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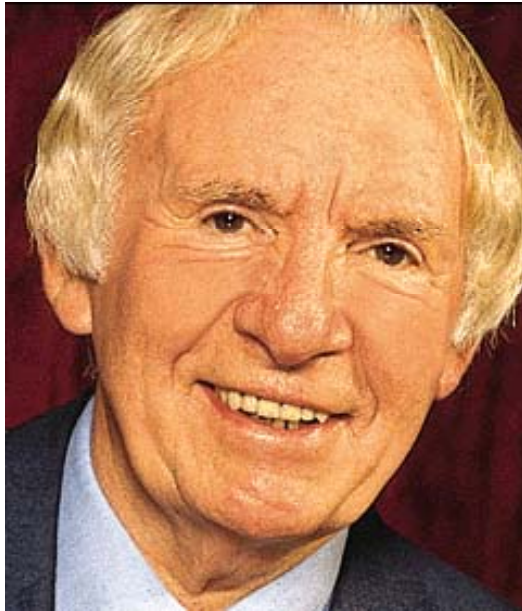


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**Sir Ernest Harrison OBE
CHAIRMAN**

Statement by the Chairman

A strong market position in the UK and an extensive international presence put Vodafone in an excellent position to continue to deliver sustained growth and increased shareholder value.

It gives me great pleasure to report results for the year which reflect further significant growth of the Group and which position it well for the future. Turnover was £2,471m (1997 - £1,749m), an increase of 41%, and profit on ordinary activities before taxation amounted to £650.2m (1997 - £539.1m), an increase of 21%.

The Group's international businesses contributed £122.4m to total Group operating profit, compared to £18.0m for 1997, and increased the number of customers, proportionate to the Group's equity interests, by over 1,265,000. The Group's worldwide customer base at the end of the year was over 5,844,000, proportionate to equity stakes, an increase of 46%.

Operating cash flow increased by 41% to £886.4m (1997 - £627.9m), of which £491.5m was used to fund capital expenditure primarily to enhance networks in the UK, Australia and Greece.

The directors are recommending a final dividend of 2.82p per share (1997 - 2.45p), giving a total for the year of 5.53p (1997 - 4.81p), an increase of 15%.

In the UK, Vodafone Limited, the market leader, enjoyed another good year, ending the year with over 3.4 million customers. In the twelve months to 31 March 1998, an additional 563,000 customers joined the Vodafone network and in the last quarter of the financial year there were 172,000 net connections, more than twice the number in the equivalent period of the preceding year. Three substantial tariff reductions were introduced, bringing savings to every Vodafone digital customer and many analogue customers. The adoption by the Group of a new corporate identity and logo, an extensive pre-Christmas advertising campaign, promoting both the Vodafone brand and services, and the success of the new 'Pay As You Talk' service, which was launched just before Christmas and attracted over 136,000 customers, all contributed to the strong growth in customer numbers.

Vodafone Value Added Services further developed its highly successful 'Recall' voice messaging service, which now has approximately 2 million users, making it one of the UK's leading providers of voicemail and a significant contributor to network traffic. Data and messaging calls nearly trebled in the last year.

The Vodafone network continued to grow as the company added over 1,030 base stations, bringing the total in operation for the GSM network to over 3,800 at the year end. Network development will continue to ensure that the highest quality of service is maintained.

During the year the Group began the reorganisation of its six wholly-owned UK service provision companies into three distribution businesses and this is proceeding to plan. The conversion of the Group's retail shops to a single new format under the Vodafone brand has been completed and a programme of customer base transfers to increase operational efficiency by reducing the number of billing and administration systems from five to one by the end of 1998 is on track.



The Group's international operations continued to perform strongly. Customer growth reached new record levels and the overall contribution of the international businesses to total Group operating profit grew to £122.4m, having passed through break-even in the previous financial year. The increasing strength of sterling throughout the financial year reduced international operating profits by £20m.

1997/98 witnessed accelerating customer growth rates in many of the key markets where Group companies operate and long term expectations for cellular telephony penetration have generally increased. Adjusted to reflect its percentage shareholdings, the Group's share of customers in its overseas networks at 31 March 1998 was over 2,414,000, an increase of 1,265,000 during the year. At the year end, overseas customers represented 41% of the Group's total, up from 28% a year earlier. The outlook for continuing growth in Vodafone's overseas businesses remains exciting.



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In December 1997, following the exercise of an option to do so, the Group increased its shareholding in Société Française du Radiotéléphone SA to 20%. It also disposed of its shareholding in Pacific Link at a profit. In January 1998, the Group increased its ownership interest in Libertel (the Dutch GSM network operator) to 61.5% and, in March 1998, increased it further to 70%. Libertel became profitable at the operating level late in 1997, a little over two years since the start of commercial service. At the end of the year, the Misrfone consortium, in which the Group has a 30% interest, was successful in winning a licence to operate Egypt's second GSM network.

As we announced earlier in the year, Ian MacLaurin will become Chairman of the Company on my retirement at the Annual General Meeting in July 1998, when Gerry Whent will also be retiring. A number of other changes to the Board have occurred during the year. John Peett retired in October 1997 and Sir William Barlow and Sir Robert Clark, who served as non-executive directors for almost ten years, retired in March 1998. John was one of the original Vodafone team in the UK and he had extensive involvement in the start up and operation of many of the Group's international businesses. Bill and Bob joined the Board at the time of the Company's flotation in 1988 and their counsel and wisdom has been of immense value to the Board. We thank them all for their service and wish them a happy retirement.

 **Demand for mobile telephony is expected to continue to increase and the Group's strong financial base will enable further progress to be made in 1998/99.** 

Professor Sir Alec Broers, the Vice-Chancellor of Cambridge University, and Sir David Scholey, Senior Adviser to SBC Warburg Dillon Read, joined the Company as non-executive directors on 1 January 1998 and 1 March 1998 respectively. Their skills and experience will complement the Board and I am very pleased they agreed to join. In April we announced the appointment of Peter Bamford to the Board. Peter joined the Company in 1997 from WH Smith and his extensive experience

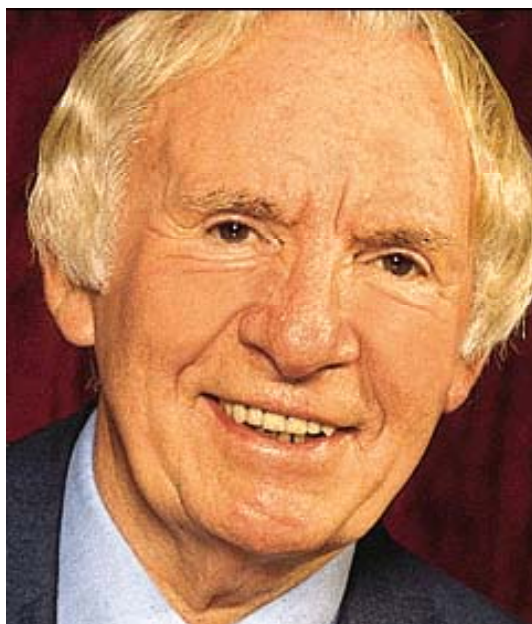
 **1997/98 witnessed accelerating customer growth rates in many of the key markets where Group companies operate. The outlook for continuing growth in Vodafone's overseas businesses remains exciting.** 

in retailing will further strengthen the Board.

As you will have appreciated, 1997/98 was an exceptionally busy year for Vodafone in a highly competitive worldwide marketplace. The Group is well placed to meet the challenges of the future, but neither the results of the past year, nor the realisation of the aims and ambitions for the years ahead, would have been or will be achieved without the considerable efforts and contribution of all the Group's staff. I am sure you would wish me to record our thanks and appreciation for their achievements in the last financial year.

