

**VODAFONE LIMITED**

**Company No: 01471587**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2021**

**TUESDAY**



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**VODAFONE LIMITED**

**Company No: 01471587**

<b>Contents</b>	<b>Page</b>
<b>Strategic report</b>	<b>2 – 8</b>
<b>Report of the directors</b>	<b>9 - 12</b>
<b>Independent auditor's report</b>	<b>13 - 16</b>
<b>Income statement</b>	<b>17</b>
<b>Statement of comprehensive income</b>	<b>18</b>
<b>Statement of financial position</b>	<b>19</b>
<b>Statement of changes in equity</b>	<b>20</b>
<b>Notes to the financial statements</b>	<b>21 – 61</b>

## **VODAFONE LIMITED**

**Company No: 01471587**

### **STRATEGIC REPORT**

The directors present their strategic report for Vodafone Limited (the 'Company') for the year ended 31 March 2021.

#### **Review of the business and future developments**

Reported total revenue decreased by 4.8% to £5,384.0m, due to lower roaming and visitor revenue and lower equipment revenue.

Reported service revenue decreased by 4.8% as good customer base growth and Business fixed demand was offset by lower roaming, visitor and incoming revenue. The year-on-year impact from the decline in roaming and visitor revenue was -2.4 percentage points.

During the year, we maintained our good commercial momentum, supported by a significant shift in sales mix, with digital sales growing significantly to 39%. In mobile, we benefited from strong iPhone sales, and improved customer loyalty. Contract churn improved 0.9 percentage points year-on-year to 13.0%. In total, we added 180,000 customers to our mobile contract base in FY21. Our digital sub-brand 'VOXI' also continued to grow strongly, with 176,000 customers added during the year, supported by the launch of new propositions.

In Broadband, our commercial momentum remained strong with 192,000 net customer additions during the year. In March, we launched Vodafone 'Pro Broadband' which combines fixed and mobile connectivity to provide 'unbreakable' connectivity; Pro Broadband customers also benefit from super Wi-Fi and dedicated customer support. We now have 911,000 broadband customers, of which 459,000 are converged. Business demand for our SME and corporate products remained strong, including productivity and security solutions.

Adjusted EBITDA decreased by 13.9% reflecting the year-on-year impacts from lower roaming and visitors of -4.8 percentage points and a prior year one-off licence fee settlement of -4.2 percentage points. Adjusted EBITDA margin was 2.2 percentage points lower year-on-year at 20.9%.

To support our continued investment in our networks, products and services, we announced that an annual price increase of Consumer Price Index plus 3.9% will be applied to all broadband and mobile contracts signed from 9 December 2020, taking effect from April 2021.

In January 2021, we announced the commercialisation of Cornerstone Telecommunications Infrastructure Limited ('Cornerstone'), the 50:50 joint arrangement between the Company and Telefonica UK Limited ('TEF UK') that owns and manages both operators' passive tower infrastructure in the UK. The Company and TEF UK have each entered into long-term Master Services Agreements with Cornerstone for the continued provision of passive infrastructure services. This Master Services Agreement will facilitate the Company's effective roll-out of 5G technology and assist the Company to meet its coverage obligations. The Company transferred its 50% shareholding in Cornerstone to Vantage Towers (a fellow Group Company) on 14 January 2021.

In March 2021, we committed to acquire 40MHz of spectrum in the 3.6GHz band for next-generation 5G mobile services at a cost of £176.4 million. The new spectrum acquired will enable us to significantly expand 5G network capacity to meet the growing demand for fast, reliable, high-quality data services.

An operating profit of £186.8m (2020: £351.5m loss) was made during the year.

# VODAFONE LIMITED

Company No: 01471587

## STRATEGIC REPORT (continued)

	2021 £m	2020 £m
<b>Revenue</b>		
Service revenue	4,217.5	4,371.7
Other revenue	1,166.5	1,285.9
<b>Adjusted EBITDA</b>	<b>1,123.0</b>	<b>1,304.7</b>
Depreciation and amortisation <sup>1</sup>	(1,195.7)	(1,206.2)
<b>Adjusted operating profit/(loss)</b>	<b>(72.7)</b>	<b>98.5</b>
Other expenses <sup>2</sup>	(419.0)	(450.0)
Net gain on disposal of joint arrangement	678.5	-
<b>Operating profit /(loss)</b>	<b>186.8</b>	<b>(351.5)</b>
Net financing costs	(7.6)	(23.5)
Income tax	96.8	148.8
<b>Profit/(loss) for the financial year</b>	<b>276.0</b>	<b>(226.2)</b>

<sup>1</sup> Depreciation of right of use assets under IFRS 16 included within Adjusted EBITDA

<sup>2</sup> Restructuring costs, interest on lease liabilities and group recharges deemed non-operational

## VODAFONE LIMITED

Company No: 01471587

### STRATEGIC REPORT (continued)

#### Financial position and liquidity

The Statement of Financial Position on page 19 of the financial statements shows the Company's overall financial position at the end of the year.

The major source of liquidity for the Company comes from the cash generated from trading activities. The Group treasury function provides a centralised treasury service to the Company, including managing its liquidity risk, market risk (interest rate management and foreign exchange management) and credit risk and follows a framework of policies and guidelines authorised and reviewed annually by the Group's management. The term 'Group' in this context and where used elsewhere in these reports and financial statements means Vodafone Group Plc and its subsidiaries and associated companies.

The Company closed the year with cash of £10.2m (2020: £24.3m including its share of amounts held in its joint operation, Cornerstone, of £15.8m. During January and March 2021, the sale of handset receivables realised cash of £300m and £314m, respectively.

For further details of current and long term amounts payable to and due from Vodafone Group Plc and fellow subsidiary undertakings, see notes 12 and 13 of the financial statements.

#### Principal risks and uncertainties

The Company has a clear framework for identifying and managing risk, both at an operational and strategic level. The Company has a dedicated 2nd line risk team that coordinates risk management across the Company's business, alongside an established Audit and Risk Committee that is chaired by the Group Financial Controller and members of the Company's General Management Team and a Risk & Compliance Committee. Additional oversight of the Enterprise Risk Management Framework is also provided by Group Risk.

The Principal Risks and uncertainties for the Company and mitigating factors are as follows:

*a) Risk: Failure to protect customer information*

We host a significant quantity of varying types of customer data in both our Business and Consumer segments. Hardware and software applications include security features which are reviewed by our technology and corporate security functions to ensure compliance with our policies, security standards and UK GDPR requirements.

*b) Risk: Malicious Cyber Threat*

We recognise the continuing threat of malicious data loss or outages as a consequence of cyber-crime. This is mitigated by continuous monitoring of our IT infrastructure to identify threats and potential areas of weaknesses.

*c) Risk: Significant Outage to our Network or IT Systems*

Major failure or malicious attack on our network or IT systems may result in service interruption and consequential customer and revenue loss. Specific back-up and resilience requirements are built into our networks, combined with regularly tested business continuity and disaster recovery plans.

## **VODAFONE LIMITED**

**Company No: 01471587**

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

#### **Covid-19:**

The vital role telecommunications companies play in society has become more evident during the COVID-19 pandemic. Telecommunications services are critical in enabling people to work remotely, allowing businesses to remain operational, supporting emergency services and government responses, and providing access to online education. Through our infrastructure, we have kept people and societies connected.

We have closely monitored the evolution of COVID-19 and adapted our risk profile as required. We continue to maintain close contact with local health authorities and government agencies, so that we minimise the risk to Vodafone, our operations and employees.

#### **Governance**

During the early stages of the pandemic, Vodafone initiated our response to this crisis by invoking the Group's crisis management process. This process enabled us to prepare a number of planning scenarios based on a range of assumptions and potential outcomes. A Crisis Steering Committee ('Steerco') continues to meet with representatives from Group and local markets. The Steerco receives updates and feedback on measures implemented locally, collects best practice, and assesses the adequacy of the Vodafone response as we monitor changes in the virus patterns and the impact it has on our operations.

#### **Impact on our principal risks**

We do not consider the COVID-19 pandemic as an individual risk, but rather monitor how the pandemic amplifies our principal, emerging and operational risks. Using this approach, we are able to manage the 'domino effect' of different risk types while identifying both the negative and positive impacts on our operations. We assign each of our risks to a category (strategic, technological, operational and financial) which allows us to prioritise and provide the required assurance. The section below summarises the impact the pandemic had on the different risk categories.

#### **Strategic**

Given the nature of the telecommunications industry and the important role communication services have played during the pandemic, external stakeholders have focused more on our sector during the COVID-19 pandemic. We have continued to build stronger relationships and partnerships through our social contract with our stakeholders, industry players and government when managing strategic risks. We continue to monitor external impacts caused by the COVID-19 pandemic. For example, we monitor potential adverse changes in regulations or further scrutiny by regulatory authorities which could lead to higher taxes as the government seeks to address the potential budget deficit following the pandemic. More positively, we have seen an increase in Business and Consumer customers adopting more data services such as video conferencing and video on demand streaming.

#### **Financial**

The COVID-19 pandemic has caused significant volatility in the financial markets. This can affect both Group's access to capital markets and the cost of debt. However, the telecommunications industry has not been as severely impacted. We anticipate a delayed impact as inflation rises due to an expected increase in spending, once countries begin to exit lockdowns. These inflation expectations can drive interest rates higher, which can make long-term borrowing more expensive. Commercially, the biggest impact was related to our roaming and visitor revenue, however, we expect this to recover as vaccination programmes are successful and travel restrictions are lifted.

## VODAFONE LIMITED

Company No: 01471587

### STRATEGIC REPORT (continued)

#### Technological

We have seen a significant increase in data usage during the pandemic and therefore, we have focused on our capacity management processes. Additionally, we operate critical national infrastructure which was increasingly needed during the pandemic, and we made sure that we implemented mitigations to better support our infrastructure. With travel restrictions in force, we were not always able to perform physical site visits for business continuity or to test our electromagnetic field exposure and therefore ran either robust desktop exercises or used new innovative ways to remotely evaluate our sites.

#### Operational

We prioritised the safety and wellbeing of our people, ensuring that we had the business continuity plans in place to operate while most of our people moved to working from home. Additionally, to lessen the potential burden on our suppliers, we have implemented controls to assist them through our COVID-19 payment relief policy. Due to lockdown, social distancing and COVID-19 related restrictions, our ability to physically serve our customers was restricted. We have accelerated and increased our digital transformation projects providing a better customer experience and to capture opportunities as consumer confidence and markets rebound.

#### Conclusion

To be better prepared for future events such as the COVID-19 pandemic, we have updated our risk process. This approach, which runs parallel to our principal risk process, allows for a quicker identification of threats and risks. The process provides better visibility to our internal stakeholders and more oversight and governance across our risks. We continue to monitor the risks and threats arising from COVID-19 and similar events.

