\$ 21,175	\$ 16,950
<b>Net income attributable to noncontrolling interests</b>	<b>\$ 422</b>	\$ 304	\$ 280
<b>Net income attributable to Cellco Partnership</b>	<b>25,913</b>	20,871	16,670
<b>Net Income</b>	<b>\$ 26,335</b>	\$ 21,175	\$ 16,950

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Statements of Comprehensive Income****Cellco Partnership (d/b/a/ Verizon Wireless)**

(dollars in millions)	Years Ended December 31,		
	2013	2012	2011
<b>Net Income</b>	<b>\$ 26,335</b>	<b>\$ 21,175</b>	<b>\$ 16,950</b>
<b>Other comprehensive income (loss), net of taxes</b>			
Unrealized gain (loss) on cash flow hedges	(32)	21	3
Defined benefit pension and postretirement plans			(1)
Other comprehensive income (loss) attributable to Cellco Partnership	(32)	21	2
<b>Total Comprehensive Income</b>	<b>\$ 26,303</b>	<b>\$ 21,196</b>	<b>\$ 16,952</b>
Comprehensive income attributable to noncontrolling interests	\$ 422	\$ 304	\$ 280
Comprehensive income attributable to Cellco Partnership	25,881	20,892	16,672
<b>Total Comprehensive Income</b>	<b>\$ 26,303</b>	<b>\$ 21,196</b>	<b>\$ 16,952</b>

See Notes to Consolidated Financial Statements.

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**Table of Contents****Consolidated Balance Sheets****Cellco Partnership (d/b/a Verizon Wireless)**

(dollars in millions)	<b>As of December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,005	\$ 1,354
Receivables, net of allowances of \$399 and \$350	7,204	6,657
Due from affiliates, net	245	106
Inventories, net	990	1,044
Prepaid expenses and other current assets	1,459	525
<b>Total current assets</b>	<b>13,903</b>	<b>9,686</b>
Plant, property and equipment, net		
Wireless licenses	35,932	34,546
Goodwill	75,796	77,642
Other intangibles and other assets, net	17,941	17,737
	2,249	2,102
<b>Total assets</b>	<b>\$ 145,821</b>	<b>\$ 141,713</b>
<b>Liabilities and Partners Capital</b>		
Current liabilities		
Short-term debt, including current maturities	\$ 41	\$ 1,448
Accounts payable and accrued liabilities	7,012	7,534
Advance billings	2,750	2,550
Other current liabilities	337	274
<b>Total current liabilities</b>	<b>10,140</b>	<b>11,806</b>
Long-term debt		
Deferred tax liabilities, net	5,231	8,665
Other non-current liabilities	11,001	10,939
	2,139	2,056
Partners capital		
Capital	114,979	106,119
Accumulated other comprehensive income	52	84
Noncontrolling interests	2,279	2,044
<b>Total Partners capital</b>	<b>117,310</b>	<b>108,247</b>
<b>Total liabilities and Partners capital</b>	<b>\$ 145,821</b>	<b>\$ 141,713</b>

See Notes to Consolidated Financial Statements.





**Table of Contents****Consolidated Statements of Cash Flows****Cellco Partnership (d/b/a Verizon Wireless)**

(dollars in millions)	Years Ended December 31,		
	2013	2012	2011
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 26,335	\$ 21,175	\$ 16,950
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,202	7,960	7,962
Provision for uncollectible receivables	703	634	689
Provision for deferred income taxes	72	123	368
Changes in current assets and liabilities, net of the effects of acquisition/disposition of businesses:			
Receivables	(1,371)	(1,238)	(624)
Inventories, net	54	(137)	166
Prepaid expenses and other current assets	(35)	(107)	124
Accounts payable and accrued liabilities	(120)	674	(728)
Other operating activities, net	(487)	(419)	371
<b>Net cash provided by operating activities</b>	<b>33,353</b>	<b>28,665</b>	<b>25,278</b>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (including capitalized software)	(9,425)	(8,857)	(8,973)
Acquisitions of investments and businesses, net of cash acquired	(52)	(188)	(144)
Acquisitions of wireless licenses	(14)	(4,287)	(26)
Proceeds from dispositions of wireless licenses	2,111		
Other investing activities, net	(873)	843	(490)
<b>Net cash used in investing activities</b>	<b>(8,253)</b>	<b>(12,489)</b>	<b>(9,633)</b>
<b>Cash Flows from Financing Activities</b>			
Repayments of long-term debt and capital lease obligations	(4,960)	(1,569)	(4,862)
Distributions to partners	(17,046)	(25,681)	(3,082)
Other financing activities, net	(443)	(328)	(276)
<b>Net cash used in financing activities</b>	<b>(22,449)</b>	<b>(27,578)</b>	<b>(8,220)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,651</b>	<b>(11,402)</b>	<b>7,425</b>
Cash and cash equivalents, beginning of year	1,354	12,756	5,331
<b>Cash and cash equivalents, end of year</b>	<b>\$ 4,005</b>	<b>\$ 1,354</b>	<b>\$ 12,756</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****Consolidated Statements of Changes in Partners' Capital****Cellco Partnership (d/b/a/ Verizon Wireless)**

(dollars in millions)	Years Ended December 31,		
	2013	2012	2011
<b>Partners' Capital</b>			
Balance at beginning of year	\$ 106,119	\$ 100,961	\$ 97,399
Net income attributable to Cellco Partnership	25,913	20,871	16,670
Contributed capital	(7)	(32)	(26)
Distributions declared to partners	(17,046)	(15,681)	(13,082)
Balance at end of year	114,979	106,119	100,961
<b>Accumulated Other Comprehensive Income</b>			
Balance at beginning of year	84	63	61
Unrealized gain (loss) on cash flow hedges	(32)	21	3
Defined benefit pension and postretirement plans			(1)
Other comprehensive income (loss)	(32)	21	2
Balance at end of year	52	84	63
<b>Total Partners' Capital Attributable to Cellco Partnership</b>	<b>115,031</b>	<b>106,203</b>	<b>101,024</b>
<b>Noncontrolling Interests</b>			
Balance at beginning of year	2,044	1,952	1,962
Net income attributable to noncontrolling interests	422	304	280
Distributions	(403)	(342)	(280)
Other	216	130	(10)
Balance at end of year	2,279	2,044	1,952
<b>Total Partners' Capital</b>	<b>\$ 117,310</b>	<b>\$ 108,247</b>	<b>\$ 102,976</b>

See Notes to Consolidated Financial Statements.