The success of the Group's strategy, to concentrate on the provision of mobile telecommunications services worldwide, is well demonstrated by the results for 1997/98. Demand for mobile telephony is expected to continue to increase and the Group's strong financial base will enable further progress to be made in 1998/99. A strong market position in the UK and an extensive international presence put Vodafone in an excellent position to continue to deliver sustained growth and increased shareholder value. Chris Gent, with the support of an excellent management team, will continue to develop the businesses and I have every confidence that, with your continued support, Vodafone will prosper still further.

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Sir Ernest Harrison OBE
Chairman



Sir Gerald Whent CBE
Deputy Chairman

Retirement of Sir Ernest Harrison and Sir Gerald Whent

The Company announced in January 1998 that Sir Ernest Harrison had decided to retire as Chairman and as a Director of the Company after the Annual General Meeting on 21 July 1998. In 1983 Vodafone was formed as a subsidiary of Racal Electronics. As Chairman and Chief Executive of the parent company, Sir Ernest ensured that the development of the Vodafone network was given the highest priority in terms of both financial and human resources. He has been the Chairman of Vodafone Group since October 1988 when he led its flotation on the London and New York Stock Exchanges with a value of £1.7 billion. It was his initiative to demerge Vodafone from the Racal Group in September 1991 in order to create increased shareholder value. As he retires from the Board, the Company's Stock Market capitalisation is over £21 billion and it is firmly established as one of the top twenty UK listed Companies.

More recently, the Company announced that Sir Gerald Whent, a non-executive director and Deputy Chairman of the Company, was also retiring at the Annual General Meeting. Sir Gerald was the Chief Executive of the Company from the time of flotation until 31 December 1996, when he took up his present role. It was at Sir Gerald's instigation that Racal applied for the UK cellular network licence in 1983 and, under his leadership, Vodafone became, and has retained the position of, market leader in the UK mobile telecommunications market. He also initiated the Company's bids for licences overseas, creating a valuable portfolio of businesses which now contribute significantly to profits. The Group now serves over 6 million customers, proportionate to its equity stakes, in twelve different countries and is a world leader in mobile telecommunications.

In recognition of the outstanding contributions made by Sir Ernest and Sir Gerald to Vodafone Group Plc, the Board has invited them, upon their retirements, to become honorary Life Presidents of the Company. Their achievements are wholly deserving of this lasting recognition which will enable them to remain associated with the Group that they did so much to create. The Board is delighted that Sir Ernest and Sir Gerald have accepted its invitation and is confident that shareholders will welcome these honours for the Group's founders.

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SUBSIDIARY UNDERTAKINGS

Principal subsidiary undertakings

Vodafone Group Plc had at 31 March 1998 the following subsidiaries carrying on businesses which principally affect the profits and assets of the Group.

Unless otherwise stated Vodafone Group Plc's principal subsidiaries all have share capital consisting solely of ordinary shares and all subsidiaries are directly held; sub-subsidiaries are shown inset. The country of incorporation or registration of all subsidiaries is also their principal place of operation, unless otherwise stated.

Name	Activity	Country of incorporation or registration	Percentage shareholdings
Vodafone Limited ⁽¹⁾	Cellular network operator	England	100
Vodafone Distribution (Holdings) Limited	Holding company	England	100
Vodafone Corporate Limited	Service provider	England	100
Vodafone Connect Limited	Service provider	England	100
Vodafone (NI) Limited	Service provider	Northern Ireland	100
Vodafone Retail (Holdings) Limited	Holding company	England	100
Vodafone Retail Limited	Holding company	England	100
People's Phone Limited	Service provider	England	100
Astec Communications 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	Holding company	Australia	100
Vodafone Network Pty Limited ⁽²⁾	Cellular network operator	Australia	91
Vodafone Pty Limited	Service provider	Australia	91
Talkland Retail Australia Limited	Service provider	England ⁽³⁾	91
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

CV Gemeenschappelijk Bezit

Libertel (7)	Holding partnership	Netherlands	70
Libertel Groep BV	Holding company	Netherlands	70
Libertel BV	Cellular network operator	Netherlands	70
Liberfone BV	Service provider	Netherlands	70
Data Holdings SA	Holding company	Greece	100
Panafon SA (1)(8)	Cellular network operator	Greece	55
Panavox SA (8)	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	Holding company	England	100
Vodafone Paging (Holdings) Limited	Holding company	England	100
Vodafone Paging Limited	Radiopaging network operator	England	100
Page UK Limited	Paging service provider	Scotland	50
Vodafone Satellite Services Limited	Globalstar satellite consortium	England	100
Vodafone Value Added Services Limited	Supply of value added services	England	100
Vodafone Data Network Limited	Packet radio network operator	England	100

1. Indirectly held.

2. Share capital consists of 62,428,159 ordinary shares, 117,598 redeemable preference shares and 2,941,641 A Class shares, of which 95.3% of the ordinary shares and 90.0% of the redeemable preference shares were indirectly held by Vodafone Group Plc.

3. Incorporated in England, principal place of business in Australia from 1 April 1998.

4. Share capital consists of 2 ordinary shares and 14,950 redeemable preference shares.

5. Share capital consists of 2 ordinary shares and 812 redeemable preference shares.

6. Incorporated in South Africa, principal place of business in the Netherlands.

7. Partnership.

8. Statutory accounts drawn up to 31 December due to local statutory requirements.

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ASSOCIATED UNDERTAKINGS AND INVESTMENTS

Principal associated undertakings

Vodafone Group Plc's principal associated undertakings all have share capital consisting solely of ordinary shares unless otherwise stated.

The country of incorporation or registration of all associated undertakings is also their principal place of operation.

The operating subsidiaries of all associated undertakings are wholly owned and shown inset.

Name	Activity	Percentage shareholding(1)	Par value of issued equity	Latest financial accounts	Country of incorporation or registration
Celtel Limited (2)	Cellular network operator	37	Shilling 6.0m	31.3.98	Uganda
Comfone SA (2)	GSM billing and roaming bureau	50	CHF250,000	First period end is 31.12.98	Switzerland
Europolitan Holdings AB(2)	Holding company for cellular network operator	20	SKR102.2m	31.12.97	Sweden
Martin Dawes Telecommunications Limited	Service provider	20	£632,601	31.12.97	England
Mobile Telecom Group Limited (2)	Holding company	20	£7,000	31.3.98	England
Mobile Telecom PLC	Service provider				England
Société Française du Radiotéléphone SA (2)	Cellular network operator	20	FFR6,336.5m	31.12.97	France
Vodafone Fiji Limited(2)	Cellular network operator	49	F\$ 6.0m	31.12.97	Fiji
Vodacom Group (Pty) Limited (2)	Holding company	32	Rand 100	31.3.98	South Africa

Vodacom (Pty) Limited	Cellular network operator	South Africa
Vodac (Pty) Limited	Service provider	South Africa
Vodacom Equipment Company (Pty) Limited	Supply of cellular radio telephone equipment	South Africa

-
1. To nearest whole percentage.
2. Indirectly held.

Principal investments

The shareholdings in investments consist solely of ordinary shares unless otherwise stated. The principal country of operation for the investments is the same as the country of incorporation or registration.

Name	Activity	Percentage shareholding ⁽¹⁾	Country of incorporation or registration
E-Plus Mobilfunk GmbH ⁽²⁾	Cellular network operator	17	Germany
Globalstar L.P. ⁽³⁾	Development of satellite telecommunications service	6	USA

- 1 To nearest whole percentage.
2 Indirectly held.
3 Indirectly held partnership interest

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FIVE YEAR FINANCIAL SUMMARY

Profit and loss

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover	2,471	1,749	1,402	1,153	851
Profit before taxation	650	539	475	371	363
Taxation	203	172	165	133	118
Profit after taxation	447	367	310	238	245
	Pence	Pence	Pence	Pence	Pence
Earnings per share+	13.63	11.89	10.15	7.80	8.11
Dividend for the year+	5.53	4.81	4.01	3.34	2.78

Balance sheet

	£m	£m	£m	£m	£m
Fixed assets	1,912	1,927	1,422	1,102	720
Other net liabilities	(1,532)	(1,098)	(398)	(284)	(22)
Total net assets	380	829	1,024	818	698
Equity shareholders' funds	283	770	1,022	817	698

+ As restated for 1994 capitalisation issue.