#### UK Streamlined Energy and Carbon Reporting ('SECR'):

In accordance with SECR requirements, the below table provides a summary of GHG emissions and energy data for the Company during the year ending 31 March 2021.

	2021
Scope 1 GHG emissions (m tonnes CO <sub>2</sub> e)	0.02
Scope 2 market-based GHG emissions (m tonnes CO <sub>2</sub> e)	0.04
Scope 2 location-based GHG emissions (m tonnes CO <sub>2</sub> e)	0.14
GHG emissions per petabyte ('PB') of mobile data carried (tonnes of CO <sub>2</sub> e)	59
Total energy consumption (GWh)	701

## VODAFONE LIMITED

Company No: 01471587

### STRATEGIC REPORT (continued)

#### 172(1) Statement

In accordance with section 172 of the Companies Act 2006 each of the directors acts in the way that he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole.

All board meeting papers are required to address each of the matters noted below, if relevant, and adequate time is provided in board meetings for the directors to discuss these matters and request clarification or further information from management.

- The probable consequences of any decisions in the long-term
- The interests of the workforce
- The need to foster the Company's business relationships with suppliers, customers and other key stakeholders
- The potential impact of the Company's operations on communities and the environment
- The need to protect Vodafone's reputation for high standards of business conduct

#### *Stakeholder engagement*

The Company takes stakeholder engagement seriously because it appreciates the fundamental need to build a holistic view of its business to promote a strategy which takes account of the broader operating environment. Directors benefit from improved insight into the needs of our stakeholders, provoking discussion of the potential risks and opportunities for our business in satisfying those needs and understanding the potential impact of decisions on affected stakeholders. Better insight and diversity of perspectives leads to more productive and balanced board of directors' discussions on complex issues and, as a result, decisions are well-considered.

All board meeting papers relating to a principal decision are required to state whether, and to what extent, any key stakeholder group has an interest in the matter. Adequate time is provided in board meetings for the directors to consider and discuss the interests of stakeholders and request clarification or further information from management.

The Company's board of directors is committed to engaging with stakeholders directly wherever possible. Provided below is an overview of the Company's board engagement with our key stakeholder groups during the year.

#### *People:*

A number of engagement and feedback mechanisms for our employees are well established at the Company which are discussed further within the Director's Report under Employee Involvement and Commitment.

In response to COVID-19 changing the way we work, we quickly introduced a pulse survey which regularly seeks the views of our employees. It has been encouraging to see strong levels of engagement and positive themes highlighted throughout the period of the pandemic and as we shape our future working environment.

#### *Suppliers:*

The Company is part of the wider Vodafone Group and operates under a global supply chain management function. The Group is helped by more than 10,500 suppliers who partner with it. These range from start-ups and small businesses to large multinational companies. Our suppliers provide us with the products and services we need to deliver our strategy and connect our customers.



## VODAFONE LIMITED

Company No: 01471587

### STRATEGIC REPORT (continued)

During the year the Group engaged with the supply chain through virtual safety forums, events, conferences and site visits. The Vodafone Group Plc Board received updates on the role of our key suppliers and geo-political factors impacting our global supply chains

The Company worked with its suppliers, with the Group hosting a technology event to encourage its suppliers to explore the latest technologies. The Company along with the wider Group provided faster payment terms to support over 1,200 smaller businesses during the COVID-19 crisis.

#### *Community & Environment:*

The Company's board of directors has consistently championed and engaged in furthering our impact in the community through our Company purpose activity, to connect a better future. This means we're creating a digital society which is sustainable and leaves no one behind. The community impact is demonstrated through our award-winning tech for good programmes and by developing and rolling out technologies that have transformed lives (DreamLab, Bright Sky & TecSOS). We are also committed to tackling digital exclusion and working with others to close the digital divide. Our response to the pandemic has been to act quickly to provide connectivity to those who weren't online and our efforts have helped hundreds of thousands of people to access healthcare, education, support and keep in touch with their families when they otherwise could not. We have also designed some tariffs and propositions to close the digital divide, including schools.connected which enabled 500,000 school children and students to access free connectivity, VOXI for Now which provided an affordable package for jobseekers, and communities.connected, which helped charities and other organisations provide low cost connectivity for their beneficiaries, and we're providing digital skills training for 100,000 small businesses to enable them to make the most of the 5G network we provide.

In response to our environmental impact, our Board has committed to accelerating our commitment to reach net zero across our business and operations, and halve emissions from our suppliers, products and employee travel by 2027, which is 3 years ahead of our Group goal. We have achieved our goal of powering our network by 100% renewable electricity supply for our network, offices and stores with as much generated on-site by solar or wind as possible. We have also committed to achieve zero e-waste to landfill by 2025 and to help our customers reduce emissions through our products and services.

The Strategic Report was approved by the by the Board on 1 December 2021 and signed on its behalf by:



Emanuele Tournon  
Director

## **VODAFONE LIMITED**

**Company No: 01471587**

### **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2021.

#### **Principal activity**

The principal activity of the Company is the provision of telecommunication services in the UK through its Mobile and Fixed Networks.

#### **Results and dividends**

For year ended 31 March 2021, the Company reported a profit for the financial year of £276.0m (2020: £226.2m loss). The Income Statement set out on page 17 of the financial statements summarises the trading, interest and tax components of the profit. No interim dividend was paid (2020: £nil) and no final dividend is proposed (2020: £nil).

#### **Future developments**

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

#### **Directors**

The directors of the Company, who served throughout the year and to the date of this report, are as follows:

Emanuele Tournon

Ahmed Essameldin Ahmed Aboushelbaya (appointed on 15 February 2021)

Nick Jeffery (resigned on 15 February 2021)

Helen Lamprell (resigned on 15 September 2021)

#### **Registered office and company domicile**

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

The Company is a private limited company, is incorporated in England and Wales, and domiciled in the United Kingdom (Company number 01471587).

#### **Financial risk management**

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

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

Further details of the Group's policies can be found in the annual report and financial statements of the Group, the ultimate parent undertaking, for the year ended 31 March 2021, which does not form part of this report.

## **VODAFONE LIMITED**

**Company No: 01471587**

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

#### **Going concern**

The directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 2.

The directors have reviewed the financial performance and position of the Company and have assessed the monthly cashflow forecasts through to 31 December 2022. They considered a range of possible downside scenario's including the impact of COVID-19 and concluded that these would have no significant impact on the going concern conclusion.

The directors noted that the Company's £2,581.3m cash is held in a call deposit account as part of the Vodafone Group Plc cash pooling arrangement. Under the terms of the arrangement, the directors have control of this deposit and draw down upon this balance when needed.

The directors also noted the £2,834.2m current intercompany liabilities which are repayable on demand. The directors have received a letter of support from Group, which offers refinancing in the event that these liabilities are called upon. As such, the directors do not expect a net cash outflow as a result of these in the going concern period.

Having considered the overall financial position of the Group, as set out in its Annual Report and Accounts for the year ended 31 March 2021, the directors are satisfied that the Group has sufficient liquidity for the Company to continue to access the cash balance held in its call deposit account and the ability of the Group to provide any refinancing needed.

On the basis of their assessment, the directors of the Company expect that the Company will be able to continue in operational existence for the period up to and including 31 December 2022, and hence continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

To ensure consistent and meaningful engagement, the directors engage regularly and directly with employees via Listen Live, a regular virtual interactive session run by our CEO and General Management Team, via an internal social media platform. We provide regular updates on the UK strategic priorities and financial results, and it provides a forum for employees to ask questions directly of our directors. Our directors are also kept informed of employee feedback via regular employee surveys and receive feedback on important employee matters relating to the Company.

The Company also recognises the importance of providing information to, and consulting with, its employees about workplace issues, such as company policies, health & safety and matters affecting terms and conditions of employment. The Employee Consultation Council ("the ECC") was established in 2014 as the primary mechanism for informing and consulting upon such matters. In recognition of the significant number of UK based employees of other companies within the Group, the ECC also operates as an information and consultation forum for those employees.

During the Covid-19 pandemic, the vast majority of our employees have been working from home. During this time, it has been all the more important to ensure that everyone feels connected, engaged and valued. We have

## **VODAFONE LIMITED**

**Company No: 01471587**

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

achieved this through frequent company wide and business area specific updates, presentations and meetings and by making use of our online social forums to host things like quizzes, virtual 'tea breaks' and activities which employees and their families can all engage in.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when policy decisions are made that are likely to affect their interests, and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the range of channels outlined above.

The directors of the Company are committed to the principle of employee share participation, providing employees with the opportunity to acquire Group's shares on an advantageous basis operated under HM Revenue & Customs approved share scheme arrangements. This opportunity is provided through the Sharesave programme.

#### **Disabled persons**

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

#### **Corporate governance arrangements**

As a wholly owned subsidiary of the Group, a company subject to the 2018 Corporate Governance Code (the 'Code'), the Company has chosen not to adopt and report against the Code and, whilst we fully support the Wates Corporate Governance Principles for Larger Private Companies, the directors feel that they are less appropriate for the Company.

The Group maintains a group-wide Delegations of Authority and Entity Governance Policy which are designed to ensure the effective governance of all the Group's related undertakings, including the Company. In addition, the Company has adopted local policies expanding upon and providing guidance for the implementation of the Group-wide policies (collectively, the "Policies"). The Company has, therefore, adopted the Policies as the corporate governance principles and arrangements of the Company, which the directors believe are appropriate for the Company.

The Policies aim to ensure effective decision-making to promote the Company's success for the long term and for the benefit of the Group and the Company's wider stakeholders by (i) providing checks and balances on financial and other information, (ii) encouraging constructive challenge to the Company's management (in addition to advice and support) and (iii) ensuring timely and high quality information is received by the directors.

## **VODAFONE LIMITED**

**Company No: 01471587**

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

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

#### **Indemnification of directors**

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

#### **Statement as to disclosure of information to auditors**

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are 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 auditors are aware of that information.

The report of the directors was approved by the Board on 1 December 2021 and signed on its behalf by:



Emanuele Tournon  
Director

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF VODAFONE LIMITED**

#### **Report on the audit of the financial statements**

##### **Opinion**

We have audited the financial statements of Vodafone Limited for the year ended 31 March 2021 which comprise the income statement, the Balance Sheet, the statement of changes in equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis was underpinned by the letter of support from the parent company, Vodafone Group plc. This letter of support explicitly states that Vodafone Group plc will offer support through the refinancing of intercompany liabilities as and when they fall due. In evaluating the letter of support, we critically evaluated managements prepared forecasts and long-range plan for Vodafone Group plc. As a result of the letter of support explicitly stating that the parent entity will offer support solely through the refinancing of intercompany liabilities, we have evaluated the directors' assessment of Vodafone Limited's ability to continue to adopt the going concern basis.