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**Table of Contents****Notes to Consolidated Financial Statements****Cellco Partnership (d/b/a Verizon Wireless)****1. Description of Business and Summary of Significant Accounting Policies****Description of Business**

Cellco Partnership (the Partnership), a Delaware general partnership doing business as Verizon Wireless, provides wireless communication services across one of the most extensive wireless networks in the United States (U.S.) and has the largest fourth-generation (4G) Long-Term Evolution (LTE) technology and third-generation (3G) Evolution-Data Optimized (EV-DO) networks of any U.S. wireless service provider. The Partnership has one segment and operates domestically only. References to the Partners refers to Verizon Communications, and its subsidiaries (Verizon) and Vodafone Group Plc, and its subsidiaries (Vodafone). At December 31, 2013 Verizon owned 55% of the Partnership and Vodafone owned 45% of the Partnership. On February 21, 2014, Verizon acquired Vodafone's interest in the Partnership and now owns 100% of the Partnership.

These consolidated financial statements include transactions between the Partnership and Verizon and Vodafone (Affiliates) for the provision of services and financing pursuant to various agreements (see Notes 5 and 11).

**Consolidated Financial Statements and Basis of Presentation**

The consolidated financial statements of the Partnership include the accounts of its majority-owned subsidiaries and the partnerships in which the Partnership exercises control. Investments in businesses and partnerships which the Partnership does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method of accounting. Investments and partnerships which the Partnership does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method of accounting. Equity and cost method investments are included in Other intangibles and other assets, net in the Partnership's consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated.

The Partnership has reclassified prior year amounts to conform to current year presentation.

The Partnership has evaluated subsequent events through February 27, 2014, the date these consolidated financial statements were available to be issued.

**Use of Estimates**

The Partnership prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include: the allowances for doubtful accounts, the recoverability of plant, property and equipment, the recoverability of intangible assets and other long-lived assets, unbilled revenues, fair values of financial instruments, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, contingencies and allocation of purchase prices in connection with business combinations.

**Revenue Recognition**

The Partnership offers products and services to its customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

The Partnership earns revenue primarily by providing access to and usage of its network. In general, access revenue is billed one month in advance and recognized when earned; the unearned portion is classified in Advance billings in the consolidated balance sheets. Usage revenue is generally billed in arrears and recognized when service is rendered and included in unbilled revenue, within Receivables, net in the consolidated balance sheets. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are



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delivered to and accepted by the customer, as this is considered to be a separate earnings process from providing wireless services. For agreements involving the resale of third-party services in which the Partnership is considered the primary obligor in the arrangements, the Partnership records revenue gross at the time of sale. For equipment sales, the Partnership generally subsidizes the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. In multiple deliverable arrangements which involve the sale of equipment and a service contract, the equipment revenue is recognized up to the amount collected when the wireless device is sold.

The Partnership reports taxes imposed by governmental authorities on revenue-producing transactions between the Partnership and its customers on a net basis.

## **Advertising Costs**

Costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, general and administrative expense in the periods in which they are incurred (see Note 9).

## **Vendor Rebates and Discounts**

The Partnership recognizes vendor rebates or discounts for purchases of wireless devices from a vendor as a reduction of Cost of equipment when the related wireless devices are sold. Vendor rebates or discounts that have been earned as a result of completing the required performance under the terms of the underlying agreements but for which the wireless devices have not yet been sold are recognized as a reduction of inventory cost. Advertising credits are granted by a vendor to the Partnership as reimbursement of specific, incremental, identifiable advertising costs incurred by the Partnership in selling the vendor's wireless devices. These advertising credits are restricted based upon a marketing plan agreed to by the vendor and the Partnership, and accordingly, advertising credits received are recorded as a reduction of those advertising costs when recognized in the Partnership's consolidated statements of income.

## **Cash and Cash Equivalents**

The Partnership considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates quoted market value, and includes approximately \$3.5 billion and \$0.7 billion at December 31, 2013 and 2012, respectively, held in money market funds that are considered cash equivalents.

## **Inventory**

Inventory consists primarily of wireless equipment held for sale, which is carried at the lower of cost (determined using a first-in, first-out method) or market. The Partnership maintained inventory valuation reserves which were not significant as of December 31, 2013 and 2012.

## **Capitalized Software**

Capitalized software consists primarily of direct costs incurred for professional services provided by third parties and compensation costs of employees which relate to software developed for internal use either during the application stage or for upgrades and enhancements that increase functionality. Costs are capitalized and amortized on a straight-line basis over their estimated useful lives. Costs incurred in the preliminary project stage of development and maintenance are expensed as incurred. For a discussion of the Partnership's impairment policy for capitalized software costs, see Valuation of Assets below. Also see Note 3 for additional detail of internal-use non-network software reflected in the Partnership's consolidated balance sheets.

## **Plant, Property and Equipment**

Plant, property and equipment primarily represents costs incurred to construct and expand capacity and network coverage on Mobile Telephone Switching Offices and cell sites. The cost of plant, property and equipment is depreciated on a straight-line basis over its estimated useful life. Periodic reviews are performed to identify any

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category or group of assets within plant, property and equipment where events or circumstances may change the remaining estimated economic life. This principally includes changes in the Partnership's plans regarding technology upgrades, enhancements, and planned retirements. Changes in these estimates resulted in an increase of \$0.4 billion for the year ended December 31, 2011. Major improvements to existing plant and equipment are capitalized. Routine maintenance and repairs that do not extend the life of the plant and equipment are charged to expense as incurred. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the related lease.

Upon the sale or retirement of plant, property and equipment, the cost and related accumulated depreciation or amortization is deducted from the plant accounts and any gains or losses on disposition are recognized in income.

Interest expense and network engineering costs incurred during the construction phase of the Partnership's network and real estate properties under development are capitalized as part of plant, property and equipment and recorded as construction in progress until the projects are completed and placed into service.

**Valuation of Assets**

Long-lived assets, including plant, property and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**Wireless Licenses**

The Partnership's principal intangible assets are licenses, which provide the Partnership with the exclusive right to utilize designated radio frequency spectrum to provide wireless communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). License renewals have occurred routinely and at nominal costs, which are expensed as incurred. Moreover, the Partnership has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the Partnership's wireless licenses. As a result, the wireless licenses are treated as an indefinite lived intangible asset, and are not amortized. The Partnership reevaluates the useful life determination for wireless licenses at least annually to determine whether events and circumstances continue to support an indefinite useful life.

The Partnership tests its wireless licenses for potential impairment annually. In 2013, the Partnership performed a qualitative assessment to determine whether it is more likely than not that the fair value of its wireless licenses was less than the carrying amount. As part of the assessment, the Partnership considered several qualitative factors including the business enterprise value of the Partnership, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA (Earnings before interest, taxes, depreciation and amortization) margin projections), the projected financial performance of the Partnership, as well as other factors. Based on our assessment in 2013, we qualitatively concluded that it was more likely than not that the fair value of our wireless licenses significantly exceeded their carrying value and therefore, did not result in an impairment. In 2012, the Partnership's quantitative assessment consisted of comparing the estimated fair value of the Partnership's wireless licenses to the aggregated carrying amount as of the test date. Using the quantitative assessment, the Partnership evaluated its licenses on an aggregate basis using a direct value approach. The direct value approach estimates fair value using a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized. The Partnership's annual quantitative impairment test for 2012 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment. The Partnership evaluated its wireless licenses for potential impairment as of December 15, 2013 and 2012.