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Directors and Secretary of Vodafone Group Plc



CHAIRMAN

Sir Ernest Harrison OBE

Sir Ernest, aged 72, has been the Chairman of the Company since its flotation in 1988. He is also Chairman of Racal Electronics Plc.



CHIEF EXECUTIVE

CC Gent

Aged 50, he joined the Board in 1985 and was appointed Chief Executive in January 1997. He was formerly Managing Director of Vodafone Limited, the UK network operator, and is now Chairman of most of the Group's principal operating subsidiaries.



DIRECTOR

P R Bamford BSc, MA

Aged 44, he was appointed to the Board in April 1998. He is Managing Director of Vodafone Distribution (Holdings) Limited, with responsibility for the Group's wholly-owned service provision companies.

Before joining the Company in 1997, he was a director of WH Smith Group Plc.



NON-EXECUTIVE DIRECTOR

Professor Sir Alec Broers

Aged 59, he is the Vice-Chancellor of Cambridge University and he joined the Board in January 1998. He spent many years with IBM and is a fellow of the Royal Society, the Royal Academy of Engineering, the Institution of Electrical Engineers, the Institute of Physics and is a Foreign Associate of the US National Academy of Engineering.



DIRECTOR

D Channing Williams BA, MBA

Aged 50, he was appointed to the Board in June 1996, having joined the Group in 1985. He is Managing Director of Vodafone Limited and was previously Chairman of the Group companies responsible for value added services, paging and data networks.



DIRECTOR

JM Horn-Smith MSc, BSc (ECON)

Aged 49, he joined the Group in 1984 and was appointed to the Board in June 1996. He is Managing Director of Vodafone Group International Limited and a director of many of the Group's overseas operating companies.



DIRECTOR

KJ Hydon FCMA, FCCA

The Group Financial Director, aged 53, he was appointed to the Board in 1985. He is a director of several Group companies including Vodafone Europe Holdings BV and he also deals with US investor relations.

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NON-EXECUTIVE DIRECTOR

Lord MacLaurin of Knebworth, DL

Aged 61, he was appointed to the Board in January 1997. He was formerly Chairman and Chief Executive of Tesco Plc and is Chairman of the England and Wales Cricket Board. He is a non-executive director of Whitbread Plc.



NON-EXECUTIVE DIRECTOR

Sir David Scholey CBE

Sir David, aged 62, joined the Board in March 1998. He is a Senior Advisor to SBC Warburg Dillon Read, a director of the Bank of England, a Governor of the BBC and a non-executive director of J Sainsbury plc and the Chubb Corporation, USA.



DEPUTY CHAIRMAN

Sir Gerald Whent CBE

Aged 71, he was Chief Executive of the Company until December 1996. He is a non-executive director of Racal Electronics Plc and Mobile Systems International Holdings Limited.

SECRETARY

SR Scott MA, Solicitor

Aged 44, he was appointed to his present position in 1991. Head of the Group Legal Department, he is also a director of the Group's pension trustee



companies.

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REPORT OF THE REMUNERATION COMMITTEE

Composition of the Committee

The Remuneration Committee of the Board is chaired by Lord MacLaurin and consists only of non-executive directors of the Company. Sir William Barlow and Sir Robert Clark served on the Committee until their retirement from the Board. Lord MacLaurin is now assisted by Sir Ernest Harrison, Professor Sir Alec Broers and Sir David Scholey.

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 ensures the right rewards are given to motivate, incentivise and retain the senior executives 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 with the Board 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. 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](#). There are presently no bonuses or other incentive payments.

After a thorough review the Remuneration Committee has recommended to the Board the introduction of two new incentive schemes. These recommendations are to be put to the Company's shareholders at the Annual General Meeting on 21 July 1998 and are the subject of a separate letter to shareholders from the Chairman.

All executive directors are contributing members of the Vodafone Group Directors Pension Scheme, which is a scheme approved by the Inland Revenue. P R Bamford, whose benefits as a new member of the scheme are restricted by Inland Revenue earnings limits, also participates in a defined contribution funded unapproved retirement benefits scheme in order to bring his benefits into line with those of the other executive directors. The normal retirement age for the payment of benefits under the scheme was reduced from 65 to 60 during the year. Details of the salaries and benefits of all the directors are set out in the table [Remuneration for the year to 31 March 1998](#). A separate table shows the [pension benefits earned by the directors in the year](#).

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.

Executive share ownership

The Remuneration Committee believes 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 almost three 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 at the date of grant. The savings related share option scheme permits employees 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, other than P R Bamford, participate in each of the share schemes. Share options are analysed in the [Share options table](#).



Service contracts

The Remuneration Committee has determined that new appointments of executive directors to the Board will be on the terms of a contract which can be terminated by the Company at the end of an initial term of two years or at any time thereafter on one year's notice. Contracts on such a basis were granted to D Channing Williams and J M Horn-Smith on 4 June 1996, to C C Gent and K J Hydon on 1 January 1997 and to P R Bamford on 1 April 1998. 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.

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 remained 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.

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 and Sir Gerald will be retiring from the Board after the Company's Annual General Meeting on 21 July 1998 and their respective agreements will terminate at that 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.

Remuneration for the year to 31 March 1998

	Salary/fees		Benefits		Total	
	1998	1997	1998	1997	1998	1997
	£000	£000	£000	£000	£000	£000
Chairman						
(Non-executive)						
Sir Ernest Harrison	213	202	25	25	238	227
Chief Executive						
C C Gent	587	400	26	30	613	430
Executive directors						
D Channing Williams	344	211	25	21	369	232
J M Horn-Smith	326	205	18	16	344	221
K J Hydon	319	267	25	30	344	297
E J Peett(2)	235	306	36	37	271	343
Non-executive directors						
Sir Gerald Whent(3)	104	617	--	61	104	678
Sir William Barlow	48	46	--	--	48	46
Professor Sir Alec Broers(4)	12	--	--	--	12	--
Sir Robert Clark	48	46	--	--	48	46
Lord MacLaurin(1)	48	12	--	--	48	12
Sir David Scholey(4)	4	--	--	--	4	--
Former directors	--	118	--	6	--	124
	2,288	2,430	155	226	2,443	2,656

Notes

1. 1997 salary and benefits information for D Channing Williams, J M Horn-Smith and Lord MacLaurin is stated from the date of their appointment to the Board.
2. Salary and benefits for E J Peett are for the period to 31 October 1997 when he retired from the Board. He subsequently received £458,334 and benefits in kind with an estimated value of £6,537.
3. Sir Gerald Whent retired as Chief Executive on 31 December 1996 and was appointed non-executive Deputy Chairman from 1 January 1997.
4. Salary information for Professor Sir Alec Broers and Sir David Scholey is stated from the dates of their appointment to the Board.
5. P R Bamford joined the Board on 1 April 1998.

Pension benefits earned by the directors in the year to 31 March 1998

Name of Director	Increase in accrued pension during the year (£)	Transfer value of increase in accrued pension and change in retirement age (£)	Accumulated total accrued pension at year end (£)
C C Gent	53,800	911,000	173,300
D Channing Williams	36,200	678,000	119,900
J M Horn-Smith	28,600	497,000	113,900
K J Hydon	28,800	497,000	135,400
E J Peett(2)	19,800	707,000	--

Notes

1. 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.
2. Pension benefits for E J Peett are for the period to 31 October 1997 when he retired from the Board. On that date his accrued pension entitlement was £195,000.

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(1). Sir Ernest Harrison, Sir William Barlow, Professor Sir Alec Broers, Sir Robert Clark, Lord MacLaurin, Sir David Scholey and Sir Gerald Whent may have no options under any of these schemes. The Remuneration Committee has resolved that, except under the savings related scheme, no shares will be offered at a discount in future grants of options.