- Confirming our understanding of the directors' going concern assessment process, including the controls over the review and approval of the budget and long-range plan.
- Assessing the appropriateness of the duration of the going concern assessment period to 31 December 2022 and considering the existence of any significant events or conditions beyond this period based on our procedures on the Company's long-range plan and from knowledge arising from other areas of the audit;
- Evaluating management's historical forecasting accuracy and the consistency of the going concern assessment with information obtained from other areas of the audit.
- Testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy.
- Assessing whether assumptions made were reasonable and in the case of downside scenarios, appropriately severe, in light of the Company's relevant principal risks and uncertainties and our own independent assessment of those risks

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VODAFONE LIMITED**

- Evaluating the amount and timing of identified mitigating actions available to respond to a severe downside scenario, and whether those actions are feasible and within the Company's control
- Considering the appropriateness of management's 'reverse stress test' downside scenario, to understand how severe conditions would have to be to breach liquidity and whether the reduction in EBITDA required has no more than a remote possibility of occurring
- Performing independent sensitivity analysis on management's assumptions including applying incremental adverse cashflow sensitivities. These sensitivities included the impact of certain severe but plausible scenarios, evaluated as part of management's work on the Company's long term viability, materialising within the going concern assessment

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period until 31 December 2022 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF VODAFONE LIMITED**

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

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the UK Companies Act 2006) the relevant tax compliance regulations in the United Kingdom, the General Data Protection Regulation (GDPR) and the Financial Conduct Authority (FCA).
- We understood how the company is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business, to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings or influence the perceptions of analysts. We



## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF VODAFONE LIMITED

considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programmes and controls.

- Where risks or incidences of potential fraud were identified, we developed specific procedures to respond to the risks, including where necessary using our forensic investigation specialists. At a Company level our procedures also involved: enquiries of management and those charged with governance, legal counsel, the fraud investigation, whistleblowing and investigation team; journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions, and challenging the assumptions and judgements made by management in respect of significant one-off transactions in the financial year and significant accounting estimates.
- Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk or other risk of material misstatement in order to obtain reasonable assurance that the financial statements were free from fraud or error. These procedures included, among others, obtaining an understanding of, evaluating the design and testing the operating effectiveness of controls over the company's revenue recognition process, which includes management's review of contracts, their identification of performance obligations, the estimation of the relative standalone selling price for each performance obligation, and the determination of the timing of revenue recorded. For each significant revenue stream system, we obtained the billing data to general ledger reconciliation which included the relevant adjustments to deferred and accrued revenue balances. We reperformed these end-to-end reconciliations, including validating the accuracy of the data inputs to underlying source documentation including contractual agreements where applicable. We used data analytic tools to identify revenue related manual journals posted to the general ledger and traced these back to source systems. We obtained and evaluated underlying source documentation to test the completeness and accuracy of the postings, including those journals we considered unusual in nature.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

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

*Ernst & Young LLP*

Marcus Butler (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
3 December 2021

**VODAFONE LIMITED**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2021**

	Note	2021 £m	2020 £m
Revenue	2	5,384.0	5,657.6
Cost of sales		(3,918.3)	(4,045.5)
Gross profit		1,465.7	1,612.1
Selling and distribution expenses		(500.3)	(578.1)
Administrative expenses		(1,311.4)	(1,284.2)
Net credit losses on financial assets		(145.7)	(101.3)
Net gain on disposal of joint arrangement	25	678.5	-
Operating profit/(loss)	3	186.8	(351.5)
Net finance expense	6	(7.6)	(23.5)
Profit/(loss) on ordinary activities before taxation		179.2	(375.0)
Income tax on ordinary activities	7	96.8	148.8
Profit/(loss) for the financial year		276.0	(226.2)

The results above are derived from continuing operations.

The accompanying notes on pages 21 to 61 are an integral part of these financial statements.

**VODAFONE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 MARCH 2021**

	Note	2021 £m	2020 £m
Profit/(loss) for the financial year		276.0	(226.2)
Other comprehensive income/(expense):			
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedging reserve		(13.9)	6.7
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial (losses)/gains in the value of defined benefit retirement plans	21	(615.8)	569.7
Tax attributable to actuarial (losses)/gains	7	116.6	(106.5)
		(499.2)	463.2
Other comprehensive (expense)/income		(513.1)	469.9
Total comprehensive (loss)/income for the financial year		(237.1)	243.7

The accompanying notes on pages 21 to 61 are an integral part of these financial statements.

**VODAFONE LIMITED**

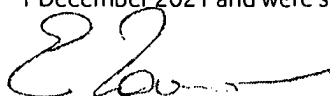
**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2021**

Company No: 01471587

	Note	2021 £m	2020 £m
Non-current assets			
Intangible assets	8	1,896.7	2,368.4
Property, plant and equipment	9	3,969.0	3,965.3
Investments	10	25.1	25.1
Deferred tax asset	16	1,336.2	1,124.2
Post-employment benefits	21	<u>50.9</u>	<u>489.2</u>
		7,277.9	7,972.2
Current assets			
Inventories	11	145.0	116.4
Trade and other receivables	12	4,945.2	3,582.2
Cash and cash equivalents		<u>10.2</u>	<u>24.3</u>
		5,100.4	3,722.9
Creditors: amounts falling due within one year	13	<u>(4,644.1)</u>	<u>(4,605.2)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>456.3</u>	<u>(882.3)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,734.2	7,089.9
Creditors: amounts falling due after more than one year	14	(1,486.2)	(743.3)
Provisions for liabilities	15	(182.9)	(217.1)
Post-employment benefits	21	<u>(133.1)</u>	<u>(19.2)</u>
NET ASSETS		<u>5,932.0</u>	<u>6,110.3</u>
EQUITY			
Called up share capital	17	-	-
Share premium account		9,227.0	9,168.2
Retained earnings		<u>(3,295.0)</u>	<u>(3,057.9)</u>
TOTAL SHAREHOLDERS' FUNDS		<u>5,932.0</u>	<u>6,110.3</u>

The financial statements on pages 17 to 61 were approved and authorised for issue by the directors on 1 December 2021 and were signed on its behalf by:



Emanuele Tournon  
Director

**VODAFONE LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2021**

	Note	Called up share capital £m	Share premium account £m	Retained earnings £m	Total Shareholder's funds £m
Balance at 1 April 2019		-	9,168.2	(3,311.1)	5,857.1
Loss for the year		-	-	(226.2)	(226.2)
Other comprehensive income		-	-	469.9	469.9
Total comprehensive income for the year		-	-	243.7	243.7
Net share-based payments	20	-	-	9.5	9.5
Balance at 1 April 2020		-	9,168.2	(3,057.9)	6,110.3
Profit for the year		-	-	276.0	276.0
Other comprehensive loss		-	-	(513.1)	(513.1)
Total comprehensive loss for the year		-	-	(237.1)	(237.1)
Net share-based payments	20	-	-	-	-
Share issue	17	-	58.8	-	58.8
Balance at 31 March 2021		-	9,227.0	(3,295.0)	5,932.0

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2021**

**1. Statement of accounting policies**

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The accounting policies adopted in respect of material items are described below.

**Basis of preparation**

These financial statements were prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

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

The following disclosure exemptions available under FRS 101 have been applied:

- (a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Shared-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- (b) IFRS 7 'Financial Instruments: Disclosures';
- (c) Paragraph 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- (d) Paragraph 38 of IAS 1 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73 (e) of IAS 16 'Property, Plant and Equipment' and paragraph 118 (e) of IAS 38 'Intangible assets'.
- (e) The following paragraphs of IAS 1 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements, including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (requirements for a third statement of financial position);
  - 111 (cash flow statement information); and
  - 134 – 136 (Capital management disclosures);
- (f) IAS 7 'Statement of cash flows';
- (g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- (h) Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation);
- (i) The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
- (j) Paragraphs 130(f)(ii), 130(f)(iii), 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets', provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated;
- (k) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers'; and
- (l) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.

## **VODAFONE LIMITED**

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

#### **FOR THE YEAR ENDED 31 MARCH 2021**

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

###### **Going concern**

The directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 2.

The directors have reviewed the financial performance and position of the Company and have assessed the monthly cashflow forecasts through to 31 December 2022. They considered a range of possible downside scenario's including the impact of COVID-19 and concluded that these would have no significant impact on the going concern conclusion.

The directors noted that the Company's £2,581.3m cash is held in a call deposit account as part of the Vodafone Group Plc cash pooling arrangement. Under the terms of the arrangement, the directors have control of this deposit and draw down upon this balance when needed.

The directors also noted the £2,834.2m current intercompany liabilities which are repayable on demand. The directors have received a letter of support from Group, which offers refinancing in the event that these liabilities are called upon. As such, the directors do not expect a net cash outflow as a result of these in the going concern period.

Having considered the overall financial position of the Group, as set out in its Annual Report and Accounts for the year ended 31 March 2021, the directors are satisfied that the Group has sufficient liquidity for the Company to continue to access the cash balance held in its call deposit account and the ability of the group to provide any refinancing needed.

On the basis of their assessment, the directors of the Company expect that the Company will be able to continue in operational existence for the for the period up to and including 31 December 2022, and hence continue to adopt the going concern basis of accounting in preparing the annual financial statements.

###### **The accounting policies that materially impact the financial statement are as follows:**

###### **Revenue recognition**

When the Company enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ('obligations') to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified. The obligations identified will depend on the nature of individual customer contracts, but might typically be separately identified for mobile handsets, other equipment such as set-top boxes and routers provided to customers and services provided to customers such as Mobile and Fixed line communication services. Where goods and services have a functional dependency (for example, a Fixed line router can only be used with the Company's services) this does not, in isolation, prevent those goods or services from being assessed as separate obligations.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

The Company determines the transaction price to which it expects to be entitled in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Where indirect channel dealers, such as retailers, acquire customer contracts on behalf of the Company and receive commission, any commissions that the dealer is compelled to use to fund discounts or other incentives to the customer are treated as payments to the customer when determining the transaction price and consequently are not included in contract acquisition costs.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations. The standalone selling price of each obligation deliverable in the contract, is determined according to the prices that the Company would achieve by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis; where standalone selling prices are not directly observable, estimation techniques are used maximising the use of external inputs. See 'Critical accounting estimates and judgements' below for details.

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

- Revenue for the provision of services, such as mobile airtime and fixed line broadband, is recognised when the Company provides the related service during the agreed service period.
- Revenue for device sales to end customers is generally recognised when the device is delivered to the end customer. For device sales made to intermediaries, such as indirect channel dealers, revenue is recognised if control of the device has transferred to the intermediary and the intermediary has no right to return the device to receive a refund; otherwise revenue recognition is deferred until sale of the device to an end customer by the intermediary or the expiry of any right of return.