Interest expense incurred while qualifying activities are performed to ready wireless licenses for their intended use is capitalized as part of wireless licenses. The capitalization period ends when a license is substantially complete and the license is ready for its intended use.

**Table of Contents****Goodwill**

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually in the fourth fiscal quarter or more frequently if impairment indicators are present. The Partnership has the option to perform a qualitative assessment to determine if the fair value of the entity is less than its carrying value. However, the Partnership may elect to perform an impairment test even if no indications of a potential impairment exist. The impairment test for goodwill uses a two-step approach, which is performed for the Partnership's one reporting unit. Step one compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized. The Partnership completed its goodwill impairment test as of December 15, 2013 and 2012. The Partnership's annual impairment tests for 2013 and 2012 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

**Fair Value Measurements**

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Partnership's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

See Note 4 for further details on the Partnership's fair value measurements.

**Foreign Currency Translation**

The functional currency for all of the Partnership's operations is the U.S. dollar. However, the Partnership has transactions denominated in a currency other than the local currency, principally debt denominated in Euros and British Pounds Sterling. Gains and losses resulting from exchange-rate changes in transactions denominated in a foreign currency are included in earnings.

**Derivative Instruments**

The Partnership uses derivatives from time to time to manage the Partnership's exposure to fluctuations in the cash flows of certain transactions. The Partnership measures all derivatives at fair value and recognizes them as either assets or liabilities on its consolidated balance sheets. The Partnership's derivative instruments are valued primarily using models based on readily observable market parameters for all substantial terms of the Partnership's derivative contracts and thus are classified as Level 2. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in Other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings.

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### **Employee Benefit Plans**

The Partnership maintains a defined contribution plan, the Verizon Wireless Savings and Retirement Plan (the Savings and Retirement Plan), for the benefit of its employees. The Savings and Retirement Plan includes both an employee savings and profit sharing component. Under the employee savings component, employees may contribute a percentage of eligible compensation to the Savings and Retirement Plan. Up to the first 6% of an employee's eligible compensation contributed to the Savings and Retirement Plan is matched 100% by the Partnership. Under the profit sharing component, the Partnership may elect, at the sole discretion of the Human Resources Committee of the Board of Representatives, to contribute an additional amount in the form of a profit sharing contribution to the accounts of eligible employees (see Note 9).

### **Long-Term Incentive Compensation**

The Partnership measures compensation expense for all stock-based compensation awards made to employees and directors based on estimated fair values (see Note 6).

### **Income Taxes**

The Partnership is not a taxable entity for federal income tax purposes. Any federal taxable income or loss is included in the respective partners consolidated federal return. Certain states, however, impose taxes at the partnership level and such taxes are the responsibility of the Partnership and are included in the Partnership's tax provision. The consolidated financial statements also include provisions for federal and state income taxes, prepared on a stand-alone basis, for all corporate entities within the Partnership. Deferred income taxes are recorded using enacted tax law and rates for the years in which the taxes are expected to be paid or refunds received. Deferred income taxes are provided for items when there is a temporary difference in recording such items for financial reporting and income tax reporting.

The Partnership uses a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The first step is recognition: the Partnership determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Partnership presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

The Partnership recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

### **Concentrations**

The Partnership relies on local and long-distance telephone companies, some of whom are related parties (see Note 11), and other companies to provide certain communication services. Although management believes alternative telecommunications facilities could be found in a timely manner, any disruption of these services could potentially have an adverse impact on the Partnership's business, results of operations and financial condition.

No single customer receivable is large enough to present a significant financial risk to the Partnership.

### **Recently Adopted Accounting Standards**

During the first quarter of 2013, the Partnership adopted the accounting standard update regarding testing of intangible assets for impairment. This standard update allows companies the option to perform a qualitative



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assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. The adoption of this standard update did not have an impact on the Partnership's consolidated financial statements.

During the first quarter of 2013, the Partnership adopted the accounting standard update regarding reclassifications out of Accumulated other comprehensive income. This standard update requires companies to report the effect of significant reclassifications out of Accumulated other comprehensive income on the respective line items in the Partnership's consolidated statements of income if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other required disclosures that provide additional detail about those amounts. See Note 12 for additional details.

During the third quarter of 2013, the Partnership adopted the accounting standard update regarding the ability to use the Federal Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes. Previously the interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate (LIBOR) were considered to be the only benchmark interest rates. The adoption of this standard update did not have a significant impact on the Partnership's consolidated financial statements.

**Recent Accounting Standards**

In July 2013, the accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists was issued. The standard update provides that a liability related to an unrecognized tax benefit should be offset against same jurisdiction deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The Partnership will adopt this standard update during the first quarter of 2014. The Partnership is currently evaluating the consolidated balance sheet impact related to this standard update.

**2. Acquisitions and Divestitures****Wireless Transaction**

On September 2, 2013, Verizon entered into a stock purchase agreement (the Stock Purchase Agreement) with Vodafone and Vodafone 4 Limited (Seller), pursuant to which Verizon agreed to acquire Vodafone's indirect 45% interest in the Partnership, (and such interest, the Vodafone Interest) for aggregate consideration of approximately \$130 billion.

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately \$58.89 billion in cash, (ii) issued approximately \$60.15 billion of Verizon's common stock, par value \$0.10 per share (the Stock Consideration), (iii) issued senior unsecured Verizon notes in an aggregate principal amount of \$5.0 billion (the Verizon Notes), (iv) sold Verizon's indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at \$3.5 billion and (v) provided other consideration of approximately \$2.5 billion. As a result of the Wireless Transaction, Verizon issued approximately 1.27 billion shares. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness.

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### **Spectrum License Transactions**

Since 2012, the Partnership has entered into several strategic spectrum transactions including:

During the third quarter of 2012, after receiving the required regulatory approvals, the Partnership completed the following previously announced transactions in which the Partnership acquired wireless spectrum that will be used to deploy additional 4G LTE capacity:

The Partnership acquired Advanced Wireless Services (AWS) spectrum in separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC for which it paid an aggregate of \$3.9 billion at the time of the closings. The Partnership has also recorded a liability of \$0.4 billion related to a three-year service obligation to SpectrumCo's members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.

The Partnership completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile USA, Inc. (T-Mobile USA). As a result of these transactions, the Partnership received an aggregate \$2.6 billion of AWS and Personal Communication Services (PCS) licenses at fair value and net cash proceeds of \$0.2 billion, transferred certain AWS licenses to T-Mobile USA and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

During the first quarter of 2013, the Partnership completed license exchange transactions with T-Mobile License LLC and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain AWS licenses. These non-cash exchanges include a number of intra-market swaps that the Partnership expects will enable it to make more efficient use of the AWS band. As a result of these exchanges, the Partnership received an aggregate \$0.5 billion of AWS licenses at fair value and recorded an immaterial gain.

