

## 27. Commitments

### Operating lease commitments

The Group has entered into commercial leases on certain properties, network infrastructure, motor vehicles and items of equipment. The leases have various terms, escalation clauses, purchase options and renewal rights, none of which are individually significant to the Group.

Future minimum lease payments under non-cancellable operating leases comprise:

	2011 £m	2010 £m
Within one year	1,225	1,200
In more than one year but less than two years	958	906
In more than two years but less than three years	746	776
In more than three years but less than four years	638	614
In more than four years but less than five years	602	512
In more than five years	2,344	2,235
	<b>6,513</b>	<b>6,243</b>

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £240 million (2010: £246 million).

### Capital commitments

	Company and subsidiaries		Share of joint ventures		Group	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Contracts placed for future capital expenditure not provided in the financial statements <sup>(1)</sup>	1,786	1,800	338	219	2,124	2,019

Note:

(1) Commitment includes contracts placed for property, plant and equipment and intangible assets.

The commitments of Cellco Partnership ('Cellco'), which trades under the name of Verizon Wireless, are disclosed within the consolidated financial statements of Cellco for the year ended 31 December 2010, which are included as an exhibit to our 2011 annual report on Form 20-F filed with the SEC.

## 28. Contingent liabilities

	2011 £m	2010 £m
Performance bonds	94	246
Credit guarantees – third party indebtedness	114	76
Other guarantees and contingent liabilities	1,527	496

### Performance bonds

Performance bonds require the Group to make payments to third parties in the event that the Group does not perform what is expected of it under the terms of any related contracts or commercial arrangements.

### Credit guarantees – third party indebtedness

Credit guarantees comprise guarantees and indemnities of bank or other facilities including those in respect of the Group's associates and investments.

### Other guarantees and contingent liabilities

Other guarantees principally comprise commitments to the India Supreme Court of INR 85 billion (£1,188 million) in relation to the taxation matter discussed on page 122. The Group has pledged money market funds (£1,387 million) for this guarantee.

The Group also enters into lease arrangements in the normal course of business which are principally in respect of land, buildings and equipment. Further details on the minimum lease payments due under non-cancellable operating lease arrangements can be found in note 27.

The Company has covenanted to provide security in favour of the Trustee of the Vodafone Group UK Pension Scheme whilst there is a funding deficit in the scheme. The initial security was in the form of a Japanese law share pledge over 400,000 class 1 preferred shares of ¥200,000 in BB Mobile Corp. During the year, the Company and trustee agreed to replace the initial security with a charge over UK index linked gilts ('ILG') held by the Company. A charge in favour of the Trustee was agreed over ILG 2016 with a notional value of £100 million and ILG 2013 with a notional value of £48.9 million. The security may be replaced either on a voluntary or mandatory basis. As and when alternative security is provided, the Company has agreed that the security cover should include additional headroom of 33%, although if cash is used as the security asset the ratio will revert to 100% of the relevant liabilities or where the proposed replacement security asset is listed on an internationally recognised stock exchange in certain defined core jurisdictions, the trustee may decide to agree a lower ratio than 133%.

## Notes to the consolidated financial statements continued

### 28. Contingent liabilities continued

#### Legal proceedings

The Company and its subsidiaries are currently, and may be from time to time, involved in a number of legal proceedings, including inquiries from, or discussions with, governmental authorities that are incidental to their operations. However, save as disclosed below, the Company and its subsidiaries are not currently involved in any legal or arbitration proceedings (including any governmental proceedings which are pending or known to be contemplated) which may have, or have had in the 12 months preceding the date of this report, a significant effect on the financial position or profitability of the Company and its subsidiaries. With the exception of the Vodafone 2 enquiry, due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from any of the legal proceedings outlined below can be made.

The Company was one of a number of co-defendants in four actions filed in 2001 and 2002 in the Superior Court of the District of Columbia in the United States alleging personal injury, including brain cancer, from mobile phone use. The Company is not aware that the health risks alleged in such personal injury claims have been substantiated and vigorously defends such claims. In August 2007 the trial court dismissed all four actions against the Company on the basis of the federal pre-emption doctrine. On 29 October 2009 the District of Columbia Court of Appeals ruled on the plaintiffs' appeal of the trial court's dismissal of all claims in the action on the basis of the federal pre-emption doctrine. The Court of Appeals has upheld the dismissal of most claims. However, the decision permits the plaintiffs to continue any claims alleging i) injuries in respect of mobile phones purchased before 1 August 1996 (the date of the Federal Communication Commission's Specific Absorption Rate standard ('FCC standard')); ii) injuries in respect of mobile phones alleged not to have complied with the FCC standard; and iii) fraud and misrepresentation in respect of the sale or marketing of mobile phones in question. The cases were returned to the trial court to be adjudicated in accordance with the Court of Appeals' decision and on 3 May 2010 plaintiffs in the four actions filed amended complaints with the Superior Court. The defendants filed a motion to dismiss the amended complaints on 30 July 2010. The plaintiffs in these four actions have agreed to dismiss the Company from the actions on jurisdiction grounds. However, the plaintiffs have reserved the right to re-commence the actions against the Company if evidence supporting an assertion of jurisdiction were to emerge. On 30 September 2010 the plaintiffs filed a stipulation for the voluntary dismissal of the Company and the order granting the stipulation dismissing the Company without prejudice was entered on the court record on 5 October 2010.