Where refunds are issued to customers, they are deducted from revenue in the relevant service period.

When the Company has control of goods or services prior to delivery to a customer, then the Company is the principal in the sale to the customer. As a principal, receipts from customers, and payments to, suppliers are reported on a gross basis in revenue and operating costs. If another party has control of goods or services prior to transfer to a customer, then the Company may be acting as an agent and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier, recognised revenue represents the margin earned by the Company. See 'Critical accounting estimates and judgements' below for details.

Customers typically pay in advance for prepay mobile services and monthly for other communication services. Customers typically pay for handsets and other equipment either up-front at the time of sale or over the term of the related service agreement.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from a customer at that time a contract asset is recognised; contract assets will typically be recognised for handsets or other equipment provided to customers where payment is recovered by the Company via future service fees. If amounts received or receivable from a customer exceed revenue recognised for a contract, for example if the Company receives an advance payment from a customer, a contract liability is recognised.

When contract assets or liabilities are recognised, a financing component may exist in the contract. This is typically the case when a handset or other equipment is provided to a customer up-front, but payment is received over the term of the related service agreement, in which case the customer is deemed to have received financing. If a significant financing component is provided to the customer, the transaction price is reduced and interest revenue is recognised over the customer's payment period using an interest rate reflecting the relevant central bank rates and customer credit risk.



## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

###### Contract-related costs

When costs directly relating to a specific contract are incurred prior to recognising revenue for a related obligation, and those costs enhance the ability of the Company to deliver an obligation and are expected to be recovered, then those costs are recognised on the statement of financial position as fulfilment costs and are recognised as expenses in line with the recognition of revenue when the related obligation is delivered.

The direct and incremental costs of acquiring a contract including, for example, certain commissions payable to staff or agents for acquiring customers on behalf of the Company, are recognised as contract acquisition cost assets in the statement of financial position when the related payment obligation is recorded. Costs are recognised as an expense in line with the recognition of the related revenue that is expected to be earned by the Company; typically, this is over the customer contract period as new commissions are payable on contract renewal. Certain amounts payable to agents are deducted from revenue recognised (see above).

###### Intangible assets

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

###### *Goodwill*

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets and 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 annually for impairment or whenever there is evidence that it may be required.

Goodwill arising before the date of transition to FRS 101, on 1 April 2015, is recognised at the net book value prevailing at that date, subject to being tested for impairment. Goodwill written off to reserves under UK GAAP has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

###### *Licence fees*

Licence fees are capitalised and amortised on a straight-line basis over their estimated useful economic life. The amortisation period for the Company's 3G licence fees is 17 years. The amortisation period for the Company's 4G and 5G licence fees is 20 years and 18 years respectively.

###### *Computer software*

Development and acquisition costs that are directly attributable to the design and testing of identifiable software products controlled by the Company are recognised as intangible assets.

Computer software costs recognised as assets are amortised using the straight-line basis over their estimated useful lives, which does not exceed 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

###### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairments.

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

The cost of property, plant and equipment includes directly attributable incremental costs incurred in its acquisition and installation.

###### Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is charged to write off the cost of assets, other than assets under construction, to their residual values using the straight-line method over their estimated useful lives, as follows:

Freehold buildings	40-50 years
Leasehold improvements	5-40 years (or over the lease term, whichever is shorter)
Plant and machinery	1-7 years
Motor vehicles	4 years
Furniture and fittings	5-10 years
Network infrastructure	5-40 years

Depreciation is not provided on freehold land.

###### Investments

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

###### Asset impairment

Intangible assets and property, plant and equipment that are subject to amortisation are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an impairment indicator is identified, the carrying value of the income generating unit is compared with its recoverable amount. Where the recoverable amount is less than the carrying value, an impairment is recognised.

An impairment loss is recognised in the Income Statement for the amount by which the assets carrying amount exceeds its recoverable amount.

###### Joint operations

The Company had a tower sharing arrangement up until 14 January 2021 which was determined as a joint operation. 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 Company's assets, liabilities, revenue, expenses and cash flows in the joint operation plus the share of jointly held balances and transactions are combined with the equivalent items in the financial statements on a line-by-line basis.

## **VODAFONE LIMITED**

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

#### **FOR THE YEAR ENDED 31 MARCH 2021**

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

###### **Inventory**

Inventory is valued at the lower of cost and estimated net realisable value. Provision is made where inventory is slow moving or obsolete to reduce cost to its net realisable value, calculated with reference to historic sales experience and forecast demand.

###### **Leases**

When the Company leases an asset, a 'right-of-use asset' is recognised for the leased item and a lease liability is recognised for any lease payments to be paid over the lease term at the lease commencement date. The right-of-use asset is initially measured at cost, being the present value of the lease payments paid or payable, plus any initial direct costs incurred in entering the lease and less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. The lease term is the non-cancellable period of the lease plus any periods for which the Company is 'reasonably certain' to exercise any extension options. The useful life of the asset is determined in a manner consistent to that for owned property, plant and equipment. If right-of-use assets are assessed to be impaired, the carrying value is reduced accordingly.

Lease liabilities are initially measured at the value of the lease payments over the lease term that are not paid at the commencement date and are usually discounted using the Company's incremental borrowing rates (the rate implicit in the lease is used if it is readily determinable). Lease payments included in the lease liability include both fixed payments and in-substance fixed payments during the term of the lease.

After initial recognition, the lease liability is recorded at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate (e.g. an inflation related increase) or if the Company's assessment of the lease term changes; any changes in the lease liability as a result of these changes also results in a corresponding change in the recorded right of-use asset.

Where the Company is a lessor, it determines at inception whether the lease is a finance or an operating lease. When a lease transfers substantially all the risks and rewards of ownership of the underlying asset then the lease is a finance lease; otherwise the lease is an operating lease. Finance leases are included as 'net investment in leases' within trade and other receivables.

Where the Company is an intermediate lessor, the interests in the head lease and the sub-lease are accounted for separately and the lease classification of a sub-lease is determined by reference to the right-of-use asset arising from the head lease.

Income from operating leases is recognised on a straight-line basis over the lease term. Income from finance leases is recognised at lease commencement with interest income recognised over the lease term. Lease income is recognised as revenue for transactions that are part of the Company's ordinary activities (primarily equipment provided to customers). The Company uses IFRS15 principles to allocate the consideration in contracts between any lease and non-lease components.

## **VODAFONE LIMITED**

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

#### **FOR THE YEAR ENDED 31 MARCH 2021**

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

###### **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge calculation is based on the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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

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

###### **Borrowings**

Interest bearing loans are initially measured at fair value, 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.

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

Finance costs are recognised in the Income Statement in the period in which they are incurred.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

###### Hedging

The Company's activities expose it to changes in foreign exchange rates which it manages using derivative financial instruments in the form of cash flow hedges: hedges of highly probable forecast transactions of foreign currency. These derivative financial instruments are initially measured at fair value on the contract date and subsequently re-measured to fair value at each reporting date. Where deemed effective hedges, changes in value are deferred to other comprehensive income. Hedge effectiveness is determined at inception of the hedge relationship and through prospective effectiveness assessments.

For cash flow hedges, 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. If a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

###### Pensions

The Company participates in both defined benefit and defined contribution pension schemes.

###### *Defined benefit pension schemes*

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

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

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

###### *Defined contribution pension schemes*

For defined contribution schemes, the Company pays contributions to independently administered funds. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they fall due.

Defined contribution pension costs charged to the Income Statement represent contributions payable in respect of the year.

## **VODAFONE LIMITED**

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

#### **FOR THE YEAR ENDED 31 MARCH 2021**

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

###### **Financial assets**

The Company classifies its financial assets under loans and receivables: Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise receivables and cash. The Company has no financial assets at fair value through profit or loss.

Trade and other receivables mainly consist of amounts owed to the Company by customers, contract assets, fellow group undertakings and amounts paid to suppliers in advance. Trade receivables do not carry any interest and are stated at amortised cost as reduced by allowances for lifetime estimated credit losses. The Company has financial assets classified and measured at amortised cost that are subject to the expected credit loss model requirements of IFRS 9. Estimated future credit losses are first recorded on the initial recognition of a receivable and 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 collectable.

If collection is expected in one year or less, they are classified as current assets. If not, they are classified as non-current assets.

###### **Creditors**

Creditors are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

###### **Share-based payments**

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

Where Vodafone Group Plc grants rights or share options over its shares to employees of the Company, the Company records this as a capital contribution directly in equity. Where the Company makes cash payments to its ultimate parent in respect of any rights or share options granted, such cash contributions are accounted for as a reduction in the capital contribution received (see note 20).

###### **Provisions**

Provisions for asset restoration obligations, restructuring costs and other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

###### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

###### (a) Revenue recognition

###### *Gross versus net presentation*

When the Company 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 Company 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 Company 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 Company 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.

###### *Allocation of revenue to goods and services provided to customers*

Revenue is recognised when goods and services are delivered to customers. Goods and services may be delivered to a customer at different times under the same contract, hence it is necessary to allocate the amount payable by the customer between goods and services on a 'relative standalone selling price basis'; this requires the identification of performance obligations ('obligations') and the determination of standalone selling prices for the identified obligations.

It is necessary to estimate the standalone price when the Company does not sell equivalent goods or services in similar circumstances on a standalone basis. When estimating the standalone price the Company maximises the use of external inputs; methods for estimating standalone prices include determining the standalone price of similar goods and services sold by the Company, observing the standalone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach (which is sometimes the case for handsets and other equipment). Where it is not possible to reliably estimate standalone prices due to lack of observable standalone sales or highly variable pricing, which is sometimes the case for services, the standalone price of an obligation may be determined as the transaction price less the standalone prices of other obligations in the contract. The standalone price determined for obligations materially impacts the allocation of revenue between obligations and impacts the timing of revenue when obligations are provided to customers at different times – for example, the allocation of revenue between handsets, which are usually delivered up-front, and services which are typically delivered over the contract period. However, there is not considered to be a significant risk of material adjustment to the carrying value of contract-related assets or liabilities in the 12 months after the balance sheet date if these estimates were revised.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

##### Critical accounting estimates and judgements (continued)

##### (b) Finite lived intangible assets

Intangible assets include amounts spent by the Company acquiring investments, licences fees and the costs of purchasing and developing computer software.

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 Income Statement. Useful lives are periodically reviewed to ensure that they remain appropriate.

The estimated useful life of licence fees 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.

The useful life of software 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 the licence.

##### (c) Taxation

The Company's tax charge on ordinary activities is the sum of the total current and deferred tax charges. The calculation of the Company'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, which can take many years, may give rise to material profits, losses and/or cash flows.

