16 September 2002

Stephen McEwan
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X 8AL

Our ref: ASB responses
Direct line: 01635 677737

Dear Mr McEwan

FRED 24, "THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES. FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES"

We refer to FRED 24, "The effects of changes in foreign exchange rates. Financial reporting in hyperinflationary economies", issued by the ASB during May 2002 and on which comments were invited by 16 September 2002.

Vodafone Group Plc is listed on Stock Exchanges in London, Frankfurt and New York, with a significant overseas shareholder base. We presently prepare our published accounts using UK GAAP but with a reconciliation to US GAAP for profit and loss and balance sheet items and prepare a combined Annual Report and Accounts & Form 20-F to cover both our UK and US statutory filing obligations. We believe there is a compelling case for international harmonisation of accounting standards and welcome the ASB's efforts to assist in the convergence process in the run up to 2005.

There are no specific issues that we wish to bring to your attention on FRED 24 and our responses to the detailed questions on which you and the IASB have collectively invited comment are set out in the attached Appendix.

Yours sincerely

R N Barr
Group Financial Controller

APPENDIX: Responses to questions raised in FRED 24

1) **Do you agree with the ASB's proposed timetable for the implementation in the UK of standards based on a revised IAS 21 and IAS 29?**
Agree.

2) **Do you agree with the proposal not to include the IAS 21 provisions on the recycling of certain exchange gains and losses?**
One of the key aims of FRS3 was to reduce the focus on one key measure of performance, such as profit or earnings, and introduced another performance statement, namely the Statement of Total Recognised Gains and Losses (STRGL). Therefore, we agree that it is inappropriate to recycle gains and losses reported in one such statement to another.

However, we feel strongly that the UK should achieve full convergence with IAS and therefore disagree with the proposal to remove the recycling provisions of IAS21, unless agreement is reached in the ASB / IASB joint project on reporting financial performance that 'recycling' be prohibited.

3) **Do you agree with the proposal not to include any transitional arrangements in these UK standards?**
Agree.

IASB responses

4) **Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paras 7-12 on how to determine what is an entity's functional currency?**
Yes. Of particular importance is para 10 which retains management judgement as a deciding factor. In a large international Group with income and cash flows generated in a number of countries, it may not always be possible to determine a dominant currency.

5) **Do you agree that a reporting entity (whether a Group or stand-alone entity) should be permitted to present its financial statements in any currency? (or currencies that it chooses)?**
Yes

6) **Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements?**
Yes. Unless presentation is provided for convenience purposes in which case a convenience exchange rate should be used.

7) **Do you agree that the allowed alternatives to capitalise certain exchange differences in para 21 of IAS 21 should be removed?**
Whilst we would prefer to see such items dealt with in the profit and loss account, we feel strongly that the UK should fully converge with IAS. We therefore disagree with the removal of para 21 of IAS21.

8) **Do you agree that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate?**
Yes.

16 September 2002

The Technical Director
Accounting Standards Board
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Our ref: ASB responses
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Dear Sir or Madam

FRED 26, "EARNINGS PER SHARE"

We refer to FRED 26, "Earnings per share", issued by the ASB during May 2002 and on which comments were invited by 16 September 2002.

Vodafone Group Plc is listed on Stock Exchanges in London, Frankfurt and New York, with a significant overseas shareholder base. We presently prepare our published accounts using UK GAAP but with a reconciliation to US GAAP for profit and loss and balance sheet items and prepare a combined Annual Report and Accounts & Form 20-F to cover both our UK and US statutory filing obligations. We believe there is a compelling case for international harmonisation of accounting standards and welcome the ASB's efforts to assist in the convergence process in the run up to 2005.

In respect of FRED 26, there are two issues which cause us concern and on which we feel the ASB should request the IASB to review before the FRED becomes an IFRS. The two issues in questions concern the reporting of diluted earnings, and the requirement to present an EPS measure using profit or loss from continuing items.

<u>Reporting diluted earnings</u>

The wording in FRS 14 is not helpful in respect of what a company reporting a statutory loss should disclose for diluted earnings per share as there are two paragraphs, numbers 37 and 56, within the standard that are ambiguous and have lead to companies adopting differing interpretations as to the requirements. FRED 26 has not addressed this matter and the scope for confusion remains. Within the FRED, the two related paragraphs are 37 and 43. In a company reporting a statutory loss, the strict interpretation of para 37 will result in the assumption that out of the money options are exercised, since they will result in an increased loss per share. However, this conflicts with para 43 which states that only in the money options can be dilutive. We feel that the way FRED 26 is currently drafted will continue to lead to inconsistent reporting and would welcome extra clarity on this issue within any future standard on earnings per share.

<u>Reporting EPS using profit or loss from continuing items</u>

We believe that the requirement to present an EPS measure based on profit or loss from continuing items is flawed.

