VODAFONE GROUP
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# Operational review

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## Statement by the Chairman

**I am delighted to report that the year just ended marked further significant progress for the Group, turnover having increased by 25% to £1,749m (1996 - £1,402m) and profit on ordinary activities before taxation having increased by 13% to £539m (1996 - £475m).**

**The number of customers worldwide, proportionate to the Group's equity interests, increased by almost one million for the second consecutive year and totalled over four million at 31 March 1997.**

**For the first time, the Group's international businesses, taken as a whole, achieved an operating profit and customer growth overseas exceeded that in the UK.**

**Capital expenditure and investments in the year amounted to £879m (1996 - £468m), of which £528m was spent on new investments and acquisitions.**

**Earnings per share amounted to 11.89p (1996 - 10.15p), an increase of 17%, and the directors are recommending the payment of a final dividend of 2.45p per share (1996 - 2.04p), making a total for the year of 4.81p (1996 - 4.01p), an increase of 20%.**

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During the year, the Group's UK businesses achieved good growth and Vodafone Limited, the network operator, increased its market leadership. In particular, it extended its lead on digital services as a result not only of acquiring new customers but also of successfully moving its high value analogue customers across to digital. It became the first network to achieve over one million voice messenger customers and its overall quality of service was further improved by the deployment of more than 430 new digital base stations in a continuing programme of network enhancement. Notwithstanding incurring costs of £52m in migrating analogue customers, the UK companies improved their profit and continued to provide strong cash flow for investment in the Group's international businesses.

The Group's overseas business made excellent progress and proportionate subscribers on its networks increased by 564,000, almost doubling the number at the start of the year. With overseas growth now faster than that in the UK, and as many of the countries in which the Group operates have under-developed markets, the opportunity exists for strong profit growth in the years ahead.

Throughout the year the Group continued to implement its strategy of developing its existing business, both in the UK and overseas. In the UK it acquired the two thirds of the share capital of General Mobile Corporation Limited, the parent company of Talkland International (UK) Limited, it did not already own. It also acquired The Peoples Phone Company Plc (now Peoples Phone Limited) and 80% of Astec Communications Limited, making it a wholly owned subsidiary. These three Service Providers significantly increase the Group's presence in the retail market.

Overseas, the Group acquired a further 6% of the equity of Société Française du Radiotéléphone SA, enlarging its holding to 16%, and has an option to increase this further, to 20%, before the end of December 1997. It also acquired a further 10% of Panafon SA and Panavox SA in Greece, both these companies becoming 55% owned subsidiaries, and increased its interest in the Swedish network operator, Europolitan, to just over 20%. Europolitan sold its 20% interest in Sonofon, a Danish network operator, in the second half of the financial year and, as I reported last year, in April 1996 the Group sold its interest in Orbitel Mobile Communications Limited to L M Ericsson and 5% of Vodafone Pty Limited, the Australian network operator, to AAP Information Services Pty Limited.

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The Group's core business of mobile telephony is an exciting and rapidly growing industry. In the UK, Vodafone Limited will extend its investment in the network as far and as fast as it can, consistent with providing high quality service to its customers. The Group will continue to strengthen its position in distribution, both to ensure it has good access to its customers and to ensure it has sufficient retail outlets to meet the needs of the many potential customers yet to own a mobile phone. It will also continue to develop its related businesses, particularly data and value added services.

Internationally, the priority will be to increase shareholdings in countries where the Group already has a presence, rather than to seek new licences.

None of this would be or will be possible without the enthusiasm and dedication of the Group's employees and, on your behalf, I wish to thank them all for their contribution to this year's success. The marketplace is becoming increasingly competitive and their efforts have enabled Vodafone to maintain its leadership.

Since my last report to you, a number of changes to your Board have been announced. David Henning left in June 1996 and Geoffrey Lomer retired from the Board in March 1997. We thank them for their service and wish them well in the future. On 31 December 1996, Gerry Whent retired as Chief Executive and became non-executive Deputy Chairman. Gerry's achievements with the Company cannot be overstated. Under his leadership the Vodafone Group developed into one of the world's most successful mobile telecommunications businesses. His outstanding contribution to the telecommunications industry and to the Group is something of which he can be very proud.

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Chris Gent has now become Chief Executive. He joined the Group in January 1985 and, as Managing Director of Vodafone Limited, led his company to become the UK market leader, a position it has held since 1986. Chris was also instrumental in the establishment of many of the Group's international businesses and I am confident that, with the full support of the Board and the management team, he will take the Group forward to further prosperity.

On 1 January 1997 Lord MacLaurin of Knebworth, until recently Chairman and Chief Executive of Tesco Plc, joined the Board as a non-executive director. The Group is already benefiting from his considerable experience in retailing and the consumer market and I am delighted he agreed to join the Board.

The Group's strategy is to concentrate on mobile telecommunications services worldwide, as strong demand for these services is expected to continue. Geographic diversity and a strong financial base will enable the Group to show further progress in 1997/98 and beyond through organic growth, product innovation and, should suitable opportunities arise, acquisitions. Your Board is committed to delivering increased shareholder value and, with your support, is determined to do so.

**Sir Ernest Harrison OBE**

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## Review of operations

Vodafone Limited | UK Service Provision | Vodafone Worldwide | UK Data Group

### Vodafone Limited


**VODAFONE** had another good year, maintaining its market leadership, ending the year with over 40% of the total UK market and enjoying a significant lead in the digital market. In the twelve months from 1 April 1996 it connected an additional 415,000 customers, ending the year with 2,867,000 subscribers, an increase of 17%. Underlying this growth was a year of transition from the analogue network to the GSM digital network. At the beginning of the year, 521,000 customers subscribed to the company¹s digital services and by the end of the year the number had grown to 1,478,000, representing 52% of the company's total customer base.

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The transition was in two parts. First, at the start of the financial year, new connections to each of the networks were approximately equal but, by March 1997, 85% of new connections were to the digital network. This change was encouraged by new tariffs with one second billing and inclusive calls, a reduction in digital hand-set prices and a growing demand for the advanced facilities and roaming capabilities of the GSM digital service. The second element of the transition was Vodafone's strategy of assisting its established high user analogue customers to migrate to GSM digital whilst retaining their original telephone number and, during the year, 317,000 customers transferred to GSM digital in this way.

The great success of the GSM standard on a global basis now enables Vodafone subscribers to use their mobile phones on any of 86 networks in 56 countries around the world. Reciprocally, the customers of those 86 networks can use the Vodafone network in the UK. Network usage, therefore, increases not only in proportion to the growth of the Vodafone customer base but also to the growth of the GSM base worldwide. Roaming revenues which include income from Vodafone users roaming abroad and from visitors to the UK, now account for 24% of the company's digital airtime and access revenues. UK visitor income approximately doubled in the last year.

Average revenue per customer for the financial year was £427, with revenue from digital customers of £558 and analogue users £353. On a gross basis, adding back Service Provider discounts, the average per customer would have been £564 for the year ended 31 March 1997.

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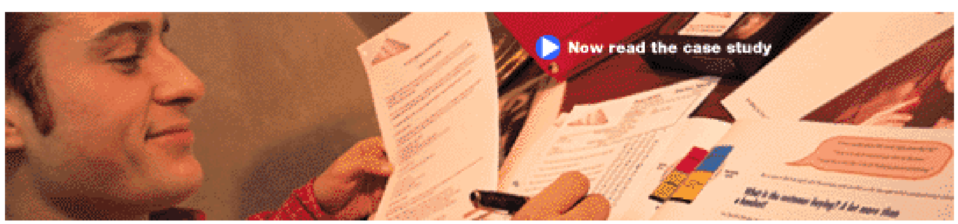


The popularity of Vodafone's GSM digital network and growth in call traffic in the UK has necessitated an increase in capital expenditure which, in the year to 31 March, amounted to £179m, compared to £155m in the previous year. A large proportion of this capital expenditure was on infrastructure. More than 430 new digital base stations were deployed in the year, bringing the network's total to more than 2,800 and in the current year the company intends to deploy a further 1,400 base stations to ensure that the premium quality of service, a key element of customer satisfaction and market performance, is maintained. Vodafone's quality of service continued to improve during the year and tests indicated a success rate for calls in declared coverage areas of over 91%. In tests on motorways, major roads and towns, regardless of declared coverage, the success rate was in excess of 82%. Both of these tests indicate that Vodafone has the highest quality of service in the UK. The enhanced capital expenditure programme is intended to maintain this leading position.

Vodafone recognised the need to improve the sales process, particularly in the retail channel, and therefore launched Vodafone Academy, an innovative and dynamic training programme. Over 3,000 retail staff are currently enrolled in the programme.

The overall churn rate, the rate of subscribers leaving the service, for the year was slightly higher than the previous year at 27.4%. Churn on the GSM digital network at the end of the year was approximately 15%. Vodafone's strategy of supporting the migration process will bring a greater proportion of customers within the lower churning digital environment.

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During the year the Vodafone Loyalty programme grew in popularity, providing benefits to more than 1,500,000 customers, and was enhanced by an alliance with British Airways and Air Miles. This alliance, announced in September, allows Vodafone, through its Service Providers to develop closer relationships with its customers, with the intention of significantly reducing churn levels.

Vodafone's initiatives against fraud of all kinds continued to be very successful throughout the year. The introduction of authentication on the analogue network dramatically reduced cloning fraud and at the year end this accounted for just 0.3% of the UK network¹s turnover. Vodafone welcomed the passage of the Telecommunications (Fraud) Act in February 1997 which provides the UK authorities with enhanced powers of investigation and greater penalties for those convicted of telecommunications crime.

During March 1997 OFTEL issued a consultative document on calls to mobile phones. Vodafone disagrees with a number of the cost assessments made by OFTEL and has responded with a set of new commercial proposals.

In May 1997, the UK Government announced that it intends to amend The Wireless Telegraphy Act to permit fees for radio spectrum to be charged at market rates rather than on a cost recovery basis. It is anticipated that this will cause annual spectrum fees to increase from today's level of £1.5m to approximately £15m by 2002.

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Vodafone's Service Providers were supported by corporate branding, advertising and sponsorship, which cost Vodafone £26m in the year. Vodafone recently announced an agreement with the England and Wales Cricket Board to sponsor the England men's and women's cricket teams for a five year period.

In September 1996, Vodafone became the first operator to offer a mobile phone service with no contract - Vodafone PrePay. This service provides customers with prepaid access and airtime and is attractive to those who do not want an airtime contract with the normal minimum one year commitment or who do not wish to undergo the associated credit checks.

The company is aware of its responsibilities to the community and continues to invest in and enhance the design of environmentally sensitive base stations. Vodafone has pioneered an agreement with the National Grid to use existing high voltage power pylons, whenever possible, thus avoiding the need to construct new masts.