The recognition of deferred tax assets, particularly in respect of tax losses, is based upon whether it is probable that there will be sufficient and suitable taxable profits in the Company or the UK tax group against which to utilise the assets in the future.

Judgement is required when determining probable future taxable profits. The Company assesses the availability of future taxable profits using the same undiscounted five year forecasts for the Company's operations as are used in the Group's value in use calculations. Where tax losses are forecast to be recovered beyond the five year period, the availability of taxable profits is assessed using the cash flows and long-term growth rates used for the value in use calculations.

Changes in the assumptions which underpin the Company's forecasts could have an impact on the amount of future taxable profits and could have a significant impact on the period over which the deferred tax asset would be recovered.

The Company only considers substantively enacted tax laws when assessing the amount and availability of tax losses to offset against the future taxable profits. See note 7 'Income tax on ordinary activities'.



## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

##### Critical accounting estimates and judgements (continued)

##### (d) Lease accounting

Lease accounting under IFRS 16 necessitates the collation and processing of very large amounts of data and the increased use of management judgements and estimates to produce financial information. The most significant accounting judgements are disclosed below.

##### *Lease identification*

Whether the arrangement is considered a lease or a service contract depends on the analysis by management of both the legal form and substance of the arrangement between the Company and the counter-party to determine if control of an identified asset has been passed between the parties; if not, the arrangement is a service arrangement. Control exists if the Company obtains substantially all the economic benefit from the use of the asset, and has the ability to direct its use, for a period of time. An identified asset exists where an agreement explicitly or implicitly identifies an asset or a physically distinct portion of an asset which the lessor has no substantive right to substitute.

The scenarios requiring the greatest judgement include those where the arrangement is for the use of fibre or other fixed telecommunication lines. Generally, where the Company has exclusive use of a physical line it is determined that the Company can also direct the use of the line and therefore leases will be recognised. Where the Company provides access to fibre or other fixed telecommunication lines to another operator on a wholesale basis the arrangement will generally be identified as a lease, whereas when the Company provides fixed line services to an end-user, generally control over such lines is not passed to the end-user and a lease is not identified.

The impact of determining whether an agreement is a lease or a service, depends on whether the Company is a potential lessee or lessor in the arrangement and, where the Company is a lessor, whether the arrangement is classified as an operating or finance lease. The impacts for each scenario are described below where the Company is potentially:

- A lessee - The judgement impacts the nature and timing of both costs and reported assets and liabilities. A lease results in an asset and a liability being reported and depreciation and interest being recognised; the interest charge will decrease over the life of the lease. A service contract results in operating expenses being recognised evenly over the life of the contract and no assets or liabilities being recorded (other than trade payables, prepayments and accruals).
- An operating lessor - The judgement impacts the nature of income recognised. An operating lease results in lease income being recognised whilst a service contract results in service revenue. Both are recognised evenly over the life of the contract.
- A finance lessor - The judgement impacts the nature and timing of both income and reported assets. A finance lease results in the lease income being recognised at commencement of the lease and an asset (the net investment in the lease) being recorded.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

##### Critical accounting estimates and judgements (continued)

###### *Lease term*

Where leases include additional optional periods after an initial lease term, significant judgement is required in determining whether these optional periods should be included when determining the lease term. The impact of this judgement is significantly greater where the Company is a lessee. As a lessee, optional periods are included in the lease term if the Company is reasonably certain it will exercise an extension option or will not exercise a termination option; this depends on an analysis by management of all relevant facts and circumstances including the leased asset's nature and purpose, the economic and practical potential for replacing the asset and any plans that the Company has in place for the future use of the asset. Where a leased asset is highly customised (either when initially provided or as a result of leasehold improvements) or it is impractical or uneconomic to replace then the Company is more likely to judge that lease extension options are reasonably certain to be exercised. The value of the right-of-use asset and lease liability will be greater when extension options are included in the lease term. The normal approach adopted for lease term by asset class is described below.

The lease terms can vary significantly by type and use of asset. In addition, the exact lease term is subject to the non-cancellable period and rights and options in each contract. Generally, lease terms are judged to be the longer of the minimum lease term and:

- Between 5 and 15 years for land and buildings (excluding retail), with terms at the top end of this range if the lease relates to assets that are considered to be difficult to exit sooner for economic, practical or reputational reasons;
- To the next contractual lease break date for retail premises (excluding breaks within the next 12 months);
- Where leases are used to provide internal connectivity the lease term for the connectivity is aligned to the lease term or useful economic life of the assets connected; and
- The customer service agreement length for leases of local loop connections or other assets required to provide fixed line services to individual customers.

In most instances the Company has options to renew or extend leases for additional periods after the end of the lease term which are assessed using the criteria above.

##### **(e) Property, plant and equipment**

Property, plant and equipment represents 32.1% (2020: 33.9%) of the Company's total assets; estimates and assumptions made may have a material impact on their carrying value and related depreciation charge. See note 9 'Property, plant and equipment'.

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 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.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

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

##### Critical accounting estimates and judgements (continued)

###### (f) Post-employment benefits

Management judgement is exercised when determining the Company'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. Further details, including a sensitivity analysis, are included in note 21 'Post-employment benefits'.

###### (g) 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:

- Growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- Timing and amount of future capital expenditure, licence and spectrum payments;
- Long-term growth rates; and
- Appropriate discount rates to reflect the risks involved.

Management prepares formal five year forecasts for the Company's operations, which are used to estimate their value in use.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projection, could significantly affect the Company's impairment evaluation and hence reported assets and profits or losses.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

##### 2. Revenue

Revenue reported for the year includes revenue from contracts with customers, comprising service and equipment revenue, as well as other revenue items including revenue from leases and interest revenue arising for transactions with a significant financing component.

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

	2021	2020
	£m	£m
Service revenue	4,217.5	4,371.7
Equipment and other revenue	1,166.5	1,285.9
Total revenue	<u>5,384.0</u>	<u>5,657.6</u>

Other revenue largely represents lease revenues recognised under IFRS 16 'Leases'.

The total future revenue from the Company's contracts with customers with performance obligations not satisfied at 31 March 2021 is £3,685m (2020: £3,463m), of which £2,013m (2020: £1,960m) is expected to be recognised within the next year and the majority of the remaining amount in the following 12 months.

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**3. Operating profit**

The operating profit of £186.8m (2020: £351.5m loss) is stated after charging/(crediting):

	2021	2020
	£m	£m
Credit losses on trade receivables	137.9	107.9
Credit losses/(gains) on contract assets	7.8	(6.6)
Depreciation of property, plant and equipment (note 9):		
Owned assets	568.5	579.9
Leased assets	583.7	498.6
Fees payable to the Company's auditor:		
Audit of the Company's financial statements	1.5	1.4
(Profit)/loss on disposal of fixed assets	(3.2)	7.7
Amortisation of licence fees (note 8)	433.3	410.3
Amortisation of computer software (note 8)	193.8	216.0
Reorganisation (credit)/expense – restructuring	(1.4)	6.1
Net gain on disposal of joint arrangement (note 25)	(678.5)	-
Net foreign exchange (gain)/loss	(1.8)	1.0

Reorganisation expense comprises the impact of redundancy and property costs as a result of restructuring under a three-year programme, the majority of which was completed during the prior year.

No non-audit services have been provided by the Company's auditor.

All the impairment net losses above relate to receivables arising from contracts with customers.

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**4. Employees**

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

	2021 Number	2020 Number
Selling and distribution	2,663	3,299
Administration	6,569	6,517
	<u>9,232</u>	<u>9,816</u>

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

	2021 £m	2020 £m
Wages and salaries	424.9	414.3
Social security costs	51.3	49.0
Other pension costs	58.1	54.4
Cost of employee share schemes	8.0	13.2
	<u>542.3</u>	<u>530.9</u>

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 5. Directors' remuneration

	2021 £'000	2020 £'000
Emoluments	3,524.4	3,630.8
Company payments to defined contribution pension schemes	8.5	20.0
	<u>3,532.9</u>	<u>3,650.8</u>

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

	2021 Number	2020 Number
Number of directors in the year who:		
Are members of a defined contribution pension scheme:	<u>3</u>	<u>2</u>

	2021 £'000	2020 £'000
Highest paid director's remuneration	<u>2,077.3</u>	<u>2,145.7</u>

All directors of the Company participate in the Group's share plans which are described in note 20.

#### 6. Net finance expense

	2021 £m	2020 £m
Interest receivable and similar income:		
Vodafone Group companies	4.2	6.0
Interest on investment in leases	0.6	0.4
	<u>4.8</u>	<u>6.4</u>
Interest payable and similar charges:		
Vodafone Group companies	(3.1)	(1.8)
Interest on lease liabilities	(15.7)	(18.3)
Other interest and charges	(4.7)	(7.1)
	<u>(23.5)</u>	<u>(27.2)</u>
Net interest income/(expense) on defined benefit pension scheme	11.1	(2.7)
	<u>(7.6)</u>	<u>(23.5)</u>

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**7. Income tax on ordinary activities**

	2021 £m	2020 £m
UK Corporation Tax charge at 19% (2020: 19%)	(23.8)	(68.1)
Adjustments in respect of prior years	<u>26.3</u>	<u>(1.2)</u>
Total current taxation charge	2.5	(69.3)
Deferred taxation credit - current year	103.7	121.1
Deferred taxation charge - prior year	(9.4)	(19.7)
Deferred taxation credit - impact of change in tax rate	<u>-</u>	<u>116.7</u>
Total deferred taxation credit	94.3	218.1
Total income tax credit	<u>96.8</u>	<u>148.8</u>
	2021 £m	2020 £m
Tax included in other comprehensive income		
Tax attributable to actuarial losses	10.4	-
Origination and reversal of temporary differences	106.2	(109.4)
Impact of change in tax rate	<u>-</u>	<u>2.9</u>
Total tax credit/(charge) included in other comprehensive income	<u>116.6</u>	<u>(106.5)</u>

The elements of deferred taxation are shown in note 16.

The tax rate for the current year is 19%. In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This law was substantively enacted on 17 March 2020 and the rate of 19% was used to calculate the opening balance sheet deferred tax asset/(liability).

In May 2021 the UK Government substantively enacted a new corporate tax rate of 25% that is to take effect from 1 April 2023. As the current corporate tax rate, of 19%, was the rate that was substantively enacted as at 31 March 2021, 19% is the rate used to calculate the closing balance sheet deferred tax assets/(liabilities).