During the third quarter of 2013, after receiving the required regulatory approvals, the Partnership sold 39 lower 700 MHz B block spectrum licenses to AT&T Inc. (AT&T) in exchange for a payment of \$1.9 billion and the transfer by AT&T to the Partnership of AWS (10 MHz) licenses in certain markets in the western United States. The Partnership also sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of \$0.2 billion. As a result, the Partnership received \$0.5 billion of AWS licenses at fair value and the Partnership recorded a pre-tax gain of approximately \$0.4 billion in Selling, general and administrative expense on its consolidated statement of income for the year ended December 31, 2013.

During the fourth quarter of 2013, the Partnership entered into license exchange agreements with T-Mobile USA to exchange certain AWS and PCS licenses. These non-cash exchanges, which are subject to approval by the FCC and other customary closing conditions, are expected to close in the first half of 2014. The exchange includes a number of swaps that the Partnership expects will result in more efficient use of the AWS and PCS bands. As a result of these agreements, \$0.9 billion of Wireless licenses are classified as held for sale and included in Prepaid expenses and other current assets on the Partnership's consolidated balance sheet at December 31, 2013. Upon completion of the transaction, the Partnership expects to record an immaterial gain.

Subsequent to the transaction with T-Mobile USA in the fourth quarter of 2013, on January 6, 2014, the Partnership announced two agreements with T-Mobile USA with respect to its remaining 700 MHz A block spectrum licenses. Under one agreement, the Partnership will sell certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately \$2.4 billion, and under the second agreement the Partnership will exchange the remainder of these licenses for AWS and PCS spectrum licenses. These transactions are subject to the approval of the FCC as well as other customary closing conditions. These transactions are expected to close in the middle of 2014.

**Table of Contents****Other**

During 2013, the Partnership acquired various other wireless licenses and markets for cash consideration that was not significant. Additionally, the Partnership obtained control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated, which resulted in an immaterial gain. The Partnership recorded \$0.2 billion of goodwill as a result of these transactions.

During 2012, the Partnership acquired various other wireless licenses and markets for cash consideration that was not significant and recorded \$0.2 billion of goodwill as a result of these transactions.

**3. Wireless Licenses, Goodwill and Other Intangibles, Net****Wireless Licenses**

Changes in the carrying amount of Wireless licenses are as follows:

(dollars in millions)	
Balance as of January 1, 2012	\$ 73,097
Acquisitions (Note 2)	4,544
Capitalized interest on wireless licenses	205
Reclassifications, adjustments and other	(204)
<b>Balance as of December 31, 2012</b>	<b>77,642</b>
Acquisitions (Note 2)	579
Dispositions (Note 2)	(2,195)
Capitalized interest on wireless licenses	540
Reclassifications, adjustments and other	(770)
<b>Balance as of December 31, 2013</b>	<b>\$ 75,796</b>

Reclassifications, adjustments and other includes \$0.9 billion of Wireless licenses that are classified as held for sale and included in Prepaid expenses and other current assets on the Partnership's consolidated balance sheet at December 31, 2013 as well as the exchanges of wireless licenses in 2013 and 2012. See Note 2 for additional details.

At December 31, 2013 and 2012, approximately \$7.7 billion and \$7.3 billion, respectively, of wireless licenses were under development for commercial service for which the Partnership was capitalizing interest costs.

The average remaining renewal period of the Partnership's wireless license portfolio was 5.1 years as of December 31, 2013. See Note 1 for additional details.

**Goodwill**

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	
Balance at January 1, 2012	\$ 17,528
Acquisitions (Note 2)	209
<b>Balance at December 31, 2012</b>	<b>17,737</b>
Acquisitions (Note 2)	204

<b>Balance at December 31, 2013</b>	<b>\$ 17,941</b>
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**Table of Contents****Other Intangibles, net**

Other intangibles, net are included in Other intangibles and other assets, net and consist of the following:

(dollars in millions)	At December 31, 2013			At December 31, 2012		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (6 to 8 years)	\$ 2,232	\$ (1,803)	\$ 429	\$ 2,187	\$ (1,550)	\$ 637
Non-network internal-use software (5 to 7 years)	1,897	(802)	1,095	1,462	(589)	873
Other (2 to 3 years)	7	(1)	6	26	(21)	5
<b>Total</b>	<b>\$ 4,136</b>	<b>\$ (2,606)</b>	<b>\$ 1,530</b>	<b>\$ 3,675</b>	<b>\$ (2,160)</b>	<b>\$ 1,515</b>

The amortization expense for other intangible assets was as follows:

Years	(dollars in millions)
<b>2013</b>	<b>\$ 476</b>
2012	465
2011	513

Estimated annual amortization expense for other intangible assets is as follows:

Years	(dollars in millions)
2014	\$ 434
2015	360
2016	279
2017	192
2018	146

**4. Fair Value Measurements and Financial Instruments**

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31, 2013:

(dollars in millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Other intangibles and other assets, net:				
Derivative contracts - Cross currency swaps (Non-current)	\$	\$ 166	\$	\$ 166

Derivative contracts are valued using models based on readily observable market parameters for all substantial terms of the Partnership's derivative contracts and thus are classified within Level 2. The Partnership uses mid-market pricing for fair value measurements of its derivative instruments. The Partnership's derivative instruments are recorded on a gross basis.

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The Partnership recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during 2013.

*Fair Value of Short-term and Long-term Debt*

The fair value of the Partnership's debt is determined using various methods, including quoted market prices for identical terms and maturities, which is a Level 1 measurement, as well as quoted prices for similar terms and maturities in inactive markets and future cash flows discounted at current rates, which are Level 2 measurements. The fair value of the Partnership's short-term and long-term debt, excluding capital leases, was as follows:

	At December 31, 2013		At December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(dollars in millions)				
Short- and long-term debt, excluding capital leases	\$ 5,211	\$ 6,386	\$ 10,105	\$ 12,235

**Derivative Instruments**

The Partnership has entered into derivative transactions to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. The Partnership employs risk management strategies which may include the use of a variety of derivatives including cross currency swaps agreements. The Partnership does not hold derivatives for trading purposes.

*Cross Currency Swaps*

The Partnership previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix its future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. A portion of the gains and losses recognized in Other comprehensive income (loss) was reclassified to Other income, net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2013 or December 31, 2012. During 2013 and 2012, the gains with respect to these swaps were not material.

**Concentrations of Credit Risk**

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, trade receivables and derivative contracts. The Partnership's policy is to deposit its temporary cash investments with major financial institutions. Counterparties to the Partnership's derivative contracts are also major financial institutions. The financial institutions have all been accorded high ratings by primary rating agencies. The Partnership limits the dollar amount of contracts entered into with any one financial institution and monitors its counterparties' credit ratings. The Partnership generally does not give or receive collateral on swap agreements due to its credit rating and those of its counterparties. While the Partnership may be exposed to credit losses due to the nonperformance of its counterparties, the Partnership considers the risk remote and does not expect the settlement of these transactions to have a material effect on its results of operations or financial condition.