	Options held at 1 April 1997	Options granted during the year to 31 March 1998	Options exercised during the year to 31 March 1998	Options held at 31 March 1998	Weighted average exercise price at 31 March 1998 (£)	Date from which exercisable	Latest expiry date
C C Gent	716,111	196,475	Nil	912,586	2.09	7/96	7/05
D Channing Williams	410,944	116,075	152,400	374,619	2.48	7/98	7/05
J M Horn-Smith	578,044	253,775	361,800	470,019	2.48	7/97	7/05
K J Hydon	325,429	211,675	Nil	537,104	2.32	7/96	7/05
Sir Gerald Whent(2)	1,283,500	Nil	1,283,500	Nil	--		
	3,314,028	778,000	1,797,700	2,294,328			

These options by exercise price were:

Option price (p)	Options held at 1 April 1997	Options granted during the year	Options exercised during the year	Options held at 31 March 1998
Executive scheme and unapproved scheme				
86.7	144,600	--	144,600	--
101.7	601,500	--	601,500	--
107.0	462,300	--	462,300	--
118.0	3,300	--	3,300	--
124.7	37,200	--	12,000	25,200
125.7	76,500	--	76,500	--
138.7	86,100	--	86,100	--
141.7	11,700	--	10,200	1,500
146.3	198,300	--	122,700	75,600

150.0	6,900	--	6,900	--
166.3	518,400	--	134,100	384,300
176.3	312,600	--	20,700	291,900
198.5	192,900	--	15,800	177,100
233.5	219,200	-	49,700	169,500
241.5	417,100	--	51,300	365,800
293.5	--	766,500	--	766,500

Savings related scheme

142.0	14,571	--	--	14,571
186.0	3,708	--	--	3,708
193.0	7,149	--	--	7,149
240.0	--	11,500	--	11,500
	3,314,028	778,000	1,797,700	2,294,328

Notes

1. E J Peett retired as a director on 31 October 1997 and, accordingly, the information in the above tables does not include details of his options in the executive scheme and the unapproved scheme. At 31 October 1997 he held a total of 125,500 options in the executive scheme at an average exercise price of 205.8p per share and 108,200 options in the unapproved scheme at an average exercise price of 241.5p per share and he had a period of twelve months from that date to exercise the options. P R Bamford joined the Board on 1 April 1998 at which time he held options over 10,200 and 175,100 shares in the executive scheme and unapproved scheme respectively at an exercise price of 293.5p per share, the options being exercisable from 9 July 2000.
2. Sir Gerald Whent, who retired as Chief Executive on 31 December 1996, had a period of twelve months from that date to exercise options in the executive scheme and the unapproved scheme.

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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.

Under the executive scheme and the unapproved scheme in the year to 31 March 1998, the following options were exercised by directors of the Company:

	Options exercised during the year	Option price (p)	Market price at date of exercise (p)	Gross pre-tax gain (£)
Sir Gerald Whent	134,400	86.7	308.0	297,428
	403,200	101.7	308.0	831,802
	368,700	107.0	308.0	741,087
	75,600	125.7	308.0	137,819
	76,200	138.7	308.0	129,007
	6,600	141.7	308.0	10,976

	30,300	146.3	308.0	48,996
	71,700	166.3	308.0	101,599
	15,800	198.5	308.0	17,301
	49,700	233.5	308.0	37,027
	51,300	241.5	308.0	34,115
	1,283,500			2,387,157
D Channing Williams	4,800	124.7	333.0	9,999
	3,600	141.7	333.0	6,887
	70,800	146.3	333.0	132,184
	2,700	150.0	333.0	4,941
	62,400	166.3	333.0	104,021
	8,100	176.3	333.0	12,693
	152,400			270,725
J M Horn-Smith	10,200	86.7	300.0	21,757
	198,300	101.7	300.0	393,229
	93,600	107.0	300.0	180,648
	3,300	118.0	300.0	6,006
	7,200	124.7	300.0	12,622
	900	125.7	300.0	1,569
	9,900	138.7	300.0	15,969
	21,600	146.3	300.0	33,200
	4,200	150.0	300.0	6,300
	12,600	176.3	300.0	15,587
	361,800			686,887

The aggregate gross, pre-tax gains made on the exercise of share options in the year by the Company's directors was £3,344,769.

The closing middle market price of Vodafone Group Plc's shares at the year end was 624.5p, its highest closing price in the year, its lowest closing price having been 266.5p.

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Director's 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 1998	1 April 1997		31 March 1998	1 April 1997
Sir Ernest Harrison	1,090,000	1,090,000	J M Horn-Smith	100,108	44,447
C C Gent	120,313	116,157	K J Hydon	212,843	205,052
Sir Gerald Whent	532,605	532,605	Lord MacLaurin	6,500	1,000
Professor Sir Alec Broers	--	--	Sir David Scholey	10,000	--
D Channing Williams	32,610	37,390			

Sir William Barlow and Sir Robert Clark both retired from the Board on 31 March 1998, at which time each had an interest in 15,000 shares (1997 - 15,000 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 2 June 1998 except that J M Horn-Smith and K J Hydon acquired 1 and 17 shares respectively through reinvestment of tax reclaims in Vodafone Group Personal Equity Plans and the following directors acquired interests in shares of the Company under the Vodafone Group Profit Sharing Scheme, as follows:

	Interests in Ordinary Shares		Interests in Ordinary Shares
C C Gent	370	J M Horn-Smith	409
D Channing Williams	410	K J Hydon	410

No director had, since 1 April 1997, any interest in the shares of any subsidiary company.

Compliance

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 of the London Stock Exchange 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. In their [audit report](#) the auditors have confirmed that they have audited the detailed information disclosed in respect of directors' remuneration and share options set out in this Report.

Lord MacLaurin of Knebworth

Chairman of the Remuneration Committee

2 June 1998

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REPORT OF THE DIRECTORS

The directors submit their annual report and audited financial statements for the year ended 31 March 1998.

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 [Chairman's statement](#) and the [Review of Operations](#) and [Financial Review](#).

Future developments

The Group is currently involved in the expansion and development of the cellular telecommunications and related businesses as described in the [Chairman's statement](#) and the [Review of Operations](#) and [Financial Review](#).

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 as required by the Listing Rules of the London Stock Exchange. The Board has also reviewed and considered the Report of the Committee on Corporate Governance issued in January 1998 and although the requirements on companies of many of its recommendations are the subject of a consultation document recently issued by the London Stock Exchange the principles of corporate governance set out in the Report are applied by the directors in their leadership and control of the Company. Please see the [Review report by the auditors on corporate governance](#).

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 below.

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.

Assessment of business risk

Major business risks are identified and evaluated by the directors when setting 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;
- Forecasts, revised on a quarterly basis, compared against budget;
- Monthly management accounts with a comparison against latest quarterly forecast and 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 reviews of all the Group's investments are conducted on a regular basis.

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.

Share capital

A statement of changes in the share capital of the Company is set out in [note 17](#) 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 2.82p per ordinary share amounting to £86.9m payable on 14 August 1998 to shareholders on the register of members at close of business on 12 June 1998. An interim dividend of 2.71p per ordinary share was paid during the year, producing a total for the year of 5.53p per ordinary share. A scrip dividend alternative to the cash dividend is available and further details are set out in the [Company's Scrip Dividend Scheme](#).

Charitable and political contributions

During the year, the Group made charitable donations amounting to £373,000, principally through the Vodafone Group Charitable Trust which makes contributions primarily to medical research, the disabled, the socially deprived, education, the arts and environmental causes.

Recipients of significant donations during the year included Cancer BACUP, Cystic Fibrosis Trust, Help the Aged, Meridian Broadcasting Charitable Trust (for Mental Health Week), National Meningitis Trust, Variety Club Children's Charity, Ronald Raven Trust, Brain Research Trust, Cancer Research Oxford Appeal and the Stroke Association. The Vodafone Group Charitable Trust was chaired by Sir William Barlow until his retirement on 31 March 1998, when Professor Sir Alec Broers became Chairman of the trustees.