**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**7. Income tax on ordinary activities (continued)**

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2020: 19%). The actual income tax for the current and previous year differs from the tax credit at the standard rate for the reasons set out in the following reconciliation:

	2021 £m	2020 £m
Profit/(loss) before taxation	<u>179.2</u>	<u>(375.0)</u>
Tax credit on loss before income tax at standard rate of 19% (2020: 19%)	(34.0)	71.3
Factors affecting tax credit for the year:		
Adjustments in respect of prior years	16.9	(20.9)
Permanent differences	(15.0)	(17.5)
Exempt gain on disposal of CTIL	128.9	-
Losses not utilised	-	(0.8)
Re-measurement of deferred tax – change in UK tax rate	-	116.7
Income tax credit for the year	<u><u>96.8</u></u>	<u><u>148.8</u></u>

VODAFONE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2021

8. Intangible assets

	Goodwill	Licence fees	Computer software	Total
	£m	£m	£m	£m
Cost				
At 1 April 2020	360.0	7,284.7	2,423.4	10,068.1
Additions	-	-	206.6	206.6
Disposals	-	-	(719.7)	(719.7)
Transfers	-	-	5.0	5.0
Disposal of joint arrangement	(50.4)	-	(5.4)	(55.8)
At 31 March 2021	<u>309.6</u>	<u>7,284.7</u>	<u>1,909.9</u>	<u>9,504.2</u>
Accumulated amortisation				
At 1 April 2020	-	5,695.5	2,004.2	7,699.7
Charge for the year	-	433.3	193.8	627.1
Disposals	-	-	(716.4)	(716.4)
Transfers	-	-	-	-
Disposal of joint arrangement	-	-	(2.9)	(2.9)
At 31 March 2021	<u>-</u>	<u>6,128.8</u>	<u>1,478.7</u>	<u>7,607.5</u>
Net book value				
At 31 March 2021	<u>309.6</u>	<u>1,155.9</u>	<u>431.2</u>	<u>1,896.7</u>
At 31 March 2020	<u>360.0</u>	<u>1,589.2</u>	<u>419.2</u>	<u>2,368.4</u>

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**9. Property, plant and equipment**

	Freehold land & buildings and leasehold improvements	Plant, machinery and motor vehicles	Furniture and fittings	Network infrastructure	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
At 1 April 2020	346.9	697.1	367.0	10,513.7	235.1	12,159.8
Additions	-	0.6	7.1	462.1	53.4	523.2
Transfers	(2.5)	3.4	19.5	25.1	(49.7)	(4.2)
Disposals	(62.4)	(404.9)	(98.3)	(1,292.0)	-	(1,857.6)
Disposal of joint arrangement	-	-	-	(823.0)	(80.0)	(903.0)
At 31 March 2021	282.0	296.2	295.3	8,885.9	158.8	9,918.2
<b>Accumulated depreciation</b>						
At 1 April 2020	309.0	687.2	240.3	8,005.1	-	9,241.6
Charge for the year	2.4	9.6	29.3	527.2	-	568.5
Transfers	(1.7)	-	1.6	(0.3)	-	(0.4)
Disposals	(62.2)	(404.8)	(94.1)	(1,291.2)	-	(1,852.3)
Disposal of joint arrangement	-	-	-	(332.9)	-	(332.9)
At 31 March 2021	247.5	292.0	177.1	6,907.9	-	7,624.5
<b>Net book value</b>						
At 31 March 2021	34.5	4.2	118.2	1,978.0	158.8	2,293.7
At 31 March 2020	37.9	9.9	126.7	2,508.6	235.1	2,918.2

Included in property, plant and equipment is freehold land with a cost of £9.5m (2020: £9.5m). Freehold land is not depreciated.

Right-of-use assets arising from the Company's lease arrangements are recorded within property, plant and equipment:

<b>Net book value</b>						
Property, plant and equipment (owned assets)	34.5	4.2	118.2	1,978.0	158.8	2,293.7
Right of use assets	292.7	9.4	-	1,373.2	-	1,675.3
At 31 March 2021	327.2	13.6	118.2	3,351.2	158.8	3,969.0

Additions of £1,479.2m and a depreciation charge of £49.0m, £3.7m, £531.0m in respect of Freehold land and buildings, Motor vehicles and Network infrastructure, respectively, were recorded in respect of right-of-use assets during the year to 31 March 2021.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 10. Investments

£m

At 1 April 2020 and at 31 March 2021

25.1

The companies in which the Company had an interest at the year-end were as follows:

Investment held	Principal activity	Holding and Voting Rights %
Talkmobile Limited	Telecommunications services	100
Digital Mobile Spectrum Limited	Telecommunications services	25
Vodafone UK Foundation	Charitable organization	100
Talkmobile UK Limited	Dormant	100

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

During the year the Company disposed of its 50% joint arrangement share in Cornerstone Telecommunications Infrastructure Limited. See note 25 for further details. The Company accounted for Cornerstone Telecommunications Infrastructure Limited as a joint operation.

Talkmobile UK Limited was subsequently dissolved on 13 July 2021.

#### 11. Inventories

	2021 £m	2020 £m
Finished goods held for resale	<u>145.0</u>	<u>116.4</u>

There is no material difference between the balance sheet value of inventory and their replacement cost. Cost of sales includes amounts related to inventory of £936.7m (2020: £1,024.9m). Inventories are stated after provisions for impairment of £16.9m (2020: £13.2m).

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 12. Trade and other receivables

	2021 £m	2020 £m
<i>Trade and other receivables: amounts falling due within one year</i>		
Trade receivables	360.4	404.8
Net investment in leases	13.5	6.7
Amounts owed by group undertakings	3,036.0	2,109.7
Group relief receivable	-	0.8
Other receivables	8.8	15.2
Contract assets	391.7	448.1
Contract related costs	169.9	156.4
Prepayments	544.2	181.8
	<u>4,524.5</u>	<u>3,323.5</u>
<i>Trade and other receivables: amounts falling due after more than one year</i>		
Net investment in leases	215.6	22.6
Contract assets	121.1	155.9
Contract related costs	71.7	64.4
Prepayments	12.3	15.8
	<u>420.7</u>	<u>258.7</u>
	<u>4,945.2</u>	<u>3,582.2</u>

Amounts owed by Group undertakings are unsecured and repayable on demand.

The carrying amounts of trade and other receivables approximate their fair value and are non-interest bearing. Trade receivables are stated after expected future credit losses of £131.5m (2020: £108.7m). Contract assets are stated after expected future credit losses of £9.2m (2020: £11.6m). The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company's contract related costs comprise £233.9m (2020: £209.9) relating to costs incurred to obtain customers contracts and £7.7m (2020: £10.9m) relating to costs incurred to fulfil customer contracts. An amortisation expense of £185.2m (2020: £158.4m) was recognised in the operating profit during the year.

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

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

	2021	2020
	£m	£m
Trade payables	431.2	496.3
Amounts owed to group undertakings	2,834.2	2,736.7
Lease liabilities	503.7	384.2
Group relief payable	13.2	85.0
Other taxation and social security costs	219.4	215.5
Other payables	20.7	13.5
Other loans	10.8	5.9
Accruals	376.4	461.3
Contract liabilities	234.5	206.8
	<u>4,644.1</u>	<u>4,605.2</u>

Amounts owed to group undertakings are unsecured and repayable on demand.

Materially, all of the £206.8m recorded as current contract liabilities at 1 April 2020 was recognised as revenue during the year.

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

	2021	2020
	£m	£m
Other payables	0.3	2.6
Lease liabilities	1,461.5	719.8
Contract liabilities	0.6	0.8
Other taxes and social security costs	23.8	20.1
	<u>1,486.2</u>	<u>743.3</u>

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

	2021	2020
	£m	£m
Between 2 and 5 years	969.2	585.2
More than 5 years	517.0	158.1
	<u>1,486.2</u>	<u>743.3</u>

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**15. Provisions for liabilities**

	Asset retirement obligations	Other	Total
	£m	£m	£m
As at 1 April 2020	170.0	47.1	217.1
Amount charged to the income statement	0.3	15.0	15.3
Additions	12.4	-	12.4
Released in the year	(18.1)	(10.5)	(28.6)
Utilised in the year	(4.7)	(21.5)	(26.2)
Discount unwind	3.0	-	3.0
Disposal of joint arrangement	(9.0)	(1.1)	(10.1)
As at 31 March 2021	<u>153.9</u>	<u>29.0</u>	<u>182.9</u>

The maturity of provisions is as follows:

Amounts falling due within one year	3.1	7.7	10.8
Amounts falling due after more than one year	<u>150.8</u>	<u>21.3</u>	<u>172.1</u>
	<u>153.9</u>	<u>29.0</u>	<u>182.9</u>

Asset retirement obligations are provisions recognised by the Company to decommission its network sites at the end of their operating life. In the course of the Company's activities, a number of sites and other assets are utilised which are expected to have costs associated with decommissioning. 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.

Other provisions mainly relate to restructuring activities, including onerous non-lease costs associated with vacant leased properties. The majority of the balance is expected to be utilised in periods up to 10 years.

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**16. Deferred taxation**

	2021 £m	2020 £m
The elements of deferred taxation which have been recognised as assets and liabilities in the Statement of Financial Position are as follows:		
Accelerated capital allowances	1,278.8	1,183.6
Share based payments	2.7	2.4
Pension asset	25.3	3.6
Other timing differences	40.6	40.6
Total deferred tax asset	<u>1,347.4</u>	<u>1,230.2</u>
Accelerated capital allowances	-	(11.6)
Pension liability	(9.7)	(92.9)
Other timing differences	(1.5)	(1.5)
Total deferred tax liabilities	<u>(11.2)</u>	<u>(106.0)</u>
Net deferred tax asset	<u>1,336.2</u>	<u>1,124.2</u>

Deferred tax assets and liabilities have not been discounted.