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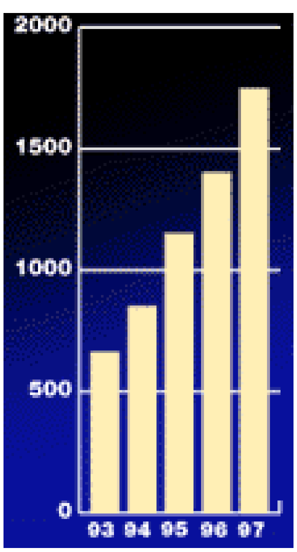
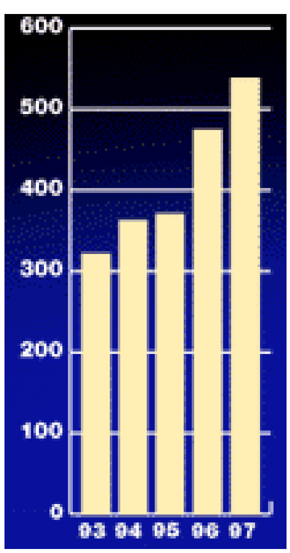
# Results at a glance

| | 1997 | 1996 |
|---|---|---|
| Turnover | £1,749m | £1,402m |
| Profit on ordinary activities before tax | £539m | £475m |
| Earnings per share | 11.89p | 10.15p |
| Dividends per share | 4.81p | 4.01p |
| Capital expenditure and investment | £879m | £468m |
| Proportionate subscribers | 4,016,000 | 3,035,000 |

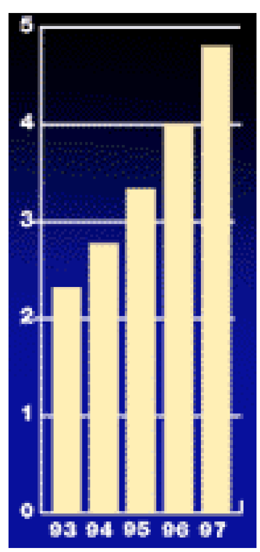
**Turnover**
**£m**



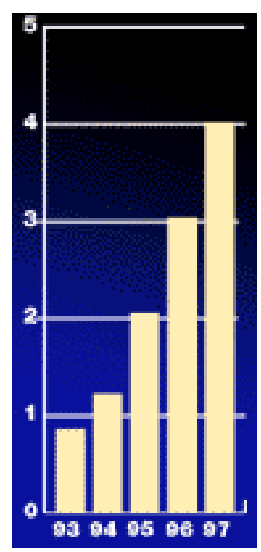

**Profit on ordinary activities before tax**
**£m**




**Dividends per share**
**Pence**



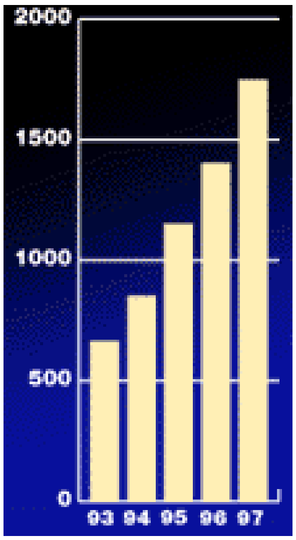

**Proportionate subscribers**
**Millions**



# Financial review

# Review of results

## Turnover



Turnover £m

Group turnover for the financial year increased by 25% to £1,749.0m.

Turnover in the UK grew by 19%, principally as a result of new subscribers joining the digital network and increasing roaming revenues from both visitors using the UK digital network and UK customers using overseas networks. The acquisitions of Talkland, Peoples Phone and Astec did not have a material effect on turnover as their activities derive substantially from services provided by Vodafone, a fellow Group subsidiary company.

In Continental Europe, turnover increased by 85% to £139.8m due to the inclusion of Panafon and Panavox from 1 February 1997, when these companies became subsidiaries following an increase in the Group's shareholding to 55%, and also due to subscriber growth in Vodafone SA.

Turnover in the Pacific Rim grew by £46.7m to £130.3m, principally in Australia where Vodafone Pty's subscriber base grew by 57%.

Proportionate turnover, which reflects the Group's ownership interests in its worldwide operations, increased by 25% in the year.

International businesses increased proportionate turnover by 63% to £673m as proportionate subscribers almost doubled to 1,149,000 subscribers.

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## Proportionate turnover

| | 1997 £m | 1996 £m | Increase % |
|---|---|---|---|
| UK | 1,561 | 1,369 | 14 |
| Australia | 134 | 86 | 56 |
| France | 177 | 106 | 67 |

| | | | |
|---|---|---|---|
| Germany | 40 | 16 | 150 |
| Greece | 101 | 57 | 77 |
| Hong Kong | 41 | 38 | 8 |
| Malta & Sweden | 33 | 20 | 65 |
| Netherlands | 36 | 2 | 1,700 |
| South Africa | 107 | 84 | 27 |
| Uganda & Fiji | 4 | 3 | 33 |
| **TOTAL** | **2,234** | **1,781** | **25** |
| **TOTAL International** | **673** | **412** | **63** |

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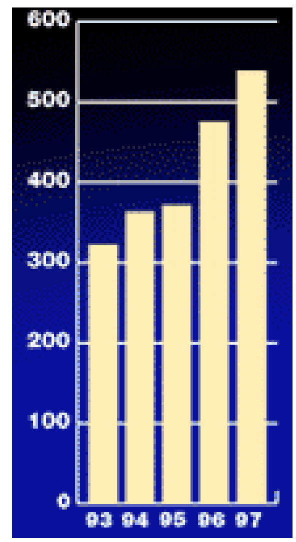
## Profit on ordinary activities before interest



Profit on ordinary activities before interest £m

Operating profit increased by 14% to £529.6m.

In the UK, operating profit rose by 5% to £519.1m and grew at a slower rate than turnover as the costs of migrating subscribers from the analogue to the GSM digital network grew to £52.0m, expenditure on marketing increased and the results of the acquired Service Providers, Talkland, Peoples Phone and Astec, were consolidated with those of the higher margin network operator. UK network Service Provider incentives and support amounted to £189 per gross connection (1996 - £168). This figure includes the cost of the migration programme which, if excluded, would reduce the cost per connection to £154 (1996 - £164), reflecting the effect of lower mobile phone wholesale prices.

International operations made an operating profit for the first time of £10.5m compared to a loss of £27.0m last year. The largest contribution to this advance was achieved in Continental Europe, which improved by £34.8m as Panafon continued to perform strongly and was fully consolidated from 1 February 1997. Losses in the Pacific Rim increased by £5.9m to £41.6m because of lower profits in Hong Kong due to the roll out of a new network and distribution difficulties in Australia. Profits nearly doubled in the Rest of the World to £19.7m as strong growth continued in South Africa.

The profit on disposal of fixed asset investments arose from the sale of the Group's 50% holding in Orbitel Mobile Communications Limited, the sale of 5% of the Group's investment in Vodafone Pty to AAP Information Services Pty Ltd and the sale by the Group's associate, Europolitan, of its 20% interest in Sonofon, a Danish GSM operator.

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## Interest

The Group's net interest cost increased by £18.5m as borrowings increased by £473.1m to finance acquisitions and fund overseas associate companies.

## Taxation

The effective tax rate fell by 2.7% to 31.9% principally as a result of the utilisation of brought forward tax losses. Excluding the effect of disposals, the effective tax rate fell by 1.7% to 33.5%.

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## Exchange rates

The movement of exchange rates had no material impact on the Group's operating profit.

## Future results

Factors which will influence the Group's future performance include the growth of mobile telecommunications markets, the Group's market share, revenue per subscriber, the costs of providing and selling existing services and start up costs of new businesses.

In many of the overseas markets where the Group operates, cellular penetration is low, which should enable the overseas businesses to grow more rapidly than the UK and make a substantial contribution to Group profits.

The Group's strategy is to concentrate on mobile telecommunications services worldwide as strong demand for these services is expected to continue. Geographic diversity and a strong financial base will enable the Group to show continuing progress in 1997/98 through organic growth, product innovation and, should suitable opportunities arise, acquisitions.

With the Group's prominence in the UK and international presence, it is well positioned to deliver sustained growth and increased shareholder value.

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## Potential for growth

| | **Population (million)** | **Market penetration %** |
|---|---:|---:|
| UK | 58.7 | 12.1 |
| Australia | 18.3 | 25.5 |
| Fiji | 0.8 | 0.5 |
| France | 58.1 | 4.8 |

| | | |
|---|---|---|
| Germany | 81.4 | 7.2 |
| Greece | 10.4 | 6.1 |
| Hong Kong | 6.2 | 21.4 |
| Malta | 0.4 | 4.1 |
| Netherlands | 15.5 | 7.2 |
| South Africa | 42.8 | 2.2 |
| Sweden | 8.9 | 28.9 |
| Uganda | 19.3 | 0.1 |

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## Balance sheet review

The Group's balance sheet remains strong and liquidity good.

### Fixed assets

Fixed assets increased by £504.5m. Those intangible fixed assets which are capitalised in accordance with the Group's accounting policy increased by £58.1m, mainly due to the inclusion of the unamortised portion of Panafon's licence fee following the increase in the shareholding in Panafon. Tangible fixed assets increased by £403.2m as a result of capital expenditure on digital networks in the UK and Australia and the inclusion of the fixed assets of subsidiaries acquired in the year. The movement in investments, which includes equity investments and loans advanced to associates and other investments, is analysed in the adjacent table.

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| **Movement in investments** | **£m** |
|---|---|
| At 1 April 1996 | 475.7 |
| New investments | 350.7 |
| Reclassification as subsidiaries | (153.6) |
| Disposal of investments | (29.0) |
| Goodwill written-off | (48.1) |
| Currency translations | (100.7) |
| Share of profits in associated undertakings | 23.9 |
| At 31 March 1997 | 518.9 |

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### Working capital

Working capital (excluding cash, overdrafts, bank loans and commercial paper) decreased by 104% as a result of an increase in creditors due within one year of £310.5m offset by a £111.9m increase in debtors due within one year. The increases are due to the inclusion of working capital balances of subsidiaries acquired in the year and the growth of the business.

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## Equity shareholders' funds

The Group's equity shareholders' funds do not include any valuations that could be placed on licences which were acquired for no initial cost. Licences which have an initial cost to the Group are capitalised at cost and written-off in accordance with the Group's accounting policy. The balance sheet also excludes any value attributed to future income streams that are anticipated from existing subscribers.

| **Goodwill written-off** | **£m** |
|---|---|
| Peoples Phone | 103.2 |
| Talkland | 86.1 |
| Panafon/Panavox | 58.3 |
| Europolitan | 36.3 |
| Others | 76.1 |
| | 360.0 |

Equity shareholders' funds were £770.0m, £252.1m lower than at the end of last year, as retained profits of £216.3m were offset by currency translation adjustments of £123.2m to the carrying value of overseas investments to reflect the strength of sterling at the year end and goodwill written-off of £360.0m in respect of acquisitions made during the year. An analysis of goodwill written-off is set out in the table above.