No political donations were made during the year.

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 34 days in aggregate for the Group.

The Company did not have any trade creditors at 31 March 1998.

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Research and development

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

Directors

The Company presently has ten directors, seven of whom served throughout the year ended 31 March 1998. Their biographical details are set out briefly. Five of the directors, Sir Ernest Harrison (the Chairman), Sir Gerald Whent (the Deputy Chairman), Professor Sir Alec Broers, Lord MacLaurin and Sir David Scholey, served as non-executive directors. The five executive directors are C C Gent (the Chief Executive), P R Bamford, D Channing Williams, J M Horn-Smith and K J Hydon. P R Bamford was appointed to the Board with effect from 1 April 1998. Professor Sir Alec Broers and Sir David Scholey joined the Board on 1 January 1998 and 1 March 1998 respectively. E J Peett retired from the Board in October 1997 and Sir William Barlow and Sir Robert Clark retired from their positions as non-executive directors on 31 March 1998.

In accordance with the requirements of the Company's Articles of Association, D Channing Williams and J M Horn-Smith will retire by rotation at the Company's Annual General Meeting and, being eligible, will offer themselves for re-election. P R Bamford, Professor Sir Alec Broers and Sir David Scholey will also retire at the Annual General Meeting and offer themselves for re-election, having joined the Board since the date of the last Annual General Meeting and therefore being required to offer themselves 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 standing Board committees are the Audit Committee, the Nominations Committee and the Remuneration Committee. The Audit Committee, which usually meets on three occasions in the year, is chaired by Sir Ernest Harrison. Sir William Barlow and Sir Robert Clark served on the Audit Committee until their retirements from the Board in March 1998, since when Lord MacLaurin and Sir David Scholey have become Committee members. The Nominations Committee meets as required under the chairmanship of Sir Ernest Harrison. Lord MacLaurin and C C Gent also serve on this Committee, Sir William Barlow and Sir Robert Clark having done so until March 1998. The Remuneration Committee is chaired by Lord MacLaurin and he is joined by Sir Ernest Harrison, Professor Sir Alec Broers and Sir David Scholey. Sir William Barlow and Sir Robert Clark served on this Committee until their retirements in March 1998.

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;
- Team briefing - a systematic method of employee communication covering all employees, at 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 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 all

employees, irrespective of their length of service, to acquire Vodafone Group Plc shares on an advantageous basis. These schemes are highly regarded by staff and over 50% of 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 acquire shares in the Company through 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.

In addition to the two schemes just described, the Company also has two discretionary share option schemes. The directors have decided to use these schemes to award share options to all staff on the Company's payroll on 1 July 1998. These special 'Millennium Options' will be granted in July 1998 and will be exercisable from July 2001.

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.

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.

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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.

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, principally tax advice and due diligence reporting on acquisitions, or where they win work on a competitive basis. During the year Deloitte & Touche charged £2.6m for non audit assignments compared to £1.4m charged by seven other audit firms employed by the Group.

Substantial holdings

The directors are not aware of any holding in the ordinary share capital of Vodafone Group Plc which, at 2 June 1998, 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 4.2%, Schroder Investment Management Limited has a holding of 5.3%, Mercury Asset Management has a holding of 3.5% and the Prudential Corporation group of companies has a holding representing 3.1%.

By Order of the Board
Stephen Scott
Secretary
2 June 1998

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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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Introduction



C C Gent
CHIEF EXECUTIVE

Vodafone estimates that this demand will lead to penetration levels that exceed 50% of the population in all markets in the developed world and that mobile telephony will become the preferred means of personal communications.



During the last financial year, the Vodafone Group continued to focus its business activities on satisfying the huge demand that continues to exist for mobile telecommunications services on an international basis. Vodafone estimates that this demand will lead to penetration levels that exceed 50% of the population in all markets in the developed world and that mobile telephony will become the preferred means of personal communications.

The scale of this opportunity is such that it should lead to substantial growth in profit and operating cash flow for the Vodafone Group over the next five years.

In this context, the advances that have been made by Vodafone's international operations over the last year are highly significant and the process of generating international earnings that are on a par with those from the UK is well under way.

The Group's strategy for international investments is to further develop existing businesses, build shareholdings in associates and, where appropriate, bid for new licences and make acquisitions. This has already had a positive effect on the Group's financial performance.

In the last year, overall international customer growth exceeded expectations with more than 1.25 million customers being added and international operations contributed 17.8% of total Group operating profit, against 3.3% in the previous year.

In the UK, the Group is committed to maintaining the strength of its core businesses. As part of this commitment, a major review of operations was initiated in early 1997, to ensure that Vodafone continues to maintain market leadership and to remain at the leading edge of mobile telephony, not just in technical terms but also in the way it is able to respond both to customer needs and market opportunities.

In particular, the state of market development and size of opportunity led Vodafone to revise its approach to market growth. Action was taken to stimulate and enlarge the market whilst continuing to provide the highest quality of service from the network.

● Vodafone is now firmly focused on customer service, total quality and value for money ●

Changes have been implemented to the

channels of distribution that the Group uses to reach its customers. Historically, Vodafone had acquired a number of service providers with disparate brand names, all of which had a high street presence. All these operations have now been consolidated under the single Vodafone brand and the business rationalised to provide three discrete channels of distribution. These are Vodafone's own retail operations, a channel to meet the needs of corporate customers and a channel to sell through independent distributors and the retail multiples. Full details of these changes and the positive impact that they have had on Vodafone's business can be seen in the other sections of the Review of Operations.

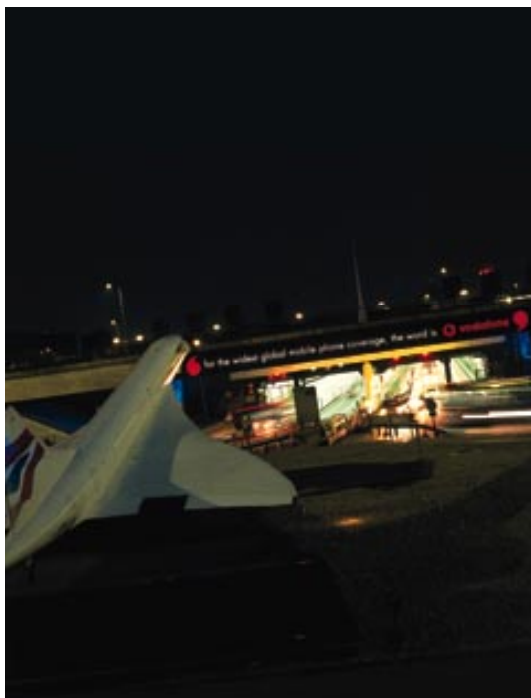
Concurrently, Vodafone also reviewed the way it was perceived in the marketplace and how its core identity could be more powerfully expressed. This resulted in a new corporate identity for Vodafone and, therefore, in little more than six months, a new strategy and a new corporate identity were developed, both of which were formally announced in July. As a consequence, Vodafone is now firmly focused on customer service, total quality and value for money.

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The UK Network



Vodafone Limited had a good year, adding 563,000 customers to give a year-end total of over 3.4 million, a market share of 38%.

Performance highlights

Vodafone Limited had a good year, adding 563,000 customers to give a year-end total of over 3.4 million, a market share of 38%.

Taking digital alone, Vodafone extended its considerable market lead, growing by 1.1 million customers to a total of 2.6 million. Digital customers now represent 82% of the UK market and have increased to 75% of the Vodafone customer base as migration from the analogue network continues to be encouraged.

Average revenue per customer (excluding 'Pay As You Talk') has remained constant at £427 over the last year - a significant statistic in the light of tariff reductions - and substantially ahead of Vodafone's key competitors on a like for like basis.