The movements in the net deferred taxation balances were as follows:

	2021 £m	2020 £m
Net asset at the beginning of year	1,124.2	1,014.3
Change in accounting policy	-	(1.7)
Amount credited to the income statement	94.2	218.1
Amount credited/(charged) to other comprehensive income	106.2	(106.5)
Disposal of joint arrangement	11.6	-
Net deferred asset at the end of year	<u>1,336.2</u>	<u>1,124.2</u>



**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**16. Deferred taxation (continued)**

Deferred tax consists of the following deferred tax assets/(liabilities):

	2021 £m	2020 £m
Deferred tax assets due within 12 months	56.8	35.2
Deferred tax liabilities due within 12 months	(9.9)	(106.0)
Total deferred tax	<u>46.9</u>	<u>(70.8)</u>
Deferred tax assets due after 12 months	<u>1,289.3</u>	<u>1,195.0</u>
Total deferred tax	<u>1,289.3</u>	<u>1,195.0</u>
Total deferred tax asset	<u><u>1,336.2</u></u>	<u><u>1,124.2</u></u>

**Reconciliation of the deferred tax asset as at 31 March 2021**

	Accelerated capital allowances £m	Share-based payment £m	Pension deficit £m	Other £m	Total £m
At 1 April 2020	1,183.6	2.4	3.6	40.6	1,230.2
Credited/(charged) to the income statement	95.2	0.1	(1.1)	-	94.2
Credited directly to other comprehensive income	-	0.2	22.8	-	23.0
At 31 March 2021	<u>1,278.8</u>	<u>2.7</u>	<u>25.3</u>	<u>40.6</u>	<u>1,347.4</u>

**Reconciliation of deferred tax liability as at 31 March 2021**

	Accelerated capital allowances £m	Share-based payment £m	Pension deficit £m	Other £m	Total £m
At 1 April 2020	(11.6)	-	(92.9)	(1.5)	(106.0)
Credited/(charged) to the income statement	-	-	-	-	-
Credited directly to other comprehensive income	-	-	83.2	-	83.2
Disposal of joint arrangement	11.6	-	-	-	11.6
At 31 March 2021	<u>-</u>	<u>-</u>	<u>(9.7)</u>	<u>(1.5)</u>	<u>(11.2)</u>

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 16. Deferred taxation (continued)

The recoverability of the deferred tax asset is evaluated through a probability assessment level of the future taxable profit that will be available for the temporary differences to be utilised against. The future taxable profit is based on estimates. Deferred tax assets are recognised for unused capital allowances to the extent that the realisation of the related tax benefit through future taxable profits is probable. Based on the current forecasts the deferred Tax Asset will be fully recovered over the next 20 to 25 years.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This law was substantively enacted on 17 March 2020 and the rate of 19% was used to calculate the opening balance sheet deferred tax asset/(liability).

In May 2021 the UK Government substantively enacted a new corporate tax rate of 25% that is to take effect from 1 April 2023. As the current corporate tax rate, of 19%, was the rate that was substantively enacted as at 31 March 2021, 19% is the rate used to calculate the closing balance sheet deferred tax assets/(liabilities).

The rate of 19% (2020:19%) has been used to calculate the above deferred tax assets/(liabilities).

#### 17. Called up share capital

	2021 £	2020 £
Allotted, issued and fully paid:		
4,543 (2020: 4,343) ordinary shares of £1 each	4,543	4,343

On 7 September 2020 the Company issued 100 £1 ordinary shares to its immediate parent company, Vodafone Mobile Network Limited for a total consideration of £58.8m

On 8 January 2021 the Company issued 100 £1 ordinary shares to its immediate parent company, Vodafone Mobile Network Limited in consideration for the transfer by Vodafone Mobile Network Limited of 20,000 ordinary shares of £1 each issued to it in the share capital of Cornerstone Telecommunications Infrastructure Limited to the Company.

#### 18. Capital and other commitments

	2021 £m	2020 £m
Contracts for future capital expenditure not provided in the financial statements	39.2	116.8

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

##### 19. Leases

###### The Company's leasing activities

###### As a lessee

The Company leases buildings for its retail stores, offices and data centres, land on which to construct mobile base stations, space on mobile base stations to place active RAN equipment and network space (primarily rack space or duct space). In addition, the Company leases fibre and other fixed connectivity for network purposes, to support both backhaul and other internal use, and fixed connectivity services to customers.

The Company's general approach to determining lease term by class of asset is described under critical accounting judgements and key sources of estimation uncertainty in note 1.

Certain leases include future price increases as fixed percentage increases, indexation to inflation measures on a periodic basis, or rent review clauses. Other than fixed percentage increases the lease liability does not reflect the impact of these future increases unless the measurement date has passed. The Company's leases contain no material variable payment clauses other than those related to the number of operators sharing space on third party mobile base stations.

The Company sub-leases excess retail and office properties under both operating and finance leases and tower sites under finance leases to a fellow group undertaking; see disclosure on the Company's leasing activities as a lessor below.

###### Operational lease periods

Where practicable the Company seeks to include extension or break options in leases to provide operational flexibility, therefore many of the Company's lease contracts contain optional periods. The Company's policy on assessing and reassessing whether it is reasonably certain that the optional period will be included in the lease term is described under critical accounting judgements and key sources of estimation uncertainty in note 1.

After initial recognition of a lease, the Company only reassesses the lease term when there is a significant event or a significant change in circumstances, which was not anticipated at the time of the previous assessment. Significant events or significant changes in circumstances could include merger and acquisition or similar activity, significant expenditure on the leased asset not anticipated in the previous assessment, or detailed management plans indicating a different conclusion on optional periods to the previous assessment. Where a significant event or significant change in circumstances does not occur, the lease term and therefore lease liability and right-of-use asset value, will decline over time.

The Company's leases for customer connectivity are normally either under regulated access or network sharing or similar preferential access arrangements and, as a result, the Company normally has significant flexibility over the term it can lease such connections for; generally the notice period required to cancel these leases is less than the notice period included in the service contracts with end customers. As a result, the Company does not have any significant cash exposure to optional periods on customer connectivity as the Company can cancel the lease when the service agreement ends. In some circumstances the Company is committed to minimum spend amounts for connectivity leases, which are included within reported lease liabilities.

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2021**

**19. Leases (continued)**

**Amounts recognised in the primary financial statements in relation to lessee transactions**

**Right-of-use assets**

The carrying value of the Company's right-of-use assets, depreciation charge for the year and additions during the year are disclosed in note 9 "Property, plant and equipment".

**Lease liabilities**

The maturity profile of the Company's lease liabilities is as follows:

	2021 £m	2020 £m
Within one year	512.1	399.9
In more than one year but less than two years	374.6	243.1
In more than two years but less than three years	249.7	162.4
In more than three years but less than four years	185.5	109.9
In more than four years but less than five years	175.0	69.6
In more than five years	560.7	210.5
	2,057.6	1,195.4
Effect of discounting	(92.4)	(91.4)
<b>Lease liability</b>	<b>1,965.2</b>	<b>1,104.0</b>

At 31 March 2021, the Company had entered into lease contracts with undiscounted payment obligations totaling £7.6m (2020: £6.8m) that had not yet commenced.

Interest expense on lease liabilities for the year is disclosed in note 6 "Net finance expense".

The Company has no material liabilities under residual value guarantees and makes no material payments for variable payments not included in the lease liability. The Company does not apply either the short term or low value expedient options in IFRS 16.

**As a lessor**

The Company has a wide range of lessor activities with consumer and enterprise customers, other telecommunication companies and other companies. With consumer and enterprise customers, the Company generates lease income from the provision of handsets, routers and other communications equipment. The Company also provides wholesale access to the Company's fibre and cable networks to other telecommunication companies. In addition, the Company sub-leases retail stores to franchise partners and sub-leases surplus assets (e.g. vacant offices and retail stores).

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2021**

**19. Leases (continued)**

The Group's income as a lessor in the year is as follows:

	2021 £m	2020 £m
Lease revenue (note 2)	41.7	42.5
Income from leases not recognised as revenue	<u>6.5</u>	<u>3.8</u>

The Company's net investments in leases are disclosed in note 12 "Trade and other receivables". The committed amounts to be received from the Company's operating leases are as follows:

	2021 £m	2020 £m
Within one year	14.3	6.7
In more than one year but less than two years	6.6	6.8
In more than two years but less than three years	6.0	4.8
In more than three years but less than four years	3.1	3.3
In more than four years but less than five years	2.1	1.6
In more than five years	<u>211.2</u>	<u>6.1</u>
	243.3	29.3
Effect of discounting	<u>(14.2)</u>	<u>-</u>
<b>Net investment in leases</b>	<u><u>229.1</u></u>	<u><u>29.3</u></u>

The Company has no material lease income arising from variable lease payments.

**VODAFONE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 31 MARCH 2021**

**20. Share-based payments**

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

The Company has applied the exemption permitted by IFRS 2 that allows the measurement of this expense to be calculated only on share awards and share options granted after 7 November 2002. IFRS 2 requires that equity-settled share-based payments issued to the Company's employees are measured at fair value and that this value is expensed over the vesting period, with an equivalent credit taken directly in equity as a capital contribution. On vesting of the shares, the Company is charged the intrinsic value of the share by Vodafone Group Plc. This amount is treated as a reduction of the capital contribution and is recognised directly in equity.

(i) 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 2021.

At 31 March 2021, there were no options outstanding under the Vodafone Global Incentive Plan.

Vodafone Group Sharesave Plan

The Vodafone Group 2008 Sharesave Plan and its predecessor, the Vodafone Group 1998 Sharesave Scheme enables UK staff to acquire shares in Vodafone Group Plc through monthly savings of up to £375 over a three or five year period. The savings 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 shares.

(ii) 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 company performance targets measured over a three year period.

Vodafone Share Incentive Plan

The Vodafone Share Incentive Plan enabled staff to acquire shares in Vodafone Group Plc through monthly purchases of up to £125 per month or 5% of salary, whichever is lower. For each share purchased by the employee, Vodafone Group Plc provided a free matching share. Following a review of our plans, it was decided that, from 1 April 2017, employees would no longer be able to purchase shares under this plan and would no longer receive matching shares. However, individuals continue to receive Dividend Equivalent awards in the plan.

## VODAFONE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### FOR THE YEAR ENDED 31 MARCH 2021

##### 21. Post-employment benefits

The Company'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.

##### Defined contribution pension schemes

Defined contribution pension costs charged to the Income Statement were £50.9m (2020: £49.2m). There were no amounts accrued, but not paid, in respect of pension schemes at 31 March 2021 (2020: £nil).

##### Defined benefit plans

The defined benefit plans are administered by Trustee Boards that are legally separated from the Company. The Trustee Board of each pension fund consists of representatives who are employees, former employees or are independent from the Company. The Boards 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 Company's main defined benefit plan is the Vodafone UK Group Pension Scheme ('Vodafone UK plan'). There are two segregated sections of the Vodafone UK plan, the pre-existing assets and liabilities of the Vodafone UK plan in the Vodafone Section and the former Cable & Wireless Worldwide Retirement Plan ('CWWRP') assets and liabilities, which were transferred into the Vodafone UK plan on 6 June 2014, in the CWW Section, with the CWWRP then being wound up. The pre-existing Vodafone UK plan and the former CWWRP plan closed to future accrual on 31 March 2010 and 30 November 2013 respectively.

The Vodafone UK plan is registered as an occupational pension plan with HMRC and is subject to UK legislation and oversight from the Pensions Regulator. UK legislation requires that pension schemes are funded prudently and that valuations are undertaken at least every three years. Separate valuations are required for the Vodafone Section and CWW Section.