As a large multi-national Group, Vodafone undertakes treasury and taxation planning centrally. This makes it virtually impossible to accurately allocate financing and tax charges to individual entities and hence is unable to accurately distinguish between continuing and discontinued earnings. FRS 14 recognised this difficulty and although its recommendation to apportion such charges on a pro-rata basis was basic at best, FRED 26 includes no such guidance. We would prefer to present just one measure of basic EPS, being based on the all-inclusive net profit or loss attributable to shareholders.

Notwithstanding our views expressed above, we have considered the proposals of FRED 26 and are broadly in favour with its requirements. Our responses to the detailed questions on which you and the IASB have collectively invited comment are set out in the attached Appendix.

Yours sincerely

R N Barr
Group Financial Controller

APPENDIX: Responses to questions raised in FRED 26

1) **Do you agree with the proposal to issue a new UK standard on earnings per share to replace FRS14, as soon as the new IAS 33 is approved by the IASB?**
Yes

2) **Do you believe that the ASB should consider any transitional arrangements?**
No.

3) **Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 33?**

Yes. The reporting of diluted earnings, and the requirement to present an EPS measure using profit or loss from continuing items.

Reporting diluted loss per share. Clarity is required in respect of the diluted EPS calculations, and disclosures to be made by entities reporting a statutory loss. Similar to FRS14, the FRED states that:

"Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share from continuing operations"; (para 37) and

"Options have a dilutive effect only when the average market price…..exceeds the exercise price (i.e. they are in the money)" (para 43).

In a company reporting a statutory loss, the strict interpretation of para 37 will result in the assumption that out of the money options are exercised, since they will result in an increased loss per share. However, this conflicts with para 43 which states that only in the money options can be dilutive.

Reporting EPS using profit or loss from continuing items

We believe that the requirement to present an EPS measure based on profit or loss from continuing items is flawed and would prefer any future standard to require us to present just one measure of basic EPS, being based on the all-inclusive net profit or loss attributable to shareholders. Alternatively, guidance must be provided as to how to allocate items of income and expense that are generated and managed centrally.

As a large multi-national Group, Vodafone undertakes treasury and taxation planning centrally. This makes it virtually impossible to accurately allocate financing and tax charges to individual entities and hence is unable to accurately distinguish between continuing and discontinued earnings. FRS14 recognised this difficulty and although its recommendation to apportion such charges on a pro-rata basis was basic at best, FRED 26 includes no such guidance.

4) **Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?**
Yes. However, there should be scope for the issuer to exclude such shares from the calculation and disclose the reasons why. An example as to when this could be used would be if the issuer was liable to pay deferred consideration in either shares or cash but had subsequently committed to the financial markets that it would not undertake any further share-based payments, then it would be fair to exclude such potential shares from the calculation of EPS.

5) **Do you agree with the following approach to the year-to-date calculation of diluted EPS?**

-The number of potential ordinary shares is a year to date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year to date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (i.e. without regard for the diluted earnings per share information reported during the interim periods)
Agree.

-The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.
Agree.

-Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisified) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement if later).
Agree.

16 September 2002

Hans Nailor
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Our ref: ASB responses
Direct line: 01635 677737

Dear Mr Nailor

FRED 27, “EVENTS AFTER THE BALANCE SHEET DATE”

We refer to FRED 27, “Events after the balance sheet date”, issued by the ASB during May 2002 and on which comments were invited by 16 September 2002.

Vodafone Group Plc is listed on Stock Exchanges in London, Frankfurt and New York, with a significant overseas shareholder base. We presently prepare our published accounts using UK GAAP but with a reconciliation to US GAAP for profit and loss and balance sheet items and prepare a combined Annual Report and Accounts & Form 20-F to cover both our UK and US statutory filing obligations. We believe there is a compelling case for international harmonisation of accounting standards and welcome the ASB's efforts to assist in the convergence process in the run up to 2005.

There are no specific issues that we wish to bring to your attention on FRED 27 and our responses to the detailed questions on which you have invited comment are set out in the attached Appendix.

Yours sincerely

R N Barr
Group Financial Controller

APPENDIX: Responses to questions raised in FRED 27

1) **Do you agree with the proposal to issue a new UK standard on events after the balance sheet date, once the new IAS 10 is approved by the IASB and once the law is amended to permit its application?**
   Agree.

2) **Do you believe that the ASB should consider any transitional arrangements?**
   No

3) **Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising IAS 10?**

   The exposure draft remains silent on materiality in respect of adjusting events. Whereas non-adjusting events should be disclosed where material, the text of paras 7 and 8 contain no reference to materiality. Previously, SSAP 17, para 22 stated "A material post balance sheet event requires changes in the amounts to be included in financial statements where it is an adjusting event . We believe the IASB should clarify the applicability to material items only.