**Table of Contents****5. Debt**

Changes to debt during 2013 are as follows:

(dollars in millions)	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2013	\$ 1,448	\$ 8,665	\$10,113
Repayments of long-term borrowings and capital lease obligations	(1,460)	(3,500)	(4,960)
Other	53	66	119
<b>Balance at December 31, 2013</b>	<b>\$ 41</b>	<b>\$ 5,231</b>	<b>\$5,272</b>

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	(dollars in millions)	
			2013	2012
Notes payable	8.5 - 8.88	2015 - 2018	\$ 3,931	\$ 8,635
Alltel assumed notes	6.80 - 7.88	2016 - 2032	1,300	1,500
Capital lease obligations (average rate of 4.4% and 1.2% in 2013 and 2012, respectively)			61	8
Unamortized discount, net of premium			(20)	(30)
Total long-term debt, including current maturities			5,272	10,113
Less long-term debt maturing within one year			41	1,448
Total long-term debt			\$ 5,231	\$ 8,665

Verizon Wireless Capital LLC, a wholly-owned subsidiary of the Partnership, is a limited liability company formed under the laws of Delaware on December 7, 2001 as a special purpose finance subsidiary to facilitate the offering of debt securities of the Partnership by acting as co-issuer. Other than the financing activities as a co-issuer of the Partnership's indebtedness, Verizon Wireless Capital LLC has no material assets, operations or revenues. The Partnership is jointly and severally liable with Verizon Wireless Capital LLC for co-issued notes.

Discounts, premiums, and capitalized debt issuance costs are amortized using the effective interest method.

**2013**

During November 2013, \$1.25 billion of 7.375% Notes and \$0.2 billion of 6.50% Notes matured and were repaid. Also during November 2013, the Partnership redeemed \$3.5 billion of 5.55% Notes, due February 1, 2014 at a redemption price of 101% of the principal amount of the notes. Any accrued and unpaid interest was paid to the date of redemption.

**2012**

During February 2012, \$0.8 billion of 5.25% Notes matured and were repaid. During July 2012, \$0.8 billion of 7.0% Notes matured and were repaid.

**Term Notes Payable to Affiliate**

Under the terms of a fixed rate promissory note with Verizon Financial Services LLC (VFSL), a wholly-owned subsidiary of Verizon, the Partnership may borrow, repay and re-borrow up to a maximum principal amount of \$0.8 billion. During July 2013, the maturity date of this note was extended to August 1, 2016 and the interest rate decreased from 5.8% to 4.5% per annum. As of December 31, 2013, outstanding borrowings under this note, included within Other current liabilities on the consolidated balance sheet, were immaterial.

**Table of Contents***Debt Covenants*

As of December 31, 2013, the Partnership is in compliance with all of its debt covenants.

*Maturities of Long-Term Debt*

Maturities of long-term debt outstanding at December 31, 2013 are as follows:

Years	(dollars in millions)
2014	\$ 41
2015	699
2016	299
2017	7
2018	3,226
Thereafter	1,000

**6. Long-Term Incentive Plan***Verizon Wireless Long-Term Incentive Plan (Wireless Plan)*

The Wireless Plan provides compensation opportunities to eligible employees and other participating affiliates of the Partnership. The plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of December 31, 2013, all VARs were fully vested. The Partnership has not granted new VARs since 2004.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan. Similar to stock options, the valuation is determined using a Black-Scholes model. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. All outstanding VARs are fully exercisable and have a maximum term of 10 years. All VARs were granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

The Partnership employs the income approach, a standard valuation technique, to arrive at the fair value of the Partnership on a quarterly basis using publicly available information. The income approach uses future net cash flows discounted at market rates of return to arrive at an estimate of fair value, as defined in the plan.

The following table summarizes the assumptions used in the Black-Scholes model for the year ended December 31, 2013:

	2013 End of Period
Risk-free rate	0.11%
Expected term (in years)	0.12
Expected volatility	43.27%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life ending on the measurement date.



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For the years ended December 31, 2013, 2012 and 2011, the intrinsic value of VARs exercised during the period was \$0.1 billion, respectively.

Cash paid to settle VARs for the years ended December 31, 2013, 2012 and 2011 was \$0.1 billion, respectively.

Awards outstanding at December 31, 2013, 2012 and 2011 under the Wireless Plan are summarized as follows:

(shares in thousands)	VARs <sup>(a)</sup>	Weighted-Average Exercise Price of VARs <sup>(a)</sup>	Vested VARs <sup>(a)</sup>
Outstanding, January 1, 2011	11,569	\$ 13.11	11,569
Exercised	(3,303)	14.87	
Cancelled/Forfeited	(52)	14.74	
Outstanding, December 31, 2011	8,214	12.39	8,214
Exercised	(3,427)	10.30	
Cancelled/Forfeited	(21)	11.10	
Outstanding, December 31, 2012	4,766	13.89	4,766
Exercised	(1,916)	13.89	
Cancelled/Forfeited	(3)	13.89	
<b>Outstanding, December 31, 2013</b>	<b>2,847</b>	<b>\$ 13.89</b>	<b>2,847</b>

(a) The weighted average exercise price is presented in dollars; VARs are presented in units. At December 31, 2013 all outstanding VARs had an exercise price of \$13.89 and substantially all of the VARs expire in March 2014.

As of December 31, 2013, the aggregate intrinsic value of VARs outstanding and vested was \$0.1 billion.

*Verizon Communications Inc. Long-Term Incentive Plan*

The Verizon Communications Inc. Long-Term Incentive Plan (the Verizon Plan) permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards to Partnership employees. The maximum number of shares available for awards from the Verizon Plan is 119.6 million shares.

**Restricted Stock Units**

The Verizon Plan provides for grants of Restricted Stock Units (RSUs) that generally vest at the end of the third year after the grant. The RSUs are classified as equity awards because the RSUs will be paid in Verizon common stock upon vesting. The RSU equity awards are measured using the grant date fair value of Verizon common stock and are not remeasured at the end of each reporting period. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

The Partnership had approximately 4.1 million and 4.7 million RSUs outstanding under the Verizon Plan as of December 31, 2013 and 2012, respectively.

**Performance Stock Units**

The Verizon Plan also provides for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. As defined by the Verizon Plan, the Human Resources Committee of the Board of Directors of Verizon determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of



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Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award.

The Partnership had approximately 6.0 million and 7.0 million PSUs outstanding under the Verizon Plans as of December 31, 2013 and 2012, respectively.

As of December 31, 2013, unrecognized compensation expense related to the unvested portion of the Partnership's RSUs and PSUs was approximately \$0.1 billion and is expected to be recognized over a weighted-average period of approximately two years.

*Stock-Based Compensation Expense*

For each of the years ended December 31, 2013, 2012 and 2011, the Partnership recognized compensation expense for stock based compensation related to VARs, RSUs and PSUs of \$0.2 billion, \$0.3 billion and \$0.2 billion, respectively.