Compared with an average figure for Scandinavia of 39%, overall market penetration in the UK remains relatively low at 16%, giving scope for continued growth.

Analogue churn continued to be high as these customers tended to churn to digital rather than migrate. Digital churn remains at around 20%, but the promotion of loyalty schemes, increasingly competitive tariffs and enhanced customer service are expected to have a beneficial effect on the level of churn in the future.

Key developments

There have been a number of initiatives this year that have already had a significant and positive effect on trading and which are set to sustain still further growth in the future.

These included increased capital investment in the network to improve quality of service, a change in market focus, a new image and corporate identity, along with a major advertising initiative to communicate the new set of values, simplified and reduced tariffs and the introduction of the 'Pay As You Talk' service to expand the market into a new sector.

Increased Capital Expenditure

Vodafone increased the level of capital expenditure on network infrastructure to keep ahead of the growing demand for mobile phone services and to maintain the reliability and quality of the network. In addition, Vodafone has installed base stations in key areas such as the terminal buildings at Heathrow Airport and at the NEC and Olympia exhibition centres.



Marketing

In order to increase market penetration in the UK to the levels that already exist in other parts of the world, a significant change took place in Vodafone's marketing strategy. The objective was to focus not only on the increasingly mature business market but also on the fast-growing mass consumer sector.

- **The objective was to focus not only on the increasingly mature business market but also on the fast-growing mass consumer sector**



Unobtrusive base station (top right) in a

The research undertaken prior to the redesign of the corporate identity established the need to communicate new brand values to this mass market audience.

As a result, the year saw the biggest national advertising campaign ever mounted by Vodafone. Based around the new identity, it played a major part in establishing the new image and stimulating the consumer market. The theme 'The word is Vodafone' was designed to underline the proposition that the Vodafone network appeals to people from all sectors of society and strongly reinforced Vodafone's leadership in conveying more calls, and hence more words, than any other mobile network.

departure lounge at Heathrow Airport.

Tariffs

Significant tariff reductions took place during the year as part of the Company's aim to be recognised as not only the best quality network in the UK, but also the best value for money. It is expected that these simplified, better value tariffs will continue to stimulate growth, reduce churn and increase usage - all within the context of rapid growth in the overall market.

'Pay As You Talk'

One of the most important developments during the year was the launch of 'Pay As You Talk' in November 1997, the upgraded version of the original 'Prepay' service launched in October 1996. This service is set to revolutionise the mobile telecommunications market, making mobile telephony accessible to a whole new sector of the market and it has already enjoyed significant success.

- **The combination of the revitalised and expanded channels of distribution and the new 'Pay as you Talk' service resulted in a record last quarter in 1997, with 241,000 net new connections**

'Pay As You Talk' is easy for the retailer to sell, as the whole product comes in a single box, requiring little additional sales input over and above the carefully designed 'point of sale' material.



'Pay As You Talk' packaging and contents.

'Pay As You Talk' is also very easy for the consumer to buy, avoiding the need for a written contract and putting customers totally in charge of how much they choose to spend on a continuing basis. Early indications are that these customers are significant ongoing users of the service.

The combination of the revitalised and expanded channels of distribution and the new 'Pay As You Talk' service resulted in a record last quarter in 1997, with 241,000 net new connections. Of these, prepaid totalled 68,000 with 57,000 coming in December alone - making it Vodafone's best-ever December. This success was not just a Christmas phenomenon, as January 1998 became, in turn, the company's best-ever January.

Other initiatives

Community and Environment

Vodafone continues to be committed to reducing the impact of technology on the environment wherever possible and recent initiatives include a programme to harmonise base stations with their environment.

On the community front, Vodafone is significantly involved in the Highlands and Islands project in Scotland, which is developing mobile telecommunications coverage for remote communities.



The Highlands and Islands project in Scotland now provides coverage for this salmon farm on Loch Ness.

Loyalty

A significant additional benefit of taking greater control of distribution is that it provides a much greater level of knowledge about customers. This knowledge creates the opportunity to enhance customer loyalty and will enable an increase in the marketing of additional services in the years to come.

The Vodafone loyalty scheme, which offers Air Miles as a reward to customers, remained popular and will continue to form part of the Company's marketing programme.

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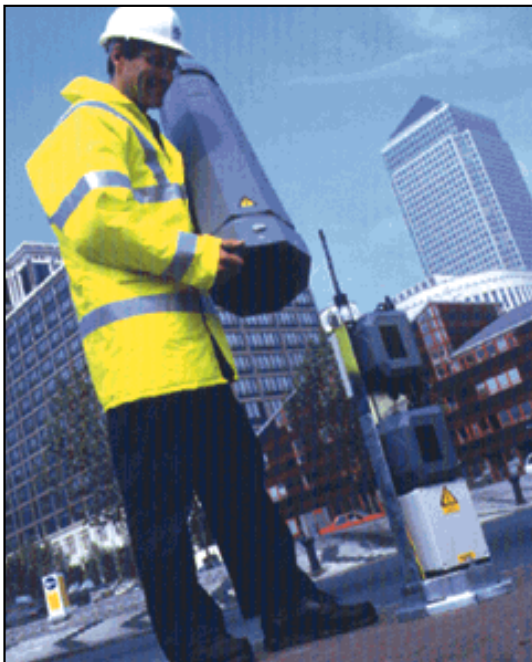


Value Added Service companies

“ These companies continued to expand their business activities which complement Vodafone's other UK network and service activities through provision of specialist value added and data services. ”

British Gas uses the Vodafone Network for data transmission and in so doing have been able to significantly reduce its administrative staff levels and increase productivity.

These companies, Vodafone Value Added Services, Vodafone Data Network and Vodafone Paging, continued to expand their business activities which complement Vodafone's other UK network and service activities through the provision of specialist value added and data services.



Thames Water uses Radio-Pads supplied by Vodafone Data Network set inside street bollards to monitor pressure and flow as part of its ongoing investment programme.

Vodafone Value Added Services expanded its highly successful 'Recall' voice messaging service, which now has approximately 2 million users, making it one of the UK's leading providers of voicemail and a significant contributor to network traffic. Data and messaging calls have nearly trebled in the last year. Data Direct, the specialist mobile data operation, won a number of important new accounts and is well positioned for further growth as a result of its innovative approach to the delivery of mobile data solutions into the corporate sector.

Vodafone Data Network extended its business into new market segments, achieving breakthroughs in the water industry with a number of major contracts. This was in addition to the growth of traditional business in the retailing, security and electricity sectors. The company's user base was over 60,000 at the year end.

Vodafone Paging maintained its market share in the traditional contract paging market and increased its total customer base to almost 400,000.

An exciting new range of 'Zap!' pagers was introduced during the year which, with the development of innovative uses of the Internet, helped to promote the growth of the 'Zap!' service.



'Zap!', the nationwide Calling Party Pays paging service, is specifically aimed at the youth market.

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Distribution

This network of 240 outlets is the biggest and only truly national chain of mobile phone shops in the UK and puts the Vodafone brand prominently and powerfully onto the high street

The Vodafone retail store in Oxford Street, London.

In July 1997, the Group announced a reorganisation of its six wholly-owned UK service providers into three distribution businesses operating under the single, new Vodafone identity. Each of these businesses focuses on a particular market segment and channel of distribution. These are:

Vodafone Retail

concentrating on consumers and small to medium sized businesses
through 240 owned specialist retail shops.

Vodafone Connect

addressing individual consumers and small to medium sized businesses
through independent retailers and dealers.

Vodafone Corporate

targeting major corporate accounts through a direct sales force.

The purpose of these changes was to give the Group a closer focus on its customers and, by understanding them more clearly, the ability to provide services that more closely match their needs.

Vodafone has embarked on a programme to transfer existing customers into the new businesses and, ultimately, onto a single customer management system.

Significant progress has been made and the majority of customers have been moved into the appropriate businesses without disruption.