16 September 2002

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Dear Mr Nailor

FRED 29, "PROPERTY, PLANT AND EQUIPMENT. BORROWING COSTS"

We refer to FRED 29, "Property, plant and equipment. Borrowing costs", issued by the ASB during May 2002 and on which comments were invited by 16 September 2002.

Vodafone Group Plc is listed on Stock Exchanges in London, Frankfurt and New York, with a significant overseas shareholder base. We presently prepare our published accounts using UK GAAP but with a reconciliation to US GAAP for profit and loss and balance sheet items and prepare a combined Annual Report and Accounts & Form 20-F to cover both our UK and US statutory filing obligations. We believe there is a compelling case for international harmonisation of accounting standards and welcome the ASB's efforts to assist in the convergence process in the run up to 2005.

There are no specific issues that we wish to bring to your attention on FRED 29 and our responses to the detailed questions on which you and the IASB have collectively invited comment are set out in the attached Appendix.

Yours faithfully

R N Barr
Group Financial Controller

The ASB would welcome comments, by 16 September 2002, in particular on the following:

(i) Do you agree with the proposal to issue new UK standards on property, plant and equipment and borrowing costs when the IASB issues the revised IAS 16, unless it becomes clear that further changes to IAS 16 are likely by 2005 as a result of the revaluation project?

If the standard is to replace FRS15, it should ensure all aspects are covered in the replacement. Therefore, if it becomes clear that the principles surrounding revaluations are to change, then implementation should be delayed.

(ii) The international exposure draft on property, plant and equipment proposes that residual values used in the calculation of depreciable amount should be reviewed at each balance sheet date and revised to reflect current estimates. FRS 15 generally requires prices at the date of acquisition or latest valuation to be used; hence, depreciation expense on a historical cost basis is not reduced by inflation in residual values. Do you agree or disagree with the proposed international approach?

We agree with the requirement to subject residual values to regular review and to amend in the event of an impairment charge, or reversal of previous impairments. However, we disagree with the notion of adjusting residual values for the effect of inflation as we feel this would result in:

- a hybrid cost / revaluation policy being followed; and
- depreciation charges being affected by incidental holding gains.

(iii) IAS 16 does not address the use of renewals accounting in respect of certain infrastructure assets. Do you believe that the absence of the guidance in FRS 15 would prevent entities from using renewals accounting as a method of estimating depreciation? Should UK entities be permitted to continue to use renewals accounting?

Renewals accounting does not allow a company to avoid recognising a depreciation charge as it is purely a method by which depreciation is measured. Therefore the use of renewals accounting should be addressed in the proposed standard, although it should not apply to UK entities only if the final issued IFRS does not deal with renewals accounting then UK companies should not be permitted to diverge from IAS.

(iv) What are your views on the differences between the requirements of FRS 15 and IAS 16 concerning revaluations (as described in paragraphs 10 to 17 of the Preface to the FRED)?

We disagree with two of the principles in the proposed IFRS. Firstly, we disagree with the requirement under IAS to revalue to fair value, rather than current value i.e. its value in use for the reasons provided in paragraph 13 (principally that value in use reflects the value most relevant to the economic decision making).

Secondly we disagree with IAS 16 not specifying a maximum period between valuations. Although the requirement is to maintain values to ensure they do not materially differ from fair value, this is not as strict a requirement as per FRS1 5 and would not necessarily prevent company's from retaining inappropriate values in the balance sheet. It would also reduce comparability across companies as they respectively take a different view as to what constitutes a material difference in value.

(v) Are there any other aspects of the differences between the proposed standards and current UK accounting requirements that you wish to comment on?

No.

(vi) Do you agree with the AS B's proposal, as a transitional measure (see paragraph 18 above), that the present exemption in FRS 15 in respect of insurance companies should be retained in a new UK standard based on IAS 16 revised pending the outcome of the IASB's projects on insurance and reporting financial performance?

Not applicable to Vodafone.

(vii) The transitional arrangements for the first-time application of FRS 15 allowed an entity that does not adopt a policy of revaluation to retain carrying amounts

reflecting previous revaluations instead of restating the carrying amounts to historical cost (see paragraph 19 above). Do you believe that a transitional arrangement should be included in a new UK standard to allow entities that adopted FRS 15's transitional arrangement to continue to recognise the carrying amounts under that arrangement?
Although we agree that the rollover of the transitional arrangements is sensible, if it results in a short-term UK / IAS GAAP difference, we would rather the transitional arrangements were not included in a new UK standard as we feel strongly that the UK should converge fully with the requirements of IAS.

(vii) Do you believe that ASB should consider any other transitional arrangements?
No.

(viii) Are there any other aspects of the draft standard on property, plant and equipment that the ASB should request the IASB to review when finalising the revised IAS 16?
No.