**7. Income Taxes***Provision for Income Taxes*

The provision for income taxes consists of the following:

Years Ended December 31,	2013	(dollars in millions) 2012 2011	
<b>Current tax provision:</b>			
Federal	\$ 47	\$ 106	\$ 476
State and local	31	(28)	103
	78	78	579
<b>Deferred tax provision:</b>			
Federal	60	35	369
State and local	12	88	(1)
	72	123	368
<b>Provision for income taxes</b>	<b>\$ 150</b>	<b>\$ 201</b>	<b>\$ 947</b>

A reconciliation of the income tax provision computed at the statutory tax rate to the Partnership's effective tax rate is as follows:

Years Ended December 31,	2013	(dollars in millions) 2012 2011	
Income tax provision at the statutory rate	\$ 9,270	\$ 7,481	\$ 6,264
State and local income taxes, net of U.S. federal benefit	45	47	57
Other	(28)	3	(7)
Partnership income not subject to federal or state income taxes	(9,137)	(7,330)	(5,367)
<b>Provision for income tax</b>	<b>\$ 150</b>	<b>\$ 201</b>	<b>\$ 947</b>



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Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of the Partnership's deferred taxes are shown in the following table:

At December 31,	(dollars in millions)	
	2013	2012
<b>Deferred tax assets:</b>		
Net operating loss carryforward	\$ 165	\$ 122
Valuation allowance	(89)	(55)
Other	207	134
<b>Total deferred tax assets</b>	<b>283</b>	<b>201</b>
<b>Deferred tax liabilities:</b>		
Intangible assets	9,457	9,355
Plant, property and equipment	1,407	1,445
Other	354	264
<b>Total deferred tax liabilities</b>	<b>11,218</b>	<b>11,064</b>
<b>Net deferred tax asset-current<sup>(a)</sup></b>	<b>66</b>	<b>76</b>
<b>Net deferred tax liability-non-current</b>	<b>\$ 11,001</b>	<b>\$ 10,939</b>

(a) Included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

At December 31, 2013, the Partnership had state net operating loss carryforwards of \$3.6 billion. These net operating loss carryforwards expire at various dates principally from December 31, 2018 through December 31, 2033.

*Unrecognized Tax Benefits*

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	(dollars in millions)		
	2013	2012	2011
Balance as of January 1	\$ 306	\$ 267	\$ 393
Additions based on tax positions related to the current year	16	13	10
Additions for tax positions of prior years	9	72	53
Reductions for tax positions of prior years	(48)	(49)	(187)
Reductions due to lapse of applicable statute of limitations	(73)		(2)
Settlements		3	
<b>Balance as of December 31</b>	<b>\$ 210</b>	<b>\$ 306</b>	<b>\$ 267</b>

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Included in the total unrecognized tax benefits balance is \$0.1 billion, \$0.2 billion and \$0.2 billion as of December 31, 2013, 2012 and 2011, respectively, that, if recognized, would favorably affect the effective tax rate. The remaining unrecognized tax benefits relate to temporary items that would not affect the effective tax rate.

The after-tax accrual for the payment of interest and penalties in the balance sheet relating to the unrecognized tax benefits reflected above was not significant for the years ended December 31, 2013, 2012 and 2011.

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The net after-tax benefits (expenses) related to interest in the provision for income taxes were not significant for the years ended December 31, 2013, 2012 and 2011.

The Partnership or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Partnership is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2003. The Internal Revenue Service (IRS) is currently examining some of the Partnership's subsidiaries. As a result of the anticipated resolution of various income tax matters within the next twelve months, the Partnership believes that it is reasonably possible that the unrecognized tax benefits may be adjusted. An estimate of the amount of the change attributable to any such settlement cannot be made until issues are further developed or examinations close.

**8. Leases***As Lessee*

The Partnership has entered into operating leases for facilities and equipment used in its operations. Lease contracts contain renewal options that include rent expense adjustments based on the Consumer Price Index as well as annual and end-of-lease term adjustments. Rent expense is recorded on a straight-line basis over the noncancelable lease term which is generally determined to be the initial lease term. Total rent expense under operating leases amounted to \$2.0 billion in 2013, \$1.8 billion in 2012 and \$1.7 billion in 2011.

The aggregate future minimum rental commitments under noncancelable operating leases, excluding renewal options that are not reasonably assured for the periods shown at December 31, 2013, are as follows:

(dollars in millions)

<b>Years</b>	<b>Operating Leases</b>
2014	\$ 1,689
2015	1,518
2016	1,290
2017	1,043
2018	822
Thereafter	2,974
<b>Total minimum rental commitments</b>	<b>\$ 9,336</b>

**9. Supplementary Financial Information***Supplementary Balance Sheet Information*

(dollars in millions)	<b>At December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Receivables, Net:</b>		
Accounts receivable	\$ 6,228	\$ 5,848
Other receivables	1,067	864
Unbilled revenue	308	295
	<b>7,603</b>	<b>7,007</b>
Less: allowance for doubtful accounts	(399)	(350)
<i>Receivables, net</i>	<b>\$ 7,204</b>	<b>\$ 6,657</b>





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At December 31,	Lives (years)	(dollars in millions)	
		2013	2012
<b>Plant, Property and Equipment, Net:</b>			
Land		\$ 244	\$ 244
Buildings	20-45	11,742	10,855
Wireless plant and equipment	3-15	60,550	54,867
Furniture, fixtures and equipment	3-10	3,700	3,603
Leasehold improvements	5	4,728	4,310
Construction-in-progress <sup>(b)</sup>		2,283	2,572
		83,247	76,451
Less: accumulated depreciation <sup>(c)</sup>		(47,315)	(41,905)
<i>Plant, property and equipment, net<sup>(a)</sup></i>		\$ 35,932	\$ 34,546

- (a) Interest costs of \$0.1 billion and network engineering costs of \$0.5 billion and \$0.4 billion were capitalized during the years ended December 31, 2013 and 2012, respectively.
- (b) Construction-in-progress includes \$0.9 billion and \$1.2 billion of accrued but unpaid capital expenditures as of December 31, 2013 and 2012, respectively.
- (c) Depreciation of plant, property and equipment was \$7.7 billion, \$7.5 billion and \$7.4 billion, for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31,	(dollars in millions)	
	2013	2012
<b>Accounts Payable and Accrued Liabilities:</b>		
Accounts payable, accrued interest and accrued expenses	\$ 4,176	\$ 4,538
Accrued payroll and related employee benefits	1,347	1,385
Taxes payable	651	687
Accrued commissions	838	924
<i>Accounts payable and accrued liabilities</i>	\$ 7,012	\$ 7,534