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## Proportionate share of network subscribers

| | **31 March 1997 ('000)** | **31 March1996 ('000)** | **Growth %** |
|---|---|---|---|
| UK | 2,867 | 2,450 | 17 |
| Australia | 247 | 166 | 49 |
| France | 182 | 53 | 243 |

| | | | |
|---|---|---|---|
| Germany | 94 | 43 | 119 |
| Greece | 202 | 79 | 156 |
| Hong Kong | 79 | 70 | 13 |
| Malta | 12 | 9 | 33 |
| Netherlands | 96 | 19 | 405 |
| South Africa | 175 | 108 | 62 |
| Sweden | 59 | 36 | 64 |
| Uganda & Fiji | 3 | 2 | 50 |
| **TOTAL** | **4,016** | **3,035** | **32** |
| **TOTAL International** | **1,149** | **585** | **96** |

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## Exchange rates

| **Currency** | **Year end 31 March 1997** | **Year end 31 March 1996** | **Percentage change** |
|---|---|---|---|
| Australian dollar | 2.08 | 1.95 | 6.7 |
| Dutch guilder | 3.07 | 2.52 | 21.8 |
| Franch franc | 9.21 | 7.69 | 19.8 |
| German mark | 2.73 | 2.25 | 21.3 |
| Greek drachma | 432.3 | 367.5 | 17.6 |
| Hong Kong dollar | 12.63 | 11.80 | 7.0 |
| South African rand | 7.20 | 6.07 | 18.6 |
| Swedish kronor | 12.35 | 10.20 | 21.1 |

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## Cash flows and net borrowings

Net cash flow generated from operating activities was £644.3m and was used mainly to fund capital expenditure of £351.2m, to enhance and expand the digital networks in the UK and Australia, pay tax of £150.1m and finance dividends of £130.0m. New investments of £528.0m, which comprise equity and shareholder loans and the external debt of subsidiaries acquired, were financed principally by debt and as a result net borrowings increased by £473.1m to £680.6m. An analysis of new investments is set out in the table below. These figures exclude consideration of £133.1m payable after 31 March 1997.

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| **New investments** | **£m** |
|---|---|
| SFR | 240.4 |
| Panafon/Panavox | 96.7 |
| Talkland | 65.5 |
| Peoples Phone | 55.0 |
| Others | 70.4 |
| | 528.0 |

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## Future investments

The Group expects to spend approximately £500m on capital expenditure in 1997/98. About half of this expenditure will be in the UK, where capacity is being added to the digital network to accommodate subscriber growth and traffic generated by visitors. The balance will be expended on the digital networks in Australia and Greece to enhance capacity and improve quality of service. Investment expenditure will be in the order of £170m, assuming the Group exercises its option to acquire a further 3.89% in SFR. This could be higher if suitable opportunities arise.

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# Treasury

## Funding and liquidity

The Group has a strong financial position demonstrated by credit ratings of A-1/P-1 short term and A+/ A2 long term from Standard and Poor's and Moody's respectively. At the year end substantial funds were available to the Group, including committed bank facilities and two £250m Eurobonds redeemable in November 2001 and March 2004 which were issued during the year. The funds mature as follows:

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| Analysis by year of expiry | Committed bank facilities | Bonds | Total |
|---|---|---|---|
| | £m | £m | £m |
| Less than 1 year | 103.0 | - | 103.0 |
| Between 1-2 years | 140.0 | - | 140.0 |
| Between 2-5 years | 596.0 | 250.0 | 846.0 |
| More than 5 years | - | 250.0 | 250.0 |
| | 839.0 | 500.0 | 1,339.0 |

The Group has an uncommitted £500m Euro Commercial Paper programme which was activated in May 1996. Additional uncommitted facilities are also available from banks. Any surplus funds are invested with counterparties who have high credit ratings.

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## Foreign exchange and interest management

Foreign currency exposures on known future transactions are hedged, including those resulting from repatriation of overseas dividends and loans. The effects of foreign currency movements on the translation of the results and net assets of overseas operations are not hedged, although such exposure is partly reduced by borrowing in foreign currency denominated debt.

The Group's main interest rate exposure is to sterling interest rates. Interest rates are fixed when net interest is forecast to have a significant impact on profits. At the end of the year, 66% of the Group's net borrowings were fixed for a period of at least one year.

A variety of hedging instruments may be used, including spot and forward foreign exchange contracts, options, swaps, futures and forward rate agreements.

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## Borrowings

The directors have approved ratios for net interest cover, market capitalisation to net debt and gross cash flow to net debt, which establish internal limits for the maximum levels of debt. These ratios are consistent with those used by companies with very high credit ratings. At the end of the year the Group's net debt had the maturity profile as shown in the table below.

| **Analysis by repayment year** | **£m** |
|---|---|
| Less than 1 year | 157.7 |
| Between 1-2 years | - |
| Between 2-5 years | 275.7 |
| More than 5 years | 247.2 |
| | 680.6 |

Borrowings are denominated principally in sterling as:

- Established UK businesses generate strong sterling cash flow which will be used to repay debt;
- Foreign currency investments are expected to be held for a longer period than monies borrowed to fund those investments;
- The Group does not hedge its overseas net assets with respect to foreign currency translation differences since net assets represent a small proportion of the market value of the Group and overseas operations provide risk diversity.

As foreign currency income streams increase, further borrowing may be made in currencies other than sterling.

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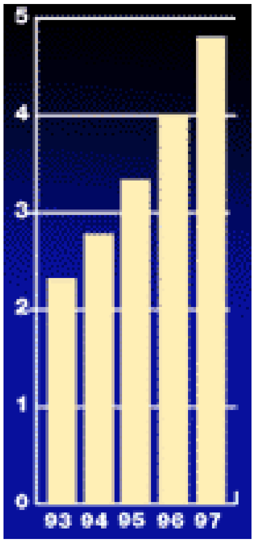
**Shareholders' returns**

## Earnings per share

Earnings per share increased from 10.15p to 11.89p for the reasons explained in the Review of results.

## Dividends

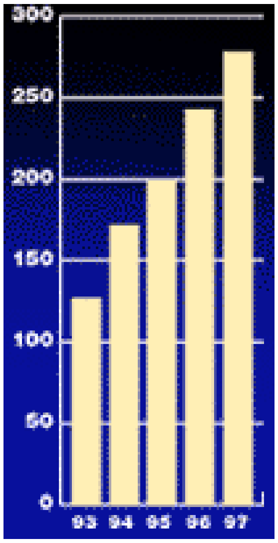
The proposed final dividend of 2.45p produces a total for the year of 4.81p, an increase of 20%, and reflects the Group's underlying profitability and liquidity. Dividend cover of 2.5 times has been maintained.



Dividends per share (pence)

## Share price

The share price has shown healthy growth since the Company floated in 1988 at an issue price of 170p, which is now equivalent to 56.7p following the capitalisation issue in July 1994.



Share price at 31 March (pence)

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# Basis of preparation of financial statements

The financial review complies with the 'Operating and Financial Review' statement issued by the Accounting Standards Board.

During the year the Accounting Standards Board issued two new standards, Financial Reporting Standard 1 (Revised 1996) - 'Cash Flow Statements' and Financial Reporting Standard 8 - 'Related Party Disclosures'. These new standards have been adopted in these financial statements, with last year's comparative cash flow statement being restated as explained in the Statement of accounting policies.

The Group's accounting policies are conservative and appropriate to the business.

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## Going concern

After reviewing the Group's and Company's budget for 1997/98 and other longer term plans, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements.

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## Five year financial summary

### Profit and loss

| | **1997 £m** | 1996 £m | 1995 £m | 1994 £m | 1993 £m |
|---|---|---|---|---|---|
| Turnover | **1,749** | 1,402 | 1,153 | 851 | 664 |
| Profit before taxation | **539** | 475 | 371 | 363 | 322 |
| Taxation | **172** | 165 | 133 | 118 | 100 |
| Profit after taxation | **367** | 310 | 238 | 245 | 222 |
| | **Pence** | Pence | Pence | Pence | Pence |
| Earnings per share * | **11.89** | 10.15 | 7.80 | 8.11 | 7.36 |
| Dividend for the year * | **4.81** | 4.01 | 3.34 | 2.78 | 2.32 |

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### Balance sheet

| | **£m** | £m | £m | £m | £m |
|---|---|---|---|---|---|
| Fixed assets | **1,927** | 1,422 | 1,102 | 720 | 563 |
| Other net (liabilities)/assets | **(1,098)** | (398) | (284) | (22) | 33 |
| Total net assets | **829** | 1,024 | 818 | 698 | 596 |
| Equity shareholders' funds | **770** | 1,022 | 817 | 698 | 596 |

* As restated for 1994 capitalisation issue.

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# Financial accounts

## Primary statements

# Consolidated profit and loss account

For the year ended 31 March 1997

Consolidated profit & loss account  Consolidated balance sheet  Consolidated cash flow
Consolidated statement of total recognised gains & losses  Movements in equity shareholders funds

| | Note | **1997 £m** | 1996 £m |
|---|---|---|---|
| Turnover | | | |
| Continuing operations | | **1,642.4** | 1,402.2 |
| Acquisitions | | **106.6** | - |
| | 1 | **1,749.0** | 1,402.2 |
| Operating profit | | | |
| Continuing operations | | **521.3** | 465.8 |
| Acquisitions | | **8.3** | - |
| | 2 | **529.6** | 465.8 |
| Disposal of fixed asset investments | 3 | **25.9** | 7.2 |
| Profit on ordinary activities before interest | 1 | **555.5** | 473.0 |
| Net interest (payable)/receivable | 4 | **(16.4)** | 2.1 |
| Profit on ordinary activities before taxation | | **539.1** | 475.1 |
| Tax on profit on ordinary activities | 5 | **(171.9)** | (164.6) |
| Profit on ordinary activities after taxation | | **367.2** | 310.5 |
| Equity minority interests | | **(3.4)** | (0.7) |
| Profit for the financial year | | **363.8** | 309.8 |
| Equity dividends | 6 | **(147.5)** | (122.6) |

| | | | |
|---|---|---|---|
| Retained profit for the financial year | 17 | **216.3** | 187.2 |
| Earnings per share | 7 | **11.89p** | 10.15p |

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Consolidated profit & loss account  Consolidated balance sheet  Consolidated cash flow
Consolidated statement of total recognised gains & losses  Movements in equity shareholders' funds

## Statement of accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

The financial statements comply with two new accounting standards issued by the Accounting Standard Board : FRS 1 (Revised) - 'Cash Flow Statements' and FRS 8 - 'Related Party Disclosures'. The implementation of FRS 1 (Revised) has necessitated the restatement of comparative data.

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### Accounting convention

The financial statements are prepared under the historical cost convention.

### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiaries and include the Group's share of results of associated undertakings for financial statements made up to 31 March 1997.

### Goodwill

The surplus of cost over fair value attributed to the net assets (excluding goodwill) of subsidiary or associated undertakings acquired during the year is written-off directly to reserves.

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### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of those transactions, adjusted for the effects of any hedging arrangements. Foreign currency monetary assets and liabilities, including the Group's interest in the underlying net assets of associates, are translated into sterling at year end rates.

The results of the overseas subsidiary and associated undertakings are translated into sterling at average rates of exchange. The adjustment to year end rates is taken to reserves. Exchange differences which arise on the retranslation of overseas subsidiary and associated undertakings' balance sheets at the beginning of the year and equity additions and withdrawals during the financial year are dealt with as a movement in reserves.

Other translation differences are dealt with in the profit and loss account.

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**Turnover**
Turnover represents the invoiced value, excluding value added tax, of services and goods supplied by the Group.

**Pensions**
Costs relating to defined benefit plans which are periodically calculated by professionally qualified actuaries, are charged against profits so that the expected costs of providing pensions are recognised during the period in which benefit is derived from the employees' services.

The costs of the various pension schemes may vary from the funding, dependent upon actuarial advice, with any difference between pension cost and funding being treated as a provision or prepayment.