On 22 July 2010 the Company settled the Vodafone 2 CFC case with HMRC by agreeing to pay £1.25 billion (comprising £800 million in the 2011 financial year, with the balance to be paid in instalments over the following five years) in respect of all outstanding CFC issues from 2001 to date. It was also agreed that no further UK CFC tax liabilities will arise in the near future under current legislation. Longer term, no CFC liabilities are expected to arise as a consequence of the likely reforms of the CFC regime due to the facts established in this agreement.

Vodafone Essar Limited ('VEL') and Vodafone International Holdings B.V. ('VIHBV') each received notices in August 2007 and September 2007 respectively, from the Indian tax authority alleging potential liability in connection with alleged failure by VIHBV to deduct withholding tax from consideration paid to the Hutchison Telecommunications International Limited group ('HTIL') in respect of HTIL's gain on its disposal to VIHBV of its interests in a wholly-owned subsidiary that indirectly holds interests in VEL. Following the receipt of such notices, VEL and VIHBV each filed writs seeking orders that their respective notices be quashed and that the tax authority take no further steps under the notices. Initial hearings were held before the Bombay High Court and in the case of VIHBV the High Court admitted the writ for final hearing in June 2008. In December 2008 the High Court dismissed VIHBV's writ. VIHBV subsequently filed a special leave petition to the Supreme Court to appeal the High Court's dismissal of the writ. On 23 January 2009 the Supreme Court referred the question of the tax authority's jurisdiction to seek to pursue tax back to the tax authority for

adjudication on the facts with permission granted to VIHBV to appeal that decision back to the High Court should VIHBV disagree with the tax authority's findings. On 30 October 2009 VIHBV received a notice from the tax authority requiring VIHBV to show cause as to why it believed that the tax authority did not have competent jurisdiction to proceed against VIHBV for the default of non-deduction of withholding tax from consideration paid to HTIL. VIHBV provided a response on 29 January 2010. On 31 May 2010 VIHBV received an order from the Indian tax authority confirming their view that they did have jurisdiction to proceed against VIHBV as well as a further notice alleging that VIHBV should be treated as the agent of HTIL for the purpose of recovering tax on the transaction. VIHBV appealed this ruling to the Bombay High Court. On 8 September 2010 the Bombay High Court ruled that the tax authority had jurisdiction to decide whether the transaction or some part of the transaction could be taxable in India. VIHBV appealed this decision to the Supreme Court on 14 September 2010. A hearing before the Supreme Court took place on 27 September 2010 at which the Supreme Court noted the appeal and asked the tax authority to quantify any liability. On 22 October 2010 the Indian tax authority quantified the alleged tax liability and issued a demand for payment of INR 112.2 billion (£1.6 billion) of tax and interest. VIHBV has contested the amount of such demand both on the basis of the calculation and on the basis that no tax was due in any event. On 15 November 2010 VIHBV was asked to make a deposit with the Supreme Court of INR 25 billion (£356 million) and provide a guarantee for INR 85 billion (£1,188 million) pending final adjudication of the case, which request it duly complied with. The Supreme Court will now hear the appeal on the issue of jurisdiction as well as on the challenge to quantification on 19 July 2011. On 23 March 2011 VIHBV received a notice requesting it to explain why it should not be liable for penalties of up to 100% of any tax found due for alleged failure to withhold. On 15 April 2011 the Supreme Court, in response to an application made by VIHBV, allowed the Indian tax authority to continue its investigations into the application of penalties but stayed the Indian tax authorities from enforcing any liability until after the outcome of the Supreme Court hearing scheduled for 19 July 2011. After investigations, on 29 April 2011, the Indian tax authority raised an order alleging penalties were due but noting that these will not be enforced in line with the Supreme Court stay. In addition, the separate proceedings taken against VIHBV to seek to treat it as an agent of HTIL in respect of its alleged tax on the same transaction have been deferred until the outcome in the first matter is known. VEL's case also continues to be stayed pending the outcome of the VIHBV Supreme Court hearing. VIHBV believes that neither it nor any other member of the Group is liable for such withholding tax, or is liable to be made an agent of HTIL; however, the outcome of the proceedings remains uncertain and such proceedings may or may not dispose of the matter in its entirety and there can be no assurance that any outcome will be favourable to VIHBV or the Group.

In light of the uncertainty created by the Indian tax authority's actions as set out above, VIHBV, through its indirect wholly owned subsidiary Euro Pacific Securities Ltd, has sought confirmation from the Authority for Advanced Rulings ('AAR') in India on whether tax should be withheld in respect of consideration payable on the acquisition of Essar Group's ('Essar') offshore holding in VEL. A ruling from the AAR is expected by the end of May 2011 at the latest. The Group does not believe that there is any legal requirement to withhold tax in respect of these transactions but if, contrary to expectations, the AAR directs tax to be withheld, this amount is anticipated to be approximately an additional US\$1 billion.