*Supplementary Statements of Income Information*

For the Years Ended December 31,	(dollars in millions)		
	2013	2012	2011
<b>Advertising and Promotional Cost:</b>	\$ 1,856	\$ 1,826	\$ 1,925
<b>Employee Benefit Plans:</b>			
Matching contribution expense	\$ 251	\$ 247	\$ 231
Profit sharing expense	152	60	82
<b>Interest Expense, Net:</b>			
Interest expense	\$ (720)	\$ (776)	\$ (954)
Capitalized interest	655	334	344

<i>Interest expense, net</i>	\$ (65)	\$ (442)	\$ (610)
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**Table of Contents***Supplementary Cash Flows Information*

For the Years Ended December 31,	(dollars in millions)		
	2013	2012	2011
Net cash paid for income taxes	\$ 179	\$ 245	\$ 505
Interest paid, net of amounts capitalized	130	464	610

**10. Noncontrolling Interests**

Noncontrolling interests in equity of subsidiaries were as follows:

At December 31,	(dollars in millions)	
	2013	2012
Verizon Wireless of the East LP	\$ 1,179	\$ 1,179
Cellular partnerships - various	1,100	865
Noncontrolling interests	\$ 2,279	\$ 2,044

*Verizon Wireless of the East LP*

Verizon Wireless of the East LP is a limited partnership formed in 2002 and is controlled and managed by the Partnership. Verizon held the noncontrolling interest of Verizon Wireless of the East LP at December 31, 2013 and 2012. As per the agreement between the Partnership and Verizon, Verizon has not been allocated any of the profits of Verizon Wireless of the East LP.

**11. Other Transactions with Affiliates**

In addition to transactions with Affiliates in Note 5, other significant transactions with Affiliates are summarized as follows:

For the Years Ended December 31,	(dollars in millions)		
	2013	2012	2011
Revenue related to transactions with affiliated companies	\$ 102	\$ 83	\$ 87
Cost of service <sup>(a)</sup>	1,378	1,365	1,396
Selling, general and administrative expenses <sup>(b)</sup>	917	584	312

- (a) Affiliate cost of service primarily represents charges for long distance, direct telecommunication and roaming services provided by affiliates.
- (b) Affiliate selling, general and administrative expenses include charges from affiliates for services provided, including insurance, leases, office telecommunications, and billing and lockbox services, as well as services billed from Verizon Corporate Services, Verizon Sourcing LLC, Verizon Corporate Resources Group and Verizon Data Solutions for functions performed under service level agreements.

**Table of Contents***Other Transactions with Affiliates*

Accounts payable and accrued liabilities as of December 31, 2013 and 2012 include \$68 million and \$92 million, respectively, due to affiliates primarily comprised of costs associated with services provided in the normal course of business and roaming services.

*Distributions to Partners*

In May 2013, the Board of Representatives of the Partnership declared a distribution to its owners, which was paid in the second quarter of 2013 in proportion to their partnership interests on the payment date, in the aggregate amount of \$7.0 billion. As a result, Vodafone received a cash payment of \$3.15 billion and the remainder of the distribution was received by Verizon.

In November 2012, the Board of Representatives of the Partnership declared a distribution to its owners, which was paid in the fourth quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$8.5 billion. As a result, Vodafone received a cash payment of \$3.8 billion and the remainder of the distribution was received by Verizon.

In July 2011, the Board of Representatives of the Partnership declared a distribution to its owners, which was paid in the first quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$10 billion. As a result, Vodafone received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

As required under the Partnership Agreement, the Partnership paid aggregate tax distributions of \$10.0 billion, \$7.2 billion and \$3.1 billion to its Partners during the years ended December 31, 2013, 2012 and 2011, respectively. In addition to quarterly tax distributions to its Partners, its Partners have directed the Partnership to make supplemental tax distributions to them, subject to the Partnership's board of representatives' right to reconsider these distributions based on significant changes in overall business and financial conditions. During the year ended December 31, 2013, the Partnership made supplemental tax distributions in the aggregate amount of \$0.9 billion, which is included in the total distribution paid above.

During February 2014, the Partnership paid aggregate tax distributions of \$1.8 billion to its Partners.

**12. Accumulated Other Comprehensive Income**

Comprehensive income consists of net income and other gains and losses affecting Partners' capital that, under U.S. GAAP, are excluded from net income.

**Accumulated Other Comprehensive Income**

The changes in the balances of Accumulated other comprehensive income by component are as follows:

(dollars in millions)	Unrealized loss on cash flow hedges	Defined benefit pension and	Total
		postretirement plans	
Balance at January 1, 2013	\$ 80	\$ 4	84
Other comprehensive income	13		13
Amounts reclassified to net income	(45)		(45)
Net other comprehensive loss	(32)		(32)
<b>Balance at December 31, 2013</b>	<b>\$ 48</b>	<b>\$ 4</b>	<b>52</b>



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The amounts presented above in net other comprehensive loss are net of taxes and noncontrolling interests, which are not significant. For the year ended December 31, 2013, all other amounts reclassified to net income in the table above are included in Other income, net on the Partnership's consolidated statements of income.

### **13. Commitments and Contingencies**

Bell Atlantic, now known as Verizon Communications, and Vodafone entered into an alliance agreement to create a wireless business composed of both companies' U.S. wireless assets, as amended, which the Partnership refers to as the Alliance Agreement. The Alliance Agreement contains a provision, subject to specified limitations, that requires Verizon and Vodafone to indemnify the Partnership for certain contingencies, excluding PrimeCo Personal Communications L.P. contingencies, arising prior to the formation of the Partnership.

Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Partnership establishes an accrual. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. The Partnership continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. The Partnership does not expect that the ultimate resolution of any pending regulatory or legal matter in future periods will have a material effect on the Partnership's financial condition, but it could have a material effect on the Partnership's results of operations for a given reporting period.

Verizon has entered into reimbursement agreements with third-party lenders that permit these lenders to issue letters of credit to third parties on behalf of the Partnership and the Partnership's subsidiaries.

The Partnership has several commitments primarily to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling \$15.6 billion. Of this total amount, \$13.6 billion is attributable to 2014, \$1.0 billion is attributable to 2015 through 2016, \$0.5 billion is attributable to 2017 through 2018 and \$0.5 billion is attributable to years thereafter. These amounts do not represent the Partnership's entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. The Partnership's commitments are generally determined based on the noncancelable quantities or termination amounts. Purchases against the Partnership's commitments for 2013 totaled approximately \$9.8 billion. The Partnership also purchases products and services as needed with no firm commitment.

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**20F Disclosure Description of American Depositary Shares (Item 12D)**

**Fees Payable By ADR Holders**

The Bank of New York Mellon, the depositary, collects its fees for delivery and surrender of ADRs directly from investors depositing shares or surrendering ADRs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors, including in connection with the payment of dividends, by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADRs (or portion of 100 ADRs)

**For:**

Issuance of ADRs, including issuances resulting from a distribution of shares or rights or other property

\$.02 (or less) per ADR (or portion thereof). The current per

Cancellation of ADRs for the purpose of withdrawal, including if the deposit agreement terminates

ADR fee to be charged for an interim dividend is \$0.01 per

Any cash distribution to ADR registered holders

ADR and for a final dividend is \$0.02 per ADR.