Defined contribution pension costs charged to the profit and loss account represent contributions payable in respect of the period.

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**Research and development**
Expenditure on research and development is written-off in the year in which it is incurred.

**Scrip dividends**
Dividends satisfied by the issue of ordinary shares have been credited to reserves. The nominal value of the shares issued has been offset against the share premium account.

**Intangible fixed assets**
Purchased intangible fixed assets, including licence fees, are capitalised at cost except for subscriber contracts, which are written-off to reserves in the year in which they are acquired.

Network licence costs are amortised over the periods of the licences. Amortisation is charged from commencement of service of the network. The annual charge is calculated in proportion to the expected usage of the network during the start up period and on a straight line basis thereafter.

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**Tangible fixed assets**
Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is not provided on freehold land. The cost of other tangible fixed assets is written-off, from the time they are brought into use, by equal instalments over their expected useful lives as follows:

| | |
|---|---|
| Freehold buildings | 25 - 50 years |
| Leasehold premises | the term of the lease |
| Plant and machinery | 10 years |
| Motor vehicles | 4 years |
| Computers and software | 3 - 5 years |
| Furniture and fittings | 10 years |

Tangible fixed assets include overheads incurred in the acquisition, establishment and installation of base stations.

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**Investments**

The consolidated financial statements include investments in associated undertakings using the equity method of accounting. An associated undertaking is a company in which the Group owns a material share of the equity and, in the opinion of the directors, can exercise significant influence in its management. The profit and loss account includes the Group's share of the profit or loss before taxation and attributable taxation of those companies. The balance sheet shows the Group's share of the net assets or liabilities, excluding goodwill, of those companies and loans advanced to those companies.

Other investments, held as fixed assets, comprise equity shareholdings, partnership interests and long term loans. They are stated at cost less provision for any permanent diminution in value. Income is recognised upon receipt of dividends and interest when receivable.

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**Stocks**

Stocks are valued at the lower of cost and estimated net realisable value.

**Deferred taxation**

Provision is made for deferred taxation only where there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

No provision is made for any tax liability which may arise if undistributed profits of certain overseas subsidiary and associated undertakings are remitted to the UK, except in respect of planned remittances.

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**Leases**

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Assets acquired under finance leases which transfer substantially all the rights and obligations of ownership are accounted for as though purchased outright. The fair value of the asset at the inception of the lease is included in tangible fixed assets and the capital element of the leasing commitment included in creditors. Finance charges are calculated on an actuarial basis and are allocated over each lease to produce a constant rate of charge on the outstanding balance.

Lease obligations which are satisfied by cash and other assets deposited with third parties, are set-off against those assets in the Group's balance sheet.

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## Notes to the accounts

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### 1 Segmental analysis

The Group operates substantially in one class of business, the supply of mobile telecommunications services and products. Analyses of turnover, profit on ordinary activities before interest and net assets by geographical region are as follows:

| | 1997 Turnover £m | 1997 Profit/(loss) on ordinary activities before interest £m | 1996 Turnover £m | 1996 Profit/(loss) on ordinary activities before interest £m |
|---|---|---|---|---|
| United Kingdom | **1,478.9** | **529.3** | 1,242.9 | 492.8 |
| Continental Europe | **139.8** | **42.6** | 75.7 | (1.4) |
| Pacific Rim | **130.3** | **(36.1)** | 83.6 | (35.7) |
| Rest of the World | **-** | **19.7** | - | 17.3 |
| | **1,749.0** | **555.5** | 1,402.2 | 473.0 |

| | 1997 Net assets £m | 1996 Net assets £m |
|---|---|---|
| United Kingdom | **482.3** | 513.1 |
| Continental Europe | **501.9** | 322.3 |
| Pacific Rim | **442.5** | 320.7 |
| Rest of the World | **82.5** | 74.9 |
| Net borrowings | **(680.6)** | (207.5) |
| | **828.6** | 1,023.5 |

Turnover is by origin which is not materially different from turnover by destination.

The directors have re-defined the segmental information to include the Pacific Rim as a separate segment due to the increased importance of this geographical region to the Group.

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## Company balance sheet

At 31 March 1997

| | Note | 1997 £m | 1996 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 29 | **2,122.5** | 1,572.1 |
| **Current assets** | | | |
| Debtors | 30 | **24.4** | 18.2 |
| **Creditors:** amounts falling due within one year | 31 | **360.1** | 317.8 |
| **Net current liabilities** | | **(335.7)** | (299.6) |
| **Total assets less current liabilities** | | **1,786.8** | 1,272.5 |
| **Creditors:** amounts falling due after more than one year | 32 | **504.2** | 140.0 |
| | | **1,282.6** | 1,132.5 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **153.3** | 152.8 |
| Share premium account | 17 | **54.7** | 45.3 |
| Capital reserve | | **87.9** | 87.9 |
| Profit and loss account | 34 | **986.7** | 846.5 |
| Total equity shareholders' funds | | **1,282.6** | 1,132.5 |

C C GENT Chief Executive

K J HYDON Financial Director

24 June 1997

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## Principal undertakings and investments

### Principal subsidiary undertakings

Subsidiary undertakings  Associated undertakings and investments  Principal investments

Vodafone Group Plc had at 31 March 1997 the following subsidiaries carrying on businesses which principally affect the profits and assets of the Group. A full list of subsidiaries will be included in the Company's next annual return.

**Principal subsidiary undertakings**
Vodafone Group Plc's principal subsidiaries all have share capital consisting solely of ordinary shares (unless otherwise stated). The country of incorporation or registration of all subsidiaries is also their principal place of operation. All subsidiaries are directly held (unless otherwise stated); sub-subsidiaries are shown inset.

| Name | Activity | Country of incorporation or registration | Percentage shareholdings |
|---|---|---|---|
| General Mobile Corporation Limited | Holding company | England | 100 |
| Talkland International Limited | Holding company | England | 100 |
| Talkland Retail Limited | Service provider | England | 100 |
| Talkland Communications Limited | Distributor of cellular telephone equipment | England | 100 |
| Talkland Telecommunications Limited | Retailer of mobile telephones | England | 100 |
| The Peoples Phone Company Limited | Service provider | England | 100 |
| Vodac Limited (1) | Service provider | England | 100 |
| Vodac (Ulster) Limited | Service provider | Northern Ireland | 51 |
| Vodacall Limited | Service provider | England | 100 |
| Vodafone Europe Holdings BV (1) | Holding company | Netherlands | 100 |
| Telecell Limited | Cellular network operator | Malta | 80 |
| Vodafone Australasia Pty Limited (2) | Holding company | Australia | 100 |
| Vodac Pty Limited (3) | Cellular Network Operator | Australia | 90 |
| Vodac Pty Limited (4) | Service provider | Australia | 100 |
| Vodacall Pty Limited (5) | Service provider | Australia | 100 |
| Vodafone SA | Service provider | France | 100 |
| Vodafone GmbH | Holding company | Germany | 100 |

| | | | |
|---|---|---|---|
| Vodafone Holdings (SA)(Pty) Limited | Holding company | South Africa (6) | 100 |
| Panafon SA | Cellular Network Operator | Malta | 80 |
| Panavox SA | Service provider | Greece | 55 |
| Vodafone Finance Limited | Financial trading company | England | 100 |
| Vodafone Group Services Limited | Provision of central services | England | 100 |
| Vodafone Investments Limited (7) | Holding company | England | 100 |
| Astec Communications Limited | Service provider | England | 100 |
| Vodacom Limited | Service provider | England | 100 |
| Emtel Europe Plc | Mobile telecommunications dealer | England | 100 |
| Vodafone Jersey Limited (8) | Holding company | Jersey | 100 |
| Vodafone Limited (1) | Cellular network operator | England | 100 |
| Vodapage Limited | Radiopaging network operator | England | 100 |
| Air Call Communications Limited | Radiopaging network operator | England | 100 |
| Vodastar Limited | Partner in consortium to operate global satellite telecommunications service | England | 100 |
| Vodata Limited | Supply of value added services | England | 100 |
| Paknet Limited | Packet radio network operator | England | 100 |

1. Indirectly held.
2. Share capital consists of 31,110,200 ordinary shares and 991 redeemable preference shares.
3. Share capital consists of 55,891,176 ordinary shares, 101,378 redeemable preference shares and 2,941,641 A class shares of which 95%, 90% and nil respectively were indirectly held by Vodafone Group Plc.
4. Share capital consists of 2 ordinary shares and 11,500 redeemable preference shares.
5. Share capital consists of 2 ordinary shares and 560 redeemable preference shares.
6. Incorporated in South Africa, principal place of business in the Netherlands.
7. Share capital consists of 15,000,000 redeemable preference shares and 2,522,582,499 ordinary shares.
8. Share capital consists of 484,085 redeemable preference shares and 16,104 ordinary shares.

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Subsidiary undertakings  Associated undertakings and investments  Principal investments

# Reports of the auditors

## Auditors' report to the members of Vodafone Group Plc

We have audited the financial statements which have been prepared under the accounting policies, and the detailed information disclosed in respect of any directors' remuneration and share options set out in the Report of the Remuneration Committee.

## Respective responsibilities of directors and auditors

As described in the Statement of directors' responsibilities the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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## Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors

Hill House
1 Little New Street
London EC4A 3TR
24 June 1997

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**Review report by the auditors on corporate governance to Vodafone Group Plc**
In addition to our audit of the financial statements, we have reviewed the directors' statements in the Shareholders' returns and the Basis of preparation of financial statements and in the Report of the directors on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

**Basis of opinion**
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures or on the ability of the Company to continue in operational existence.

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**Opinion**
With respect to the directors' statements on internal financial control in the Report of the directors and going concern in the Shareholders' returns and the Basis of preparation of financial statements, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement in the Report of the directors appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
24 June 1997

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## Reports of the auditors

## United States accounting principles

The following is a summary of the effects of the differences between US Generally Accepted Accounting Principles ('US GAAP') and UK Generally Accepted Accounting Principles ('UK GAAP') that are significant to Vodafone Group Plc. The principles are set out below.

### Net income and earnings per ordinary share

| | **1997 £m** | 1996 £m |
|---|---|---|
| **Net income as reported in accordance with UK GAAP** | **363.8** | **309.8** |
| Items (decreasing)/increasing net income: | | |
| Goodwill amortisation | **(17.6)** | (9.1) |
| Equity in losses of associated undertakings | **(5.4)** | (6.8) |
| Licence fee amortisation | **(1.0)** | (3.2) |
| Deferred income taxes | **2.8** | 4.3 |
| Pension cost | **(0.1)** | (0.3) |
| Other | **(0.3)** | (1.0) |
| **Net income in accordance with US GAAP** | **342.2** | 293.7 |
| **Earnings per ordinary share in accordance with US GAAP** | **11.18p** | 9.62p |

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### Shareholders' equity

| | 1997 £m | 1996 £m |
|---|---|---|
| **Shareholders' equity as reported in accordance with UK GAAP** | 770.0 | 1,022.1 |
| Items increasing/(decreasing) shareholders' equity: | | |
| Goodwill - net of amortisation | 582.5 | 245.0 |
| Licence fee amortisation | (13.9) | (13.6) |
| Revaluation of marketable securities | - | 7.9 |
| Cumulative deferred income taxes | (72.7) | (78.6) |
| Proposed dividends | 75.3 | 62.4 |

| | | |
|---|---|---|
| Cumulative pension cost | (2.2) | (2.2) |
| Other | (2.1) | (1.7) |
| **Shareholders' equity in accordance with US GAAP** | 1,336.9 | 1,241.3 |

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## Total assets

| | **1997** **£m** | 1996 £m |
|---|---|---|
| **Total assets as reported in accordance with UK GAAP** | **2,421.8** | 1,763.4 |
| Items increasing/(decreasing) total assets: | | |
| Goodwill - net of amortisation | **456.8** | 114.3 |
| Investment in associated undertakings - net of amortisation | **125.7** | 130.7 |
| Revaluation of marketable securities | **-** | 7.9 |
| Licence fee amortisation | **(13.9)** | (13.6) |
| Cumulative capitalisation of interest costs - net of amortisation | **0.2** | 0.6 |
| Pension prepayment | **(2.3)** | (2.1) |
| **Total assets in accordance with US GAAP** | **2,988.3** | 2,001.2 |

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**Summary of differences between accounting principles generally accepted in the UK and the US**
The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the UK ('UK GAAP'), which differ in certain material respects from those generally accepted in the US ('US GAAP'). The differences that are material to the Group relate to the following items and the necessary adjustments are shown above.