(x) Do you agree that the capitalisation of borrowing costs should remain optional? If you had to choose between mandatory capitalisation and prohibition of capitalisation, which would you support and why?
Agree that capitalisation of borrowing costs remain optional, supplemented by the disclosure requirements as specified, expanded to require disclosure of the total amount of interest capitalised at the reporting date.

If faced with a choice between prohibition of capitalisation or mandatory capitalisation, we would prefer the former as it is the most prudent and because determining the cost of borrowing in a complex multinational group with a central treasury function is highly subjective.

(xi) Do you agree that paragraph 5(e) of IAS 23, which allows certain exchange differences to be capitalised, should be deleted in the draft standard on borrowing costs?
We can see merit in both approaches however, we feel strongly that the UK should fully converge with IAS and therefore do not agree with the proposed deletion of paragraph 5(e).

(xii) What are your views on the difference between IAS 23 and FRS 15 referred to in paragraph 24 of the Preface to the FRED concerning borrowing costs eligible for capitalisation?
We agree with the approach required under FRS 15. However, in the interests of achieving full convergence with the requirements of IAS, unless there is a change in IAS to align with FRS15, we agree with the alternative approach as set out in the FRED.

(xiii) Do you have any comments on IAS 23 that you wish the ASB to bring to the IASB's attention?
No.

The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 16:

(i) Do you agree that all exchanges of items of *property, plant and equipment* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A of the [draft] FRS on property, plant and equipment)?
Agree.

(ii) Do you agree that all exchanges of *intangible assets* should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?
Agree.

(iii) Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59 of the [draft] FRS on property, plant and equipment)?

Agree. Depreciation reflects the measure of cost to the business of holding and or using the asset. Even though the asset is no longer in use, it’s value will likely suffer as a result of other factors, such as through obsolescence.

16 September 2002

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Dear Mr Nailor

FRED 25, "RELATED PARTY DISCLOSURES"

We refer to FRED 25, "Related party disclosures", issued by the ASB during May 2002 and on which comments were invited by 16 September 2002.

Vodafone Group Plc is listed on Stock Exchanges in London, Frankfurt and New York, with a significant overseas shareholder base. We presently prepare our published accounts using UK GAAP but with a reconciliation to US GAAP for profit and loss and balance sheet items and prepare a combined Annual Report and Accounts & Form 20-F to cover both our UK and US statutory filing obligations. We believe there is a compelling case for international harmonisation of accounting standards and welcome the IASB's efforts to assist in the convergence process in the run up to 2005.

There are no specific issues that we wish to bring to your attention on FRED 25 and our responses to the detailed questions on which you and the IASB have collectively invited comment are set out in the attached Appendix.

Yours sincerely

R N Barr
Group Financial Controller

APPENDIX Responses to questions raised in FRED 25

1) **Do you agree with the proposal to issue a new standard in the UK on related party disclosures, once the new IAS24 is approved by the IASB?**
   Agree.

2) **Do you believe the ASB should consider any transitional arrangements?**
   No.

3) **Do you believe that an accounting standard should require disclosure of the name of the controlling party and, if different, that of the ultimate controlling party?**
   Yes. However, the requirement to provide such information should align with the IAS requirement and not give rise to an IAS / UK difference.

   If the new IAS24 does not require disclosure, do you believe that a new UK standard should require this disclosure as set out in paragraphs 13A and 13B of the draft FRS?
   No. The UK are progressing towards IAS convergence and so generally should not be recommending differences in proposed standards as an intermediate step.

4) **Do you believe that an accounting standard should require disclosure of the names of transacting related parties?**
   Yes. Non-disclosure will only generate questions from analysts, investors and other interested parties and potentially result in adverse comment on the financial statements as these groups arrive at differing conclusions as to the identity of the related party and purpose of the transaction. Furthermore, as a current requirement of FRS8, these groups are used to receiving such information.

5) **Should the definition of related parties specifically refer to shadow directors? Should it also refer to persons acting in concert?**
   Yes to both. However, these are both terms used in the Companies Act which may not be as widely used and understood in other jurisdictions. Therefore we recommend that definitions have regards to the substance of such relationships.

6) **Do you believe that an accounting standard should specify that disclosure is required of *material* related party transactions and give more guidance on materiality in the context of such transactions?**
   Yes.

7) **Are there any other aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS24?**
   No.

IASB responses

1) **Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations?**
   Agree where other more detailed requirements exist, for example listing rules or Companies Act. If such disclosure is not required then the standard should require disclosure of management compensation in financial statements. However, such disclosure should be an aggregate of total compensation, rather than per individual.

(Management and compensation would need to be defined and measurement requirements for management compensation would need to be developed if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation')

2) **Do you agree that the standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs?**
   Yes.