Vodafone Retail

Prior to July 1997 Vodafone had acquired a number of companies operating retail shops under several different brands. All these high street outlets now operate under the Vodafone name and have a single store format in line with the new corporate identity.

This network of 240 outlets is the biggest and only truly national chain of mobile phone shops in the UK and puts the Vodafone brand prominently and powerfully onto the high street. Further outlets will be opened in major town and city centres.

As well as trading under a common brand name, all 240 outlets now have their 'back office' systems controlled centrally.

● **These outlets, which reach customers that would not usually consider visiting a specialist mobile phone shop, are key to achieving continued substantial growth over the coming years ●**

The development of clear and simple in-store customer information, backed up by high-quality service, is designed to make Vodafone the number one choice in the rapidly expanding retail market.

Vodafone Connect

The Connect business subdivides into two main parts - specialist independent dealer businesses and the multiple retailers who have not traditionally sold mobile phones.

The objective is to provide dealers with a full range of support programmes within a consistent, managed framework, whilst gaining the full benefits that come from entrepreneurial businesses.



A Mobile Phone Centre franchise.

Mobile Phone Centre Limited (MPC), in which Vodafone raised its share from 45% to 100% during the year, offers a franchise brand to selected dealers. By the year end 64 shops were operating under this banner, with further expansion planned.

Vodafone Connect is an important distributor of 'Pay As You Talk', through its agreements with multiple retailers. These relationships have already succeeded in opening up a whole new market for Vodafone.

Distribution has expanded into Woolworths, Argos, Comet and AA shops, with further trials under way. These outlets, which reach customers that would not usually consider visiting a specialist mobile phone shop, are key to achieving continued substantial growth over the coming years.

Vodafone Corporate

The corporate market is substantially different from those served by Vodafone Retail and Vodafone Connect. Its customer, often a professional Telecoms Manager, is increasingly looking for more sophisticated products and services, including combined voice and data solutions and sometimes encompassing combined mobile and fixed telephony.

Vodafone Corporate has been created specifically to handle the requirements of these demanding customers and to maintain Vodafone's leadership in this critically important market sector.

As part of this process, sales and customer services teams have been reorganised to provide greater focus on, and more comprehensive support for, key accounts.

• **As part of this process, sales and customer service teams have been reorganised to provide greater focus on, and more comprehensive support for, key accounts.** ●



'Pay As You Talk' point of display in Woolworths.

The company is also developing commercial relationships with both Energis and Racal Telecom to resell their fixed telephone services.

These relationships, together with new products and tariffs being developed by the network, will ensure that the needs of corporate customers continue to be well served.

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International

Panafon's network now provides extensive coverage of the Greek Islands

Performance highlights

Vodafone's international activities continue to go from strength to strength, confirming Vodafone's position as a major multi-national network operator.

Over £2 billion has been invested in international operations since the start of the Group's overseas activities in 1989 and the companies in which the Group holds interests are licensed to serve some 300 million people.

Strategy

Vodafone's international strategy is designed to achieve substantial growth which should see Group earnings from overseas on a par with those from the UK within the next five years.

International operations will continue to expand by bidding for new licences, by acquisition and by developing existing businesses.

● **The group is committed to a policy of converting investments to associates, and associates to subsidiaries, wherever this is possible and where to do so is expected to enhance shareholder value.** ●

The Group is committed to a policy of converting investments to associates, and associates to subsidiaries, wherever this is possible and where to do so is expected to enhance shareholder value. In the last year, this has seen the Group increase its investment in Libertel Groep BV in the Netherlands by 35% to 70%, making it a subsidiary, as well as raise its shareholding in Société Française du Radiotéléphone SA in France to 20%.

● **Vodafone's international activities continue to go from strength to strength, confirming Vodafone's position as a major multi-national network operator.** ●

Vodafone sold its 35% stake in Pacific Link to Hong Kong Telecom CSL, in December 1997, at a profit.

Territory highlights

Continental Europe

Société Française du Radiotéléphone SA in France has seen a phenomenal growth in its customer base, up 128% in the year to a total of 2.5 million, of which some 138,000 are using the company's prepaid service. This increase can be attributed to a combination of tariff reductions, strong market growth and very focused management.

SFR is now profitable and the extensive rollout of the network that has taken place puts it in a strong position to compete effectively with its two rival networks.

E-Plus Mobilfunk GmbH in Germany continues to make progress towards break-even. It has achieved the formidable task of constructing more than 6,200 base stations since its launch in 1994, creating one of the largest cellular networks in Europe.

E-Plus now has more than 1.2 million customers - a growth of 125% in the year.

Panafon SA in Greece has had a profitable year, achieving strong growth in its customer base to a total of 623,000, an increase of 257,000, representing a market share of 58%. In common with other territories, Panafon launched its prepaid service in the course of the year and this new service is already making a positive contribution to the company's results. Panafon's network now provides extensive coverage of the Greek Islands which is particularly important to tourists wishing to use their GSM mobile phones.

A third mobile phone operator was licensed in Greece during the year although this had little effect on Panafon.

A minority shareholding of Panafon may be listed on the Athens Stock Exchange during 1998, but it will continue to be a subsidiary of the Group.



354,000 new customers have joined the Libertel network during the year.

Libertel BV in the Netherlands performed strongly, passing through break-even during the year.

Libertel has a 31% market share but succeeded in taking 40% of net customer additions in the year. This equates to an increase of 354,000 customers over the year, a 129% growth, giving a total customer base of 629,000.

Libertel launched its prepaid service ahead of the competition and already has 90,000 customers, with the expectation of continued strong growth.

Europolitan Holdings AB in Sweden serves one of the world's most heavily penetrated cellular markets, with 38% of the population owning mobile phones, a figure that continues to grow. Europolitan achieved 61% growth in the year, with over 472,000 customers by the end of March 1998. Europolitan has significantly improved its earnings and is cash generative and paying dividends.

Vodafone Malta Limited (formerly Telecell Limited) continues to be profitable and has enjoyed good growth over the last twelve months, assisted by the successful launch of the GSM service in July 1997.

Key roaming agreements are now in place ahead of the 1998 tourist season and the company should benefit from the increased usage of the network by visitors.

Pacific Rim

Vodafone Network Pty Limited in Australia had an excellent year, marked by a significant improvement in both financial performance and market share. The strategy implemented last year to strengthen the management team and expand distribution channels is now bearing fruit, with the network operation passing break-even in the first quarter of 1998 and its customer base now exceeding 545,000.

The company's network is entirely digital, so is well placed to gain a significant share of the remaining 2 million analogue users who are expected to switch to digital as the analogue frequencies are removed from service over the next three years.

As in the UK, the Group's increasing emphasis on distribution has led to the three loss-making service providers being refocused into a single service provision business under the Vodafone brand name. The progress made in the last year should mean that the Australian businesses achieve overall profitability in 1998/99.

Vodafone Fiji Limited is trading profitably and benefits from tourists using the network.



Vodafone Malta Limited launched its GSM service during the year.

Rest of the world

Vodacom Pty Limited in South Africa has enjoyed spectacular growth in the last year and now has 979,000 customers, representing an increase of 77% in the year and a market share of 55%. This is largely due to the success of the 'Vodago' prepaid product which has a customer base of 262,000, emphasising the importance of this type of product in South Africa.

Vodacom is profitable and should be cash flow positive during 1998.

The Vodafone Group's twin commitments to the community and the environment have no better expression than in the continued provision of community services to the less privileged and in the development of ecologically friendly base stations.

Celtel Limited in Uganda is a small, profitable operation with a customer base of almost 7,000 users.

In **Egypt**, the Misfone consortium, in which the Group



Vodacom's Community PhoneShop initiative gives previously disadvantaged communities the ability to make telephone calls.

has a 30% interest, was awarded a licence in March 1998 to operate Egypt's second GSM network. The new network is expected to open for service later in the 1998/99 financial year.