**Goodwill and equity in losses of associated undertakings**
Under UK GAAP, costs of acquisition in excess of the fair value of the attributable net assets of acquired businesses at the date of acquisition may be capitalised or may be written-off against shareholders' equity, either in the fiscal year of acquisition or in a subsequent fiscal year. The Group has written-off such goodwill against shareholders' equity in the fiscal year of acquisition. Under US GAAP, goodwill must be capitalised and amortised against income over the estimated period of benefit, but not in excess of 40 years.

Investments in associated undertakings can also include an element of goodwill in the amount of the excess of the investment over Vodafone Group Plc's share in the fair value of the net assets at the date of investment. For US GAAP purposes the Group would capitalise and amortise goodwill over the estimated period of benefit. The Group's equity in earnings of the associated undertakings is reduced by the amortisation of such goodwill.

**Marketable securities**
Under UK GAAP, quoted investments held as fixed asset investments are carried at cost. Under US GAAP, they are classified as available-for-sale securities and are valued at market price with unrealised gains and losses excluded from earnings and reported within a separate component of shareholders' equity.

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**Licence fee amortisation**
Under UK GAAP, licence fees are amortised in proportion to the expected usage of the network during the start up period and then on a straight line basis. Under US GAAP, licence fees are amortised on a straight line basis from the date of acquisition.

**Deferred taxation**
Under UK GAAP, deferred taxation is provided at the rates at which the taxation is expected to become payable. No provision is made for amounts which are not expected to become payable in the foreseeable future.

Under US GAAP, deferred taxation is provided on all temporary differences under the liability method at rates at which the taxation would be payable in the relevant future year.

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**Capitalisation of interest costs**
Under UK GAAP, interest on borrowings used to finance the construction of an asset is not required to be included in the cost of the asset. Under US GAAP, the interest cost on borrowings used to finance the construction of an asset is capitalised during the period of construction until the date that the asset is placed in service. Such interest cost is amortised over the estimated useful life of the related asset.

**Pension costs**
Under both UK GAAP and US GAAP pension costs are provided so as to provide for future pension liabilities. However, there are differences in the prescribed methods of valuation which give rise to GAAP adjustments to the pension cost and the pension prepayment.

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**Proposed dividends**
Under UK GAAP, dividends are included in the financial statements when recommended by the Board of directors to the shareholders. Under US GAAP, dividends are not included in the financial statements until declared by the Board of directors.

**Earnings per ordinary share**

Earnings per ordinary share are calculated by dividing net income of £293.7m and £342.2m for the years ended 31 March 1996 and 1997 respectively, by 3,052,281,614 and 3,060,400,713 which are the approximate weighted average number of ordinary shares outstanding for the years ended 31 March 1996 and 1997 respectively.

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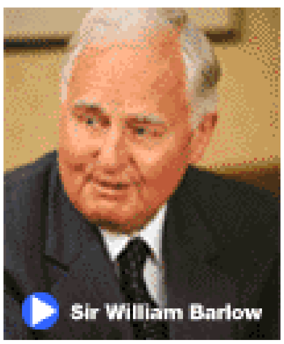
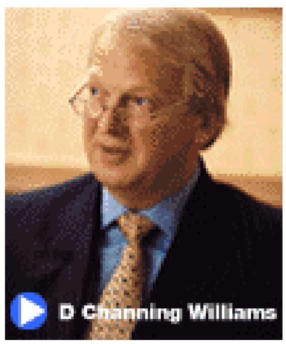
# Directors information

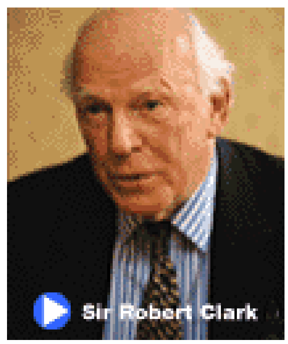
## Board of directors

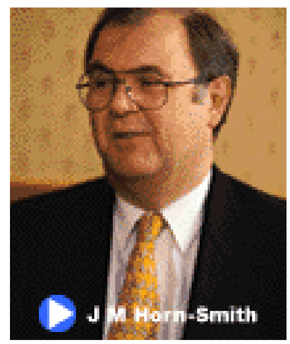
## CHAIRMAN and CHIEF EXECUTIVE

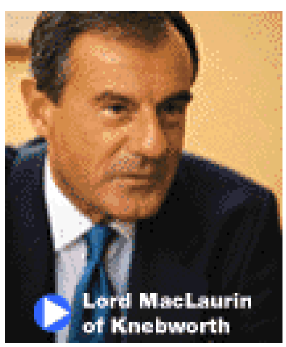

## DIRECTORS

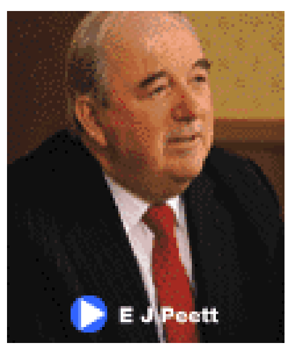


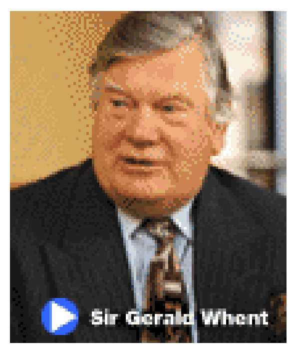













## SECRETARY

S R Scott MA Solicitor.

## Registered Office

The Courtyard, 2 - 4 London Road, Newbury, Berkshire RG14 1JX

# Report of the directors

The directors submit their annual report and audited financial statements for the year ended 31 March 1997.

## Review of the Group's business

The Company and its subsidiary and associated undertakings are involved principally in mobile telecommunications services. A review of the development of the business of the Company and its subsidiary and associated undertakings is contained in the Statement by the Chairman and the Operating and Financial reviews.

## Future developments

The Group is currently involved in the expansion and development of the cellular telecommunications and related businesses as described in the Statement by the Chairman and the Operating and Financial reviews.

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## Corporate governance

*Compliance*
The directors are committed to business integrity and professionalism. As an essential part of this commitment the Board supports high standards of corporate governance and confirms that the Group complies with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance in December 1992. The Review report by the auditors on corporate governance appears in the Report of the auditors.

*Board committees*
The Board of the Company comprises five executive and five non-executive directors who are responsible for setting strategy, approving budgets and monitoring executive management. There are three principal committees of the Board and the membership of the committees is set out under Committees of the Board.

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*Responsibility for financial controls*

The Board of directors has overall responsibility for the Group's system of internal financial control. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems have been designed to provide the directors with reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors and irregularities are either prevented or detected within a timely period.

*Control environment*

The directors have established an organisation structure with clear operating procedures, lines of responsibility and delegated authority. The directors have delegated to executive management the establishment and implementation of financial control systems appropriate for the various businesses.

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*Assessment of business risk*

Major business risks are identified and evaluated by the directors when setting the strategy, approving budgets and monitoring progress against budget. Subsidiary management identifies and evaluates business risks when allocating resources to minimise those risks.

*Financial reporting system*

The Group's operating procedures include a comprehensive system for reporting financial information to the directors. The principal elements of this include the formal review by the directors of:

- Detailed budgets prepared by subsidiary management and reviewed by the executive directors before formal adoption;
- Monthly management accounts with a comparison against budget;
- Forecasts, revised on a quarterly basis, compared against budget.

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*Main control procedures*

Written financial policies and procedures have been issued which specify the minimum requirements for financial and administrative matters within the Group. These policies and procedures address the areas of significant business risk and include:

- Financial limits on delegated authority;
- Detailed policies and procedures regulating treasury activities, approved annually.

Associated undertakings are monitored closely through attendance at their board meetings and review of key financial information. It is the Group's policy that its auditors be appointed as auditors of associated undertakings. Detailed post investment appraisals of all the Group's investments are conducted on a regular basis.

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*Monitoring process*
There are clear procedures for monitoring the system of internal financial control. The significant components of these are:

- Formal annual confirmation by subsidiary managing directors concerning the operation of financial control systems for which they are responsible;
- An internal audit department, reporting directly to the Audit Committee, which on a risk assessment basis undertakes periodic examination of business processes and reports on financial controls throughout the Group;
- Reports from the external auditors, Deloitte & Touche, on internal controls and relevant financial reporting matters.

*Review of effectiveness*
The directors believe that the Group's system of internal financial control provides reasonable, but not absolute, assurance that problems are identified on a timely basis and dealt with appropriately.

The directors confirm that they have reviewed the effectiveness of the system of internal financial control through the monitoring process set out above and are not aware of any significant weakness or deficiency in the Group's system of internal financial control during the period covered by this report.

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**The environment**

The Group is committed to adopting a responsible approach to environmental matters and has formally established a worldwide environmental policy. In particular the Group seeks to minimise the visual impact of its installations and conserve the environment.

*Minimal visual impact*
Subject to technical and commercial constraints all reasonable efforts are made to ensure the minimal impact of radio masts and mobile telephone exchange sites on the environment. Where possible, facilities are installed on existing buildings and structures, with antennas and equipment rooms designed to blend in with their surroundings in terms of height, mast design, colour and texture. The Group has conducted extensive research and development over recent years into the design and appearance of antennas and their support structures, enabling many sites to have their visual impact considerably reduced.

In the UK, Vodafone Limited is a member of a joint working party chaired by the Department of the Environment which published, in April 1996, of a Code of Best Practice relating to the development of radio towers. This aims to generate a better understanding and level of communication between the various Telecommunication Code System Operators and Local Planning Authorities.

*Conservation of the environment*
Where possible the Group endeavours to use environmentally friendly products, with all vehicles running on lead free petrol or diesel fuel.

To minimise the use of natural resources the Group has undertaken in relation to the level of its activities to reduce progressively its consumption of finite or scarce resources and to recycle waste.

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**Share capital**

A statement of changes in the share capital of the Company is set out in note 16 of the financial statements.

**Results and dividends**

The consolidated profit and loss account is set out in the financial statements.