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADRs

Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR registered holders

Registration or transfer fees

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Expenses of the depositary

Cable, telex, facsimile transmissions and delivery expenses (when expressly provided in the deposit agreement)

Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying

Converting foreign currency to US dollars

As necessary

an ADR, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

As necessary

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**Fees Payable By The Depositary To The Issuer**

As set out above, pursuant to the deposit agreement, the depositary may charge up to \$0.02 per ADR in respect of dividends paid by us. We have agreed with the depositary that any dividend fee collected by it is paid to us, net of any dividend collection fee charged by it. For the year ended 31 March 2014, we agreed with the depositary that it will charge \$0.01 per ADR in respect of any interim dividend and \$0.02 per ADR in respect of any final dividend paid during that year.

As at 31 March 2014, we have received approximately \$31.4 million arising out of fees charged in respect of dividends paid during the year. We also have an agreement with the depositary that it will absorb any of its out-of-pocket maintenance costs for servicing the holders of the ADRs up to \$1,000,000 per calendar year. However, any of the depositary's out-of-pocket maintenance costs which exceed the \$1,000,000 annual aggregate limits will be reimbursed by us.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

VODAFONE GROUP PUBLIC LIMITED COMPANY

(Registrant)

/s/ R E S Martin

Rosemary E S Martin

Group General Counsel and Company Secretary

Date: 10 June 2014

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**Index of Exhibits to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2014**

- 1.1 Articles of Association, as adopted on June 30, 1999 and including all amendments made on July 25, 2001, July 26, 2005, July 25, 2006, July 24, 2007, July 29, 2008, July 28, 2009, July 27, 2010 and January 28, 2014, of the Company.
- 2.1 Indenture, dated as of February 10, 2000, between the Company and Citibank, N.A., as Trustee, including forms of debt securities (incorporated by reference to Exhibit 4(a) of Post Effective Amendment No. 1 to the Company's Registration Statement on Form F-3, dated November 24, 2000).
- 2.2 Agreement of Resignation, Appointment and Acceptance dated as of July 24, 2007, among the Company, Citibank N.A. and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2008).
- 2.3 Eleventh Supplemental Trust Deed dated July 11, 2013, between the Company and the Law Debenture Trust Corporation p.l.c. further modifying the provisions of the Trust Deed dated July 16, 1999 relating to a 30,000,000,000 Euro Medium Term Note Programme.
- 4.1 Agreement for US\$4,015,000,000 five year Revolving Credit Facility dated March 9, 2011, among the Company and various lenders, subsequently amended when the Company exercised an option to extend the agreement by one year (incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.2 Lender Accession Agreement with Bank of China Limited, London Branch, effective as of March 17, 2011 (incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.3 Agreement for 4,000,000,000 five year Revolving Credit Facility dated July 1, 2010 among the Company and various lenders (incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.4 Lender Accession Agreement with Bank of China Limited, London Branch, effective as of March 17, 2011 (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.5 Notice of cancellation dated March 27, 2014 in respect of the 4,230,000,000 five year Revolving Credit Facility dated July 1, 2010.
- 4.6 Agreement for 3,860,000,000 five year Revolving Credit Facility dated March 28, 2014 among the Company and various lenders.
- 4.7 Vodafone Group 1999 Long Term Stock Incentive Plan (incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).
- 4.8 Vodafone Group 2005 Global Incentive Plan (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2006).

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- 4.9 Service Agreement of Andrew Halford (incorporated by reference to Exhibit 4.16 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2006).
  
- 4.10 Letter of Appointment of Dr. John Buchanan (incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003).

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- 4.11 Letter of Appointment of Anne Lauvergeon (incorporated by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2006).
- 4.12 Letter of Appointment of Luc Vandeveldel (incorporated by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2004).
- 4.13 Letter of Appointment of Anthony Watson (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2006).
- 4.14 Letter of Appointment of Philip Yea (incorporated by reference to Exhibit 4.27 to the Company's Annual Report for the financial year ended March 31, 2006).
- 4.15 Service Agreement of Vittorio Colao (incorporated by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2009).
- 4.16 Letter of Appointment of Alan Jebson (incorporated by reference to Exhibit 4.23 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2007).
- 4.17 Letter of Appointment of Nick Land (incorporated by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2007).
- 4.18 Letter of Appointment of Samuel Jonah (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2009).
- 4.19 Service Agreement of Michel Combes (incorporated by reference to Exhibit 4.27 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2009).
- 4.20 Service Agreement of Stephen Pusey (incorporated by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2009).
- 4.21 Letter of Indemnification for Andrew Halford (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).
- 4.22 Letter of Indemnification for Michel Combes (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).
- 4.23 Letter of Indemnification for Steve Pusey (incorporated by reference to Exhibit 4.27 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).

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- 4.24 Letter of Indemnification for Dr. John Buchanan (incorporated by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).
- 4.25 Letter of Indemnification for Philip Yea (incorporated by reference to Exhibit 4.29 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).
- 4.26 Letter of Indemnification for Luc Vandeveld (incorporated by reference to Exhibit 4.30 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2010).
- 4.27 Letter of Appointment of Renee James (incorporated by reference to Exhibit 4.35 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.28 Letter of Appointment of Gerard Kleisterlee (incorporated by reference to Exhibit 4.36 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2011).
- 4.29 Letter of Appointment of Omid Kordestani (incorporated by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2013).
- 4.30 Letter of Appointment of Valerie Gooding.

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- 4.31 Service Agreement of Nicholas Read.
  
- 4.32 Letter of Appointment of Sir Crispin Davis
  
- 4.33 Letter of Appointment of Dame Clara Furse
  
- 4.34 Stock Purchase Agreement dated September 2, 2013, by and among Verizon Communications Inc., Vodafone Group Plc and Vodafone 4 Limited.
  
- 4.35 First Amendment to Stock Purchase Agreement dated December 5, 2013 by and among Vodafone Group Plc, Vodafone 4 Limited and Verizon Communications Inc, amending the terms of the Stock Purchase Agreement dated September 2, 2013.
  
- 7. Unaudited Computation of Ratio of Earnings to Fixed Charges for the financial years ended March 31, 2014, 2013, 2012, 2011 and 2010.
  
- 8. The list of the Company's subsidiaries is incorporated by reference to Note 32 to the Consolidated Financial Statements included in the Annual Report on Form 20-F for the financial year ended March 31, 2014.
  
- 12. Rule 13a-14(a) Certifications.
  
- 13. Rule 13a-14(b) Certifications. These certifications are furnished only and are not filed as part of the Annual Report on Form 20-F for the financial year ended March 31, 2014.
  
- 15.1 Consent letter of Deloitte LLP, London.
  
- 15.2 Consent letter of Deloitte & Touche LLP, New York.