Satellite

The Group reduced its interest in the **Globalstar** partnership, which is developing a worldwide digital telecommunications service based on a constellation of low earth orbit satellites, from 6.1% to 5.2%, generating a profit of £11.3m. To date, eight of the constellation of forty eight satellites (plus eight in-orbit reserve satellites) have been successfully launched and full commercial service is planned for the middle of 1999. Handsets will access both satellite and terrestrial networks and will automatically switch to the satellite based service when outside terrestrial coverage.



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The AA Vodafone Roadwatch service provides 24 hour traffic and travel information.

Community and Environment

Community

Mobile telephony has the ability to transform communications not just for individuals, but for whole communities. Vodafone is fully aware of the way its products and services can contribute to community life and takes great pride in its reputation as a good corporate citizen. The Group supports its world-wide communities, not only with financial resources, but also with products and services and the many and varied skills of its employees. For many organisations this in-kind support is as valuable as financial contributions. Vodafone focuses resources on projects and programmes that build on its expertise as a global leader in communications and channels support to areas where it will have a high value and do most good.

During the year Vodafone donated over 150 computers to schools close to its Newbury Headquarters. Education in the area also benefited from a donation of over £100,000 to assist with the re-siting of Newbury College, the town's primary adult educational establishment. Potential victims of crime are able to use the Vodafone 'hotline to help' Safelink scheme, under which police issue people believed to be at greatest risk with a pre-programmed Vodafone which can be used to summon police help in seconds if an individual is threatened.

The Safelink scheme is now used by 14 police forces throughout the UK. Members of disabled drivers clubs can own a specially adapted Vodafone without paying any monthly line rental, enabling them to summon assistance in case of a roadside breakdown. Drivers in general throughout the UK benefit from the Vodafone sponsorship of the AA Vodafone Roadwatch service which provides 24 hour traffic and travel information to radio stations nationwide.

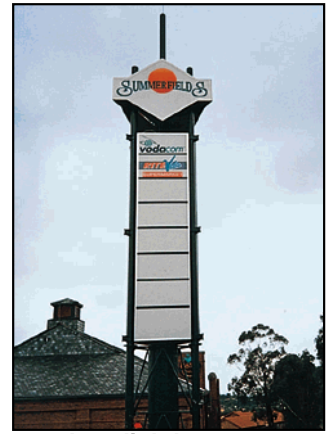
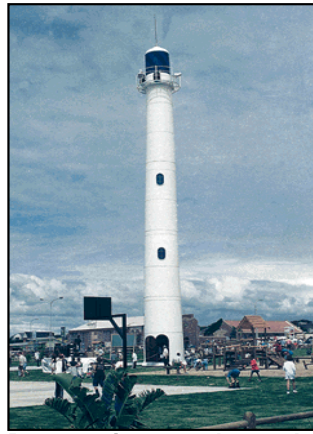
Active community programmes are continually being developed to ensure the prosperity of neighbouring communities. Support is given for a multitude of local community cultural, sporting, educational and fund raising events. The broad range of community activities that receive support from Vodafone, be they major projects needing a large financial commitment, or smaller scale support, help to develop a sense of belonging and keep the general and business communities working together to create positive influences on the world around us.



A base station in Johannesburg disguised as a palm tree.



A simulated conifer tree base station, sited harmoniously in an area of natural beauty.



Base stations can be unobtrusively sited on existing structures such as lighthouses, windmills or advertising hoardings.

Environment

The Group is committed to responsible environmental practices in the interests of the community. Environmental issues raised through the operation of its businesses are actively managed by the appropriate company. In particular, the building and operation of a Public Service Telecommunications Network covering much of the geographical land mass and population of a country gives rise to the need for a substantial number of base stations to enable the service to satisfy customer demand. Each base station needs a separate physical location and the environmental impact of the equipment is of paramount consideration.

The Group operates a programme of evaluation of smaller and less visually intrusive masts, control equipment and antennas which do not compromise the levels of service provided to its customers. Technological advances in antenna manufacture have allowed Vodafone to use lightweight, slimline masts which can be painted and easily landscaped to minimise their visual impact and make them blend into an urban or rural landscape. During 1997 Vodafone introduced its first antenna to be disguised as a tree, which is sited amongst trees in an Area of Outstanding Natural Beauty. Tests are ongoing to further develop this idea. In urban areas, Vodafone has introduced Micro Base Stations similar in visual impact to a burglar alarm. Vodafone has an active policy of sharing sites and structures with other operators. As a result:

- In the UK, 90% of the lattice masts Vodafone has installed are capable of supporting additional operators' antennas
- 40% of these masts are shared by other operators
- Over 60% of Vodafone's UK antennas are located on other operators' towers, buildings or other existing structures such as water towers, floodlights and grain silos, which avoids the need to erect a new mast.

The Group's policy is to actively manage environmental issues using the following guidelines:

- To use technology that is not known to be harmful to people or the environment
- To endeavour only to purchase environmentally friendly products
- To endeavour to recycle waste wherever practical
- To minimise the use of harmful CFCs

- To preserve areas of nature conservation
- To ensure all reasonable efforts are made to minimise the visual impact of the Company's equipment.

Environmental policy is under continual review and is intended to lead to the introduction of an environmental management system in accordance with BS7750 and ISO 1400.

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Profit and loss account

Turnover

Group turnover for the financial year increased by 41% to £2,470.8m, up 23% excluding the effects of acquisitions. This increase included £62.8m as a result of the acquisition of a controlling interest in the Dutch network operator Libertel, and its service provider Liberfone, in January 1998.

Turnover in the UK increased by 20%, principally as a result of the 20% growth in customers connected to the network, higher roaming revenues from both visitors using the UK digital network and UK customers using overseas networks and incremental turnover from service providers acquired in the previous financial year.

In Continental Europe, turnover increased by 259% to £502.5m due to the acquisition of Libertel in the year and the continuing impact of the consolidation of Panafon which was acquired in February 1997. In the Pacific Rim, turnover grew by £66.3m to £196.6m, mostly in Australia where Vodafone Network Pty's customer base grew by 99%.

Total Group [proportionate turnover](#), which reflects the Group's ownership interests in its worldwide operations, increased by 29% in the year, whilst total proportionate customers increased by 46% to 5,844,000. The increase in proportionate turnover, excluding the effects of acquisitions, was 25%. International businesses increased proportionate turnover by 54% to £1,036.1m as proportionate customers increased by 110% to 2,414,000.

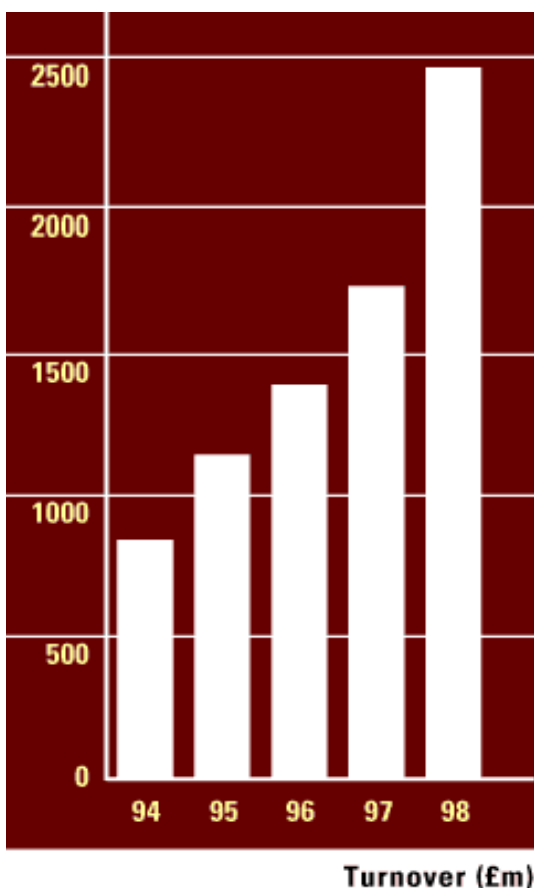
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