The directors recommend a final dividend of 2.45p per ordinary share amounting to £75.3m payable on 15 August 1997 to shareholders on the register of members at close of business on 13 June 1997. An interim dividend of 2.36p per ordinary share was paid during the year, producing a total for the year of 4.81p per ordinary share. A scrip dividend alternative to the cash dividend is available and further details of the Company's Scrip Dividend Scheme can be found in the Information for investors.

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**Post balance sheet events**

Post balance sheet events are disclosed in note 28 of the financial statements.

**Charitable and political contributions**

During the year, the Group made charitable donations amounting to £391,000, principally through the Vodafone Group Charitable Trust which, under the chairmanship of Sir William Barlow, aims to make contributions primarily within the sectors of medical research, the disabled, the socially deprived, education, arts and the environment. Recipients of significant donations during the year included Shelter, Breast Cancer Care, Crossroads, ROC (Research into Ovarian Cancer), Berkshire Multiple Sclerosis Centre and Childline. A donation of £75,000 was made to the Conservative Party.

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### Creditor payment terms

It is the Group's policy to agree terms of transactions, including payment terms, with suppliers and provided suppliers perform in accordance with the agreed terms, it is the Group's normal practice that payment is made accordingly.

The number of days outstanding between receipt of invoices and date of payment, calculated by reference to the amount owed to trade creditors at the year end as a proportion of the amounts invoiced by suppliers during the year, was 41 days in aggregate for the Group. The Company did not have any trade creditors at 31 March 1997.

### Research and development

The Group continues an active research and development programme for the enhancement of mobile telecommunications.

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### Directors

The Company presently has ten directors, seven of whom served throughout the year ended 31 March 1997. Their biographical details are set out briefly in Board of Directors. Five of the directors, Sir Ernest Harrison (the Chairman), Sir Gerald Whent (the Deputy Chairman), Sir William Barlow, Sir Robert Clark and Lord MacLaurin, served as non-executive directors. The five executive directors are C C Gent (the Chief Executive), D Channing Williams, J M Horn-Smith, K J Hydon and E J Peett. D Channing Williams and J M Horn-Smith were appointed to their positions in June 1996. C C Gent was appointed Chief Executive on 1 January 1997 upon the retirement of Sir Gerald Whent, who became non-executive Deputy Chairman of the Company on that date. Lord MacLaurin joined the Board on 1 January 1997. D J Henning and G J Lomer left the Board in June 1996 and March 1997 respectively.

In accordance with the requirements of the Company's Articles of Association, CC Gent, KJ Hydon and Sir William Barlow will retire by rotation at the Company's Annual General Meeting and, being eligible, will offer themselves for re-election. Sir Ernest Harrison, Sir Gerald Whent and Sir Robert Clark, all being aged over 70, will also retire at the Annual General Meeting and offer themselves for re-election, as will Lord MacLaurin who, having joined the Board since the date of the last Annual General Meeting, is required to offer himself for election by the shareholders.

Other than their service contracts, none of the directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the financial year.

## Committees of the Board

The committees are:

- Audit Committee comprising Sir Ernest Harrison (Chairman), Sir William Barlow and Sir Robert Clark;
- Remuneration Committee made up of Sir Ernest Harrison (Chairman), Sir William Barlow and Sir Robert Clark;
- Nominations Committee comprising Sir Ernest Harrison (Chairman), Sir William Barlow, Sir Robert Clark and C C Gent.

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## Directors' interests in the shares of Vodafone Group Plc

The Report of the Remuneration Committee details the directors' interests in the shares of Vodafone Group Plc.

## Employee involvement

Employee involvement is actively encouraged throughout the Group. In practice, the managing director of each of the subsidiary companies is responsible for evolving a consultative policy, supported by the Board.

Employee involvement is achieved through:

- Directors' presentations - made to staff within subsidiary companies throughout the country;
- Team briefing - a systematic method of employee communications covering all levels of employee to which employees are encouraged to put forward their ideas;
- Internal written communications - comprising company newsletters, staff notices and bulletins and the internal distribution of official press releases;
- Social functions - the Company actively encourages and financially supports a wide range of sports and social functions across the Group for its employees.

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## UK all employee share schemes

The directors are committed to the principle that all employees should be able to participate in the

Company's success by assistance with share ownership. Two schemes approved by the Inland Revenue have been established which allow employees with more than one year's service to acquire Vodafone Group Plc shares on an advantageous basis. These schemes are highly regarded by staff and over 50% of eligible staff currently participate in one or both of them.

- *Vodafone Group Profit Sharing Scheme* - This enables staff to contribute up to 5% of their basic salary each month to buy shares in the Company. Subject to agreeing that the purchased shares are held for at least two years by the Trustees or in a PEP, for each share the employee buys the Company buys a matching share for the employee. The shares paid for by the Company are not subject to income tax on their value, provided the employee leaves them with the Trustees for three years.

- *Savings Related Share Option Scheme* - This enables staff to purchase shares in the Company from monthly savings of up to £250 over a three or five year period, at the end of which they also receive a tax free bonus. The savings and bonus may then be used to purchase shares at the option price, which is set at the beginning of the savings contract and usually at a discount to the then prevailing market price of the Company's shares. Invitations to participate in this scheme are normally made annually.

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**Employee education, training and development**

Continuing education, training and development are important to ensure the future success of the Group. Policies have been adopted to assist all employees to reach their full potential and a wide variety of schemes and programmes are offered aimed at ensuring that relevant education, training and development opportunities are available. Many courses are provided by the Group's Training Services department, which has well equipped technical and development training facilities and a broad range of expertise.

The Group, as a Charter Member of the Duke of Edinburgh's Award Scheme, has established a sponsored scheme for all employees of Award Scheme age to encourage young employees to develop their confidence and important skills such as communication, planning and working in teams. A programme of business related further education is also sponsored by the Group and programmes exist to help employees meet the training and qualification requirements of their chosen professional institution, thereby continuing to raise the existing professionalism of the Group.

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**Employment policies**

The Group's businesses operate progressive employment policies and all vacancies are filled on the basis of individual competence, experience and qualifications. Employees at all levels and in all companies are encouraged to make the greatest possible contribution to the Group's success. Overseas, the Group's employment policies are adapted as necessary to reflect the legal, cultural and employment market requirements of the country concerned.

*Equal opportunities*
The Group operates an equal opportunities policy. All employees accept the commitment within this policy that the Group will not allow discrimination, pressure to discriminate or harassment by staff or others acting on the Group's behalf, in respect of sex, race, marital status, nationality, disability or religious or political beliefs.

*The disabled*
The directors are conscious of the special difficulties experienced by the disabled. In addition to giving disabled people full and fair consideration for all vacancies for which they offer themselves as suitable candidates, efforts are made to meet their special needs, particularly in relation to access and mobility. Where possible, modifications to workplaces have been made to provide access and, therefore job opportunities, for the disabled.

Every effort is made to continue the employment of people who become disabled, not only in the provision of additional facilities but also training where appropriate. The Group is a member of the Employers' Forum on Disability.

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**Health, safety and welfare**

The directors recognise the high standards required to ensure the health, safety and welfare of the Group's employees at work, its customers and the general public. The maintenance of safe working conditions is a high priority and a programme of regular risk assessment ensures that there are continuous improvements in safety performance. Group policies and practices are regularly reviewed with the objective that high standards of health and safety are achieved and maintained.

**Auditors**

In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of Deloitte & Touche as auditors to the Company will be put to the Annual General Meeting.

It is the Group's policy to employ Deloitte & Touche on assignments additional to their statutory audit duties where their expertise and experience with the Group are important or where they win work on a competitive basis. The Group has employed four other audit firms during the year.

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**Substantial holdings**

The directors are not aware of any holding in the ordinary share capital of Vodafone Group Plc which, at 12 June 1997, exceeds 3% except that FMR Corp and Fidelity International Limited and their direct and indirect subsidiaries, both being non-beneficial holders, have solely for investment purposes a holding representing 6.1%, including 4.75% in the form of American Depositary Shares. During the year the Company was notified that the Department of Trade and Industry no longer considers the share holding of BNY (Nominees) Limited, a holding which underlies American Depositary Receipts issued by The Bank of New York, to be a notifiable interest under section 209 of the Companies Act 1985.

By Order of the Board
Stephen Scott
Secretary
24 June 1997

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## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the systems of internal financial controls and for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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## Report of the Remuneration Committee

### Composition of the Committee

The Remuneration Committee is chaired by Sir Ernest Harrison and consists exclusively of non-executive directors of the Company. Sir William Barlow and Sir Robert Clark served on the Committee during the year.

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### Remuneration policy

In determining the Company's broad policy for executive remuneration, and in particular the remuneration package for each of the executive directors, the Committee aims to provide remuneration which is competitive and which will ensure the right rewards are given to attract, motivate and retain executives of a calibre commensurate to the needs of the Group. When appropriate, the Committee invites the views of the Chief Executive and the Group Director of Personnel and commissions reports from expert remuneration consultants. The results of market surveys and other analyses from external sources are also made available to the Committee, which has resolved to review its policy on a regular basis to ensure it continues to meet the Company's requirements and to comply with best practice.

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### Salaries and benefits

The remuneration package of the executive directors is made up of a number of elements. Each is paid an annual salary, on which pension benefits are calculated, and is provided with a car, health care benefits and a mobile telephone, all of which are subject to income tax. There are no bonuses or other incentive payments although the executive directors participate in the Company's executive share option schemes and are entitled to participate in its all-employee share schemes, the savings related share option scheme and the profit sharing share scheme, further details of which are provided below and in the Report of the directors.

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All executive directors are contributing members of the Vodafone Group Directors Pension Scheme, which provides pensions and other benefits within limits prescribed by the Inland Revenue. Until his retirement on 31 December 1996, Sir Gerald Whent participated in a defined contribution funded unapproved retirement benefits scheme which was funded by a pension contribution equivalent to the Company contribution paid on behalf of the other executive directors. Details of the salaries and benefits of all the directors are set out in the table below, together with details of the Company's contributions to pension schemes. A separate table below shows the pension benefits earned by the directors in the year. Share options are analysed in the table below.

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Annual salaries are reviewed each year with effect from 1 July and the Remuneration Committee takes into account not only the individual performances and contributions of each of the executive directors but also the overall performance of the Group, the earnings per share of the Company, the level of increases awarded to staff throughout the Group and information provided to it on the salaries for similar roles in comparable companies. If the responsibilities of executive directors change during the year, the Committee meets to discuss and review remuneration packages, including salaries, at that time.

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It is believed that share ownership by executive directors increases the link between the interests of the directors and the interests of the Company's shareholders. The Company's executive share option schemes, in which over two hundred of the Group's directors, executives and senior managers participate, are operated on the basis that options over the Company's shares may be granted once each year at, for directors, a multiple of one times taxable earnings subject to an overall maximum holding equivalent to four times taxable earnings. The savings related share option scheme permits eligible participants (employees with one year's service) to save a fixed sum each month, up to a maximum of £250 per month, for three or five years and to use the proceeds of the savings to exercise options granted at a price 20% below the market price of the shares at the beginning of the savings period. The profit sharing share scheme similarly permits eligible employees to contribute up to 5% of their salary each month, up to a maximum of £665 per month, to enable trustees of the scheme to purchase shares on their behalf, with an equivalent number of shares being purchased for the employee by the Company. All the executive directors participate in each of the share schemes.