The most recent valuations for the Vodafone Section and CWW Section of the Vodafone UK plan were carried out as at 31 March 2019, by an independent actuary appointed by the plan trustee. These valuations revealed a surplus on the CWW Section on the Scheme's funding basis, and a deficit of £173m for the Vodafone Section on the Scheme's funding basis. After allowing for future investment outperformance, the Trustee and Company agreed a contribution of £80m to fund the Vodafone section deficit and the Company made a lump sum funding contribution of £58.8m in September 2020, being its share of the funding deficit.

The Vodafone Section of the Vodafone UK plan covers a number of UK based employers within the Vodafone Group. Individual companies' contribution, including the impact of any surplus or deficit overall within the plan, have been accounted by each company in the same proportion since 31 March 2010, when the plan closed to future accrual, based on members employed in the company at that time.

The Company also operates the THUS Group Plc Pension Scheme and two further small plans.

The funding policies for these plans are reviewed on a systematic basis in consultation with the independent plan actuaries in order to ensure that the funding contributions from sponsoring employers are appropriate to meet the liabilities of the plans over the long term.

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 21. Post-employment benefits (continued)

The investment strategy for the UK plans is controlled by the trustees in consultation with the Company and the plans have no direct investments in Vodafone Group's equity securities or in property or other assets currently used by the Group. The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the trustee investment policy. The trustees aim to achieve the plan's investment objectives through investing partly in a diversified mix of growth assets which, over the long term, are expected to grow in value by more than the low risk assets. The low risk assets include cash and gilts, inflation and interest rate hedging and in substance insured pensioner annuity policies in both the Vodafone Section and CWW Sections of the Vodafone UK plan. Several investment managers are appointed to promote diversification by assets, organisation and investment style and current market conditions and trends are regularly assessed, which may lead to adjustments in the asset allocation.

Amounts recognised in the income statement in respect of defined benefit pension schemes are as follows:

	2021	2020
	£m	£m
Current service cost	0.9	1.1
Past service cost	1.9	0.4
Interest expense	(11.1)	2.7
Administration expense	4.8	3.8
Total net expense	(3.5)	8.0

#### IAS 19 valuation – the Vodafone UK plan and other schemes

IAS 19 valuations of the defined benefit pension schemes operated by the Company have been prepared as at 31 March 2021 by qualified independent actuaries, ISIO Group. Plan liabilities are measured using the projected unit credit method; the principal actuarial assumptions are set out below:

	2021	2020
	Assumption	Assumption
	%	%
RPI Inflation	3.15	2.40
Pension increases	3.10	2.40
Discount rate	2.00	2.20

The assumptions regarding mortality in retirement for the Vodafone UK plan as at 31 March 2021 use the S3PXA tables with scheme specific adjustments, subject to improvements in line with the CMI 2018 projections and a longer term trend rate 1.5% per annum and smoothing factor 7.5, for both males and females.



# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 21. Post-employment benefits (continued)

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

	On 31 March 2021	Retiring in 25 yrs
Male	23.4 yrs	25.4 yrs
Female	25.3 yrs	27.4 yrs

	2021 £m	2020 £m
Total market value of assets	4,757.6	4,568.5
Present value of scheme liabilities	(4,839.8)	(4,098.5)
Excess of liabilities of funded obligations	(82.2)	(470.0)

#### Represented by:

Schemes with excess of obligations over assets	(133.1)	(19.2)
Schemes with excess of assets over obligations	50.9	489.2

Pension assets are deemed to be recoverable and there are no adjustments in respect of minimum funding requirements as future economic benefits are available to the Company either in the form of future refunds or, for plans still open to benefit accruals, in the form of possible reductions in future contributions.

#### 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 Company's obligations in respect of its defined benefit scheme is as follows:

	Assets £m	Liabilities £m	Net deficit £m
1 April 2020	4,568.5	(4,098.5)	470.0
Service cost	-	(0.9)	(0.9)
Past service cost	-	(1.9)	(1.9)
Interest income/(cost)	99.6	(88.5)	11.1
Return on plan assets excluding interest income	186.3	-	186.3
Actuarial losses arising from changes in financial assumptions	-	(789.4)	(789.4)
Actuarial losses arising from experience adjustments	-	(12.7)	(12.7)
Employer contributions	60.1	-	60.1
Employee contributions	0.1	(0.1)	-
Benefits paid	(152.2)	152.2	-
Expenses paid	(4.8)	-	(4.8)
31 March 2021	4,757.6	(4,839.8)	(82.2)

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**21. Post-employment benefits (continued)**

The amount included in the statement of financial position arising from the Company's obligations in respect of its defined benefit scheme, for the comparative period, was as follows:

	Assets £m	Liabilities £m	Net deficit £m
1 April 2019	4,488.0	(4,585.3)	(97.3)
Service cost	-	(1.1)	(1.1)
Past service cost	-	(0.4)	(0.4)
Interest income/(cost)	107.9	(110.6)	(2.7)
Return on plan assets excluding interest income	118.2	-	118.2
Actuarial gains arising from changes in demographic assumptions	-	186.6	186.6
Actuarial gains arising from changes in financial assumptions	-	323.1	323.1
Actuarial losses arising from experience adjustments	-	(58.2)	(58.2)
Employer contributions	5.6	-	5.6
Employee contributions	0.1	(0.1)	-
Benefits paid	(147.5)	147.5	-
Expenses paid	(3.8)	-	(3.8)
31 March 2020	<u>4,568.5</u>	<u>(4,098.5)</u>	<u>470.0</u>

<b>Fair value of pension assets</b>	2021 £m	2020 £m
Cash and cash equivalents – quoted in an active market	157.7	42.9
Equity investments:		
With quoted prices in an active market	816.6	645.8
Debt instruments:		
With quoted prices in an active market	3,237.3	3,293.0
Without quoted prices in an active market	167.7	147.6
Property:		
With quoted prices in an active market	21.8	13.4
Without quoted prices in an active market	287.6	241.0
Derivatives:		
Without quoted prices in an active market	(1,167.6)	(887.0)
Investment fund		
Annuity policies – with quoted prices in an active market	272.8	212.8
Annuity policies – without quoted prices in an active market	177.8	193.6
Assets held by insurance companies:		
Without quoted prices in an active market	785.9	665.4
Total	<u>4,757.6</u>	<u>4,568.5</u>

# VODAFONE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### FOR THE YEAR ENDED 31 MARCH 2021

#### 21. Post-employment benefits (continued)

The actuarial losses recognised in the Statement of Total Comprehensive Income for the year to 31 March 2021 were £615.8m (2020: £569.7m, gain).

#### Duration of the benefit obligations

The weighted average duration of the defined benefit obligation at 31 March 2021 is 22.3 years (2020: 22.3 years).

#### Sensitivity analysis

Measurement of the Company'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 2021.

	Rate of inflation		Discount rate		Life expectancy	
	Decrease by 0.5p.p. £m	Increase by 0.5 p.p. £m	Decrease by 0.5 p.p. £m	Increase by 0.5 p.p. £m	Decrease by 1 year £m	Increase by 1 year £m
(Decrease)/increase in present value of defined benefit obligation	<u>(376.4)</u>	<u>424.9</u>	<u>554.4</u>	<u>(478.4)</u>	<u>(183.2)</u>	<u>179.3</u>

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 change in 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 recognised in the statement of financial position.

## **VODAFONE LIMITED**

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

#### **FOR THE YEAR ENDED 31 MARCH 2021**

##### **22. Contingent matters**

In December 2018, the administrators of former UK indirect seller, Phones 4U Limited, sued three UK mobile network operators, including Vodafone Limited and their parent companies (MNOs). The administrators allege a conspiracy between the MNOs to pull their business from Phones 4U thereby causing its collapse. Vodafone and the other defendants filed their defences in April 2019 and the Administrators filed their replies in October 2019. Disclosure has taken place. The judge has also ordered that there should be a split trial between liability and damages. The first trial will start in May 2022. The value of the claim is not pleaded.

##### **23. Related party disclosures**

The Company has a number of related parties including joint arrangements, pension schemes and directors (see note 5 'Directors' remuneration', note 10 'Investments' and note 21 'Post-employment benefits').

The Company has taken advantage of the exemption granted by paragraphs 17 and 18A of IAS24, Related Party Disclosures, not to disclose transactions with Group companies.

The Company has included its share of its joint operation, Cornerstone Telecommunications Infrastructure Limited, in the financial statements, up to the date of its disposal to a fellow Group company on 14 January 2021.

The joint operation had share capital consisting solely of ordinary shares and principally operates in the UK. The financial and operating activities of the operation were jointly controlled by the participating shareholders and are primarily designed for all but an insignificant amount of the output to be consumed by the shareholders.

##### **24. Ultimate parent company**

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

A copy of the financial statements of Vodafone Group Plc for the year ended 31 March 2021 may be obtained from its website [www.vodafone.com](http://www.vodafone.com) or from the Company Secretary, Vodafone Group Plc, Vodafone House, The Connection, Newbury, Berkshire, RG14 2FN, United Kingdom.

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**25. Disposal of joint arrangement**

On 14 January 2021 the Company sold its 50% joint arrangement share in Cornerstone Telecommunications Infrastructure Limited for a cash consideration of £1,096.3m. The post-tax gain on disposal of the discontinued operation was determined as follows:

	£m	£m
Total cash consideration received		1,096.3
Cash disposed of	(9.8)	
Net cash inflow on disposal of discontinued operation		1,086.5
<i>Net assets disposed of (other than cash):</i>		
Intangible assets	(52.9)	
Property, plant and equipment ( <i>including right of use assets</i> )	(931.4)	
Trade and other receivables	(37.9)	
Trade and other payables ( <i>including lease liabilities</i> )	670.8	
Provisions for liabilities	10.1	
		(341.3)
Other costs of disposal		(12.3)
Pre-tax gain on disposal of joint arrangement		732.9
Tax expense		-
Post-tax gain on disposal of joint arrangement		732.9
Restriction of gain		(54.4)
Gain on disposal of joint arrangement		678.5

**VODAFONE LIMITED**

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

**FOR THE YEAR ENDED 31 MARCH 2021**

**25. Disposal of joint arrangement (continued)**

Cornerstone Telecommunications Infrastructure Limited has been accounted as a discontinued operation for all periods up to 14 January 2021, the date the transaction completed. The results included within the Company's Income Statement are detailed below.

	9.5 months to 14 January 2021 £m	12 months to 31 March 2020 £m
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(179.3)	(193.3)
Operating loss	(179.3)	(193.3)
Net finance expense	(2.7)	(7.0)
Loss on ordinary activities before taxation	(182.0)	(200.3)
Income tax on ordinary activities	0.2	(2.3)
Loss for the financial year	(181.8)	(202.6)
Profit on disposal of business combination	678.5	-
Profit/(loss) for the financial year from discontinued operations	496.7	(202.6)