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**Service contracts**

In recognition of general pressures to reduce notice periods in the service contracts of executive directors to one year, the Remuneration Committee has determined that new appointments to the Board will be on the terms of a contract terminable on one year's notice after the expiry of the initial term. Accordingly, D Channing Williams and J M Horn-Smith, who were appointed to the Board on 4 June 1996, have service contracts with an initial term of two years, terminable at the end of the two year period or at any time thereafter on one year's notice. Each of the Company's other executive directors, C C Gent, K J Hydon and E J Peett, had contracts terminable on two years' notice from the Company but on 1 January 1997 each accepted a new service contract with an initial term of two years, terminable at the end of the two year period or at any time thereafter on one year's notice. The service contracts of all the executive directors contain a provision increasing the period of notice required from the Company to two years in the event that the contract is terminated by the Company within one year of a change of control of the Company. The directors are required to give the Company one year's notice if they wish to terminate their contracts.

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**Non-executive directors**

The remuneration of the non-executive directors, including the Chairman, is established by the Board of directors as a whole and details of each individual non-executive director's remuneration are included in the table below. Except for Sir Gerald Whent in the period prior to his retirement as Chief Executive on 31 December 1996 and in respect of which residual benefits remain outstanding, the non-executive directors do not participate in any of the Company's share schemes or other employee benefit schemes, nor does the Company make any contribution to their pension arrangements. Sir Ernest Harrison is provided with a car.

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The appointments of the Chairman, Sir Ernest Harrison, and the Deputy Chairman, Sir Gerald Whent, are subject to the terms of, in the case of the Chairman, an agreement between the Company, Racal Electronics Plc and Sir Ernest and, in the case of the Deputy Chairman, an agreement between the Company and Sir Gerald. Sir Ernest's agreement will expire in July 1998 and both agreements are, in any event, terminable by any of the parties by one year's notice given at any time.

The other non-executive directors are engaged on letters of appointment which set out their duties and responsibilities and confirm their remuneration. Each of these appointments may be terminated at any time by the Company without the payment of compensation.

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**Remuneration for the year to 31 March 1997**

| | **Salary/fees** | | **Benefits** | | **Total** | | **Pension contributions** | |
|---|---|---|---|---|---|---|---|---|
| | **1997 £000** | 1996 £000 | **1997 £000** | 1996 £000 | **1997 £000** | 1996 £000 | **1997 £000** | 1996 £000 |
| **Chairman (Non-executive)** | | | | | | | | |
| Sir Ernest Harrison | **202** | 188 | **25** | 20 | **227** | 208 | **-** | - |
| **Chief Executive** | | | | | | | | |
| C C Gent(1) | **400** | 322 | **30** | 28 | **430** | 350 | **115** | 106 |
| **Executive directors** | | | | | | | | |
| D Channing Williams(2) | **211** | - | **21** | - | **232** | - | **51** | - |
| D J Henning(3) | **72** | 196 | **6** | 24 | **78** | 220 | **17** | 66 |
| J M Horn-Smith(2) | **205** | - | **16** | - | **221** | - | **51** | - |
| K J Hydon | **267** | 201 | **30** | 23 | **297** | 224 | **72** | 66 |
| E J Peett | **306** | 268 | **37** | 27 | **343** | 295 | **96** | 89 |
| **Non-executive directors** | | | | | | | | |
| Sir Gerald Whent(4) | **617** | 562 | **61** | 38 | **678** | 600 | **161** | 210 |
| Sir William Barlow | **46** | 42 | **-** | - | **46** | 42 | **-** | - |
| Sir Robert Clark | **46** | 42 | **-** | - | **46** | 42 | **-** | - |
| G J Lomer(5) | **46** | 42 | **-** | - | **46** | 42 | **-** | - |
| Lord MacLaurin(2) | **12** | - | **-** | - | **12** | - | **-** | - |
| | **2,430** | 1,863 | **226** | 160 | **2,656** | 2,023 | **563** | 537 |

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**Notes**

1. C C Gent was appointed Chief Executive on 1 January 1997.
2. Salaries, fees, benefits and pension information for D Channing Williams, J M Horn-Smith and Lord MacLaurin are stated from the dates of their appointments to the Board.
3. D J Henning left the Board on 30 June 1996 and by way of periodic payments from that date to 1 April 1998 is entitled to be paid a total of £399,903 plus benefits in kind with an estimated value of £8,742. These amounts will be reduced if Mr Henning obtains full time paid employment before 1 April 1998. In the year to 31 March 1997, payments to Mr Henning totalled £239,867 including benefits in kind of £7,964. The Company will pay a pension to Mr Henning commencing at any time between 1 July 1998 and 27 October 2004, subject to actuarial reduction if it commences before 26 October 1999. If paid at 1 July 1998 the pension is estimated to be £82,500 per annum.
4. Sir Gerald Whent retired as Chief Executive on 31 December 1996 and was appointed non-executive Deputy Chairman from 1 January 1997.
5. G J Lomer retired from the Board on 31 March 1997.

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**Pension benefits earned by the directors in the year to 31 March 1997**

| Name of Director | Increase in accrued pension during the year(£) | Transfer value of increase in accrued pension(£) | Accumulated total accrued pension at year end(£) |
|---|---:|---:|---:|
| C C Gent | 20,500 | 160,000 | 116,600 |
| D Channing Williams | 7,600 | 44,000 | 81,800 |
| D J Henning | 10,300 | 197,000 | 82,500 |
| J M Horn-Smith | 7,200 | 40,000 | 82,400 |
| K J Hydon | 11,500 | 101,000 | 103,000 |
| E J Peett | 18,800 | 189,000 | 171,300 |

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**Notes**

The pension benefits earned by the directors are those which would be paid annually on retirement, on service to the end of the year, at the normal retirement age. Salaries have been averaged over 3 years in accordance with Inland Revenue regulations. The increase in accrued pension during the year excludes any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with the Faculty and Institute of Actuaries' Guidance Note GN11. No director elected to pay Additional Voluntary Contributions. The table does not include Sir Gerald Whent because of the different form of his pension scheme.

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## Share options

The following information summarises the directors' options under the Vodafone Group Savings Related Share Option Scheme ('savings related scheme'), the Vodafone Group Executive Share Option Scheme ('executive scheme'), both Inland Revenue approved schemes, and the Vodafone Group Share Option Scheme ('unapproved scheme'), which is not Inland Revenue approved, in operation at 31 March 1997. Sir Ernest Harrison, Sir William Barlow, Sir Robert Clark and Lord MacLaurin have no options under any of these schemes. The Remuneration Committee, whilst acknowledging that options have been granted in the past under the terms of the executive scheme at prices showing a discount to the market price, has resolved that no shares will, in future grants of options, be offered at a discount, except under the savings related scheme.

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| | Options held at 1 April 1996 | Options granted during the year | Options exercised during the year | **Options held at 31 March 1997** | Weighted average exercise price at 31 March 1997 (p) | Date from which exercisable | Latest expiry date |
|---|---|---|---|---|---|---|---|
| C C Gent | 617,631 | 106,400 | 7,920 | **716,111** | 1.86 | 7/96 | 7/05 |
| D Channing Williams (1) | 307,377 | 111,487 | 7,920 | **410,944** | 2.01 | 7/96 | 7/05 |
| J M Horn-Smith(1) | 520,977 | 64,987 | 7,920 | **578,044** | 1.42 | 1/95 | 7/05 |
| K J Hydon | 629,518 | 90,075 | 394,164 | **325,429** | 1.93 | 7/96 | 7/05 |
| E J Peett | 510,964 | 108,200 | 181,764 | **437,400** | 1.97 | 12/96 | 7/05 |
| Sir Gerald Whent(2) | 2,114,083 | 51,300 | 880,617 | **1,283,500** | 1.22 | 1/95 | 12/97 |
| | 4,700,550 | 532,449 | 1,480,305 | **3,751,428** | | | |

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These options by exercise price were:

| Option price (p) | Options held at 1 April 1996 | Options granted during the year | Options exercised during the year | **Options held at 31 March 1997** |
|---|---|---|---|---|
| **Executive scheme and unapproved scheme** | | | | |
| 86.7 | 175,500 | - | 30,900 | **144,600** |
| 93.0 | 549,000 | - | 549,000 | - |
| 101.7 | 645,600 | - | 44,100 | **601,500** |
| 107.0 | 589,500 | - | 127,200 | **462,300** |
| 112.3 | 165,000 | - | 165,000 | - |
| 118.0 | 3,300 | - | - | **3,300** |
| 124.7 | 48,000 | - | 10,800 | **37,200** |
| 125.7 | 76,500 | - | - | **76,500** |
| 136.3 | 330,000 | - | 330,000 | - |
| 138.7 | 86,100 | - | - | **86,100** |
| 141.7 | 11,700 | - | - | **11,700** |
| 146.3 | 351,300 | - | 153,000 | **198,300** |
| 150.0 | 6,900 | - | - | **6,900** |
| 166.3 | 679,800 | - | - | **679,800** |
| 176.3 | 354,900 | - | - | **354,900** |
| 198.5 | 292,200 | - | - | **292,200** |
| 233.5 | 245,400 | - | - | **245,400** |
| 241.5 | - | 525,300 | - | **525,300** |

| **Savings related scheme** | | | | |
|---|---|---|---|---|
| 74.7 | 20,088 | - | 20,088 | - |
| 94.7 | 51,483 | - | 50,217 (2) | - |
| 142.0 | 14,571 | - | - | **14,571** |
| 186.0 | 3,708 | - | - | **3,708** |
| 193.0 | - | 7,149 | - | **7,149** |
| | 4,700,550 | 532,449 | 1,480,305 | **3,751,428** |

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**Notes**

1. Information in the above tables in respect of D Channing Williams and J M Horn-Smith refers to the date of their appointment, 4 June 1996, and not 1 April 1996.
2. Sir Gerald Whent retired as Chief Executive on 31 December 1996 and has a period of twelve months from that date to exercise options in the executive scheme and the unapproved scheme. He was unable to exercise options in respect of 1,266 shares granted to him under the savings related scheme as his retirement date preceded the completion date of the relevant savings contract.

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Options granted at market value under the executive scheme or the unapproved scheme may not be exercised unless, between the date of grant and the date of first vesting (three years after the date of grant), there has been real growth in the earnings per share of the Company and options granted at a discount to market value may not be exercised unless the growth in the earnings per share of the Company, in the same period, exceeds the growth in the Index of Retail Prices by 2 per cent.

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Under the executive scheme in the year to 31 March 1997, Sir Gerald Whent exercised an option for 330,000 shares at the exercise price of 136.3p per share, 165,000 shares at the exercise price of 112.3p per share and 375,000 shares at the exercise price of 93p, all of which were sold at 245p per share. K J Hydon exercised an option for 174,000 shares at the exercise price of 93p per share, 127,200 shares at the exercise price of 107p per share, 44,100 shares at the exercise price of 101.7p per share and 30,900 shares at the exercise price of 86.7p per share, of which 243,200 shares were sold at 258p per share. Also, E J Peett exercised an option for 153,000 shares at the exercise price of 146.3p per share and 10,800 shares at the exercise price of 124.7p per share, which were sold at 260p per share.

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Under the savings related scheme in the year to 31 March 1997, Sir Gerald Whent exercised an option for 10,617 shares, C C Gent for 7,920 shares, D Channing Williams for 7,920 shares and J M Horn-Smith for 7,920 shares, all at the exercise price of 94.7p per share. K J Hydon exercised an option for 10,044 shares at the exercise price of 74.7p per share and an option for 7,920 shares at 94.7p per share. Also, E J Peett exercised an option for 10,044 shares at the exercise price of 74.7p, all of which shares were sold at 248p per share, and 7,920 shares at an exercise price of 94.7p per share.

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The gross, pre tax gain made on the exercise of share options in the year by the Company's highest paid director, Sir Gerald Whent, was £1,165,959 and the aggregate of all such gains by the directors in the year was £2,075,903.

The closing middle market price of Vodafone Group Plc's shares at the year end was 278.5p, its highest closing price in the year having been 299.0p and its lowest closing price having been 218.5p.

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**Directors' interests in the shares of Vodafone Group Plc**

The directors have the following interests, all of which are beneficial, in the ordinary shares of Vodafone Group Plc:

| | 31 March 1997 | 1 April 1996 |
|---|---|---|
| Sir Ernest Harrison | 1,090,000 | 1,090,000 |
| C C Gent | 116,157 | 102,459 |
| Sir Gerald Whent | 532,605 | 517,036 |
| Sir William Barlow | 15,000 | 15,000 |
| D Channing Williams | 37,390 | - |
| Sir Robert Clark | 15,000 | 15,000 |
| J M Horn-Smith | 44,447 | - |
| K J Hydon | 205,052 | 47,458 |
| Lord MacLaurin | 1,000 | - |
| E J Peett | 309,109 | 294,785 |

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G J Lomer retired from the Board on 31 March 1997, at which time he had an interest in 111,003 shares (1996 - 110,809 shares).

There have been no changes in the interests of the directors of Vodafone Group Plc in the ordinary shares of the Company during the period 1 April to 12 June 1997. J M Horn-Smith and K J Hydon acquired 2 and 33 shares respectively through reinvestment of tax reclaims in Vodafone Group Personal Equity Plans and the following directors have acquired interests in shares of the Company under the Vodafone Group Profit Sharing Scheme, as follows:

| | **Interests in ordinary shares** |
|---|---|
| C C Gent | 1,256 |
| D Channing Williams | 1,394 |
| J M Horn-Smith | 1,392 |

| | |
|---|---|
| K J Hydon | 1,394 |
| E J Peett | 1,394 |

No director had, since 1 April 1996, any interest in the shares of any subsidiary company.

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**Compliance**

In July 1995, the Report of a Study Group chaired by Sir Richard Greenbury on Directors' Remuneration ('Greenbury') was published and some of its recommendations have been included in the Listing Rules of the London Stock Exchange.The composition, terms of reference and operation of the Remuneration Committee are in full compliance with Section A of the best practice provisions annexed to the Listing Rules and the Committee gave full consideration to Section B of the best practice provisions which are annexed to the Listing Rules when it last reviewed the executive directors' remuneration packages. Greenbury asked the Faculty and Institute of Actuaries to recommend a basis for calculating the value of pension entitlements earned by directors during the year and its recommendation has recently been included in the Listing Rules. This Report includes the form of disclosure of directors' pensions as envisaged by the Listing Rules. The Report of the auditors provides independent confirmation that this Report of the Remuneration Committee provides the disclosures required by the Listing Rules.

Sir Ernest Harrison OBE

Chairman of the Remuneration Committee

24 June 1997

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Information for investors

## Annual General Meeting

The thirteenth Annual General Meeting of The Company will be held at The Waldorf Hotel, Aldwych, London WC2 on 24 July 1997 at 11.30am. The Notice of Meeting, together with details of the business to be conducted at the Meeting, is being circulated to shareholders with this Report.

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## Financial calendar

Vodafone Group Plc usually announces results and pays dividends at the following times:

| | Announcement of results | Payment of dividend |
|---|---|---|
| Interim | November | February |
| Final | June | August |

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## Shareholders

| Number of ordinary shares held at 31 March 1997 | | | Number of accounts | % of total issued shares |
|---|---|---|---|---|
| 1 | - | 1,000 | 11,879 | 0.17 |
| 1,001 | - | 5,000 | 19,775 | 1.60 |
| 5,001 | - | 50,000 | 8,956 | 3.71 |
| 50,001 | - | 100,000 | 504 | 1.18 |
| 100,001 | - | 500,000 | 767 | 5.86 |
| More than | | 500,000 | 594 | 87.48 |
| | | | 42,475 | 100.00 |

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**Type of shareholder at 31 March 1997**

| | Number of accounts | % of total issued shares |
|---|---|---|
| Private individuals | 30,947 | 4.51 |
| Banks or nominee companies | 10,197 | 68.81 |
| Investment trusts and funds | 423 | 0.42 |
| Insurance companies | 58 | 0.52 |
| Commercial and industrial companies | 679 | 1.20 |
| Other corporate bodies | 141 | 1.48 |
| Pension funds and trustees | 29 | 0.99 |
| Bank of New York Nominees - ADRs | 1 | 22.07 |
| | 42,475 | 100.00 |

With the exception of nominee companies, most of which are institutional investors, stated shareholdings are only those directly held.

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**Registrars and Transfer Office**

The Company's Registrars are The Royal Bank of Scotland plc, Securities Services - Registrars,
P.O. Box 82, Caxton House, Redcliffe Way,
Bristol BS99 7NH (telephone 0117 930 6600).

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**Listings**

Ordinary shares of Vodafone Group Plc are traded on the London Stock Exchange and, in the form of American Depositary Shares (ADSs), on the New York Stock Exchange.

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**American Depositary Receipts**

ADSs, each representing ten ordinary shares, are traded on the New York Stock Exchange under the symbol 'VOD'. ADSs are represented by American Depositary Receipts (ADRs). The ADR programme is administered on behalf of the Company by The Bank of New York, ADR Division, 101 Barclay Street, New York, N.Y. 10286.

ADR holders are not members of the Company but may instruct The Bank of New York on the exercise of voting rights relative to the number of ordinary shares represented by their ADRs.

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**Reports to ADR holders**

ADR holders receive the annual and interim reports issued to ordinary shareholders. Vodafone Group Plc will file with the Securities and Exchange Commission in the USA its annual report in Form 20-F (which corresponds to the 10-K for a US Corporation) and other information as required. A copy of the Form 20-F may be obtained by writing to:
Investor Relations, Vodafone Group Plc, The Courtyard, 2 - 4 London Road, Newbury, Berkshire RG14 lJX, England.

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**Dividends and ADR holders**

ADR holders are generally eligible for all dividends or other entitlements attaching to the underlying shares of Vodafone Group Plc and receive all cash dividends in US dollars. Qualifying US holders will generally be entitled to receive a payment in respect of the UK tax credit, subject to a UK withholding tax of 15% of the sum of the dividend and UK tax credit.

Dividends and any related UK tax credit and associated withholding tax will be income to the holder for Federal income tax purposes. ADR holders unsure of their tax position should consult their independent tax adviser.

The Bank of New York maintains a Global BuyDIRECT Plan for the Company, which is a direct purchase and sale plan for depository receipts, with a dividend reinvestment facility. For additional information, please call **1-800-345-1612**, The Bank of New York's Global BuyDIRECT number, or write to:

The Bank of New York

Shareholder Relations Department
Global BuyDIRECT
Church Street Station
P.O. Box 11009
New York, NY 10286-1009
USA

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**Scrip dividend scheme**

The Company's scrip dividend scheme enables shareholders to take new shares in lieu of cash dividends. The value of new shares issued under the scheme, the 'cash equivalent', is the average middle market price of the Company's shares on the London Stock Exchange for the five business days beginning with the date the shares are first quoted 'ex-dividend'. If on the first day of dealing on the London Stock Exchange in the new shares the cash equivalent was to differ substantially (interpreted by the Inland Revenue to be 15 per cent or more) from the market value of a new share, for tax purposes the Inland Revenue may substitute that market value as the 'cash equivalent'. The table below shows the figures for the last two dividends in relation to new shares issued under the scheme:

| | **Cash equivalent** | **Market value** |
|---|---|---|
| Final dividend 1996 (19 August 1996) | 240.5p | 244.5p |
| Interim dividend 1997 (12 February 1997) | 251.6p | 279.5p |

Set out below is information relevant to the final dividend for the financial year ended 31 March 1997:

| | |
|---|---|
| Shares go ex-dividend | 9 June 1997 |
| Offer price calculation period | 9-13 June 1997 |
| Record date | 13 June 1997 |
| Return date *(for mandates and variations)* | 16 July 1997 |
| Annual General Meeting | 24 July 1997 |
| Dividend payment date and first day of dealings in new shares | 15 August 1997 |

For the purpose of this offer under the scheme, a new share is valued at 290.9p and participating shareholders will receive one new share for every 119 shares held on the record date. If all shareholders were to take the scrip dividend alternative, approximately 25.7 million new ordinary shares would be issued, representing an increase of about 0.84% in the issued share capital of the Company. For further details of the scheme, please contact the Company's Registrars.

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**Company Nominee Service**

Together with the Company's Registrars, the Company is continuing to evaluate the possibility of introducing a nominee service for the benefit of its private investors resident in the UK. If you may be interested in this service, please write to the Company Secretary at the registered office of the Company.

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**Personal Equity Plans (PEPs)**

For UK resident shareholders two PEPs have been established, a General PEP and a Single Company PEP, managed by Bradford & Bingley (PEPs) Limited. For further details please write to the Plan Manager, Bradford & Bingley (PEPs) Limited, P.O. Box 1, Taunton Street, Shipley, West Yorkshire BD18 3NG or telephone 01274 555700.

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**Dividend mandates**

Shareholders who wish to receive cash dividends directly into their bank or building society account should contact the Company's Registrars for a mandate form or complete the form which will be attached to dividend tax vouchers in respect of the payment of the final dividend in August 1997.

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**Consolidation of share accounts**

Shareholders whose total registered shareholding is represented by more than one account, evidenced by the receipt of duplicate copies of communications from the Company to shareholders, and who wish to have their holdings consolidated should send an appropriate letter of instruction to the Company's Registrars.

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**Share values**

Upon flotation of the Company on 11 October 1988 the ordinary shares were valued at 170p each. On 16 September 1991, when the Company was finally demerged, for UK taxpayers the base cost of Racal Electronics Plc shares was apportioned between Vodafone Group Plc and Racal Electronics Plc for Capital Gains Tax purposes in the ratio of 80.036% and 19.964% respectively. Opening share prices on 16 September 1991 were 332p for each Vodafone share and 223p for each Racal share. On 21 July 1994 the Company effected a bonus issue of two new shares for every one then held. The flotation and demerger share prices, therefore, can be restated at 56.667p and 110.667p respectively.

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**Share price information**

The current share price for Vodafone Group Plc can be obtained in the UK by dialling the Financial Times Cityline service on 0336 435555. Calls are charged at 50p per minute.

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VODAFONE GROUP

# Annual Report & Accounts

For the year ended 31 March 1997

## Welcome

**Vodafone is a leading provider of international mobile telecommunications services including cellular radio, wide area paging, packet data radio and value added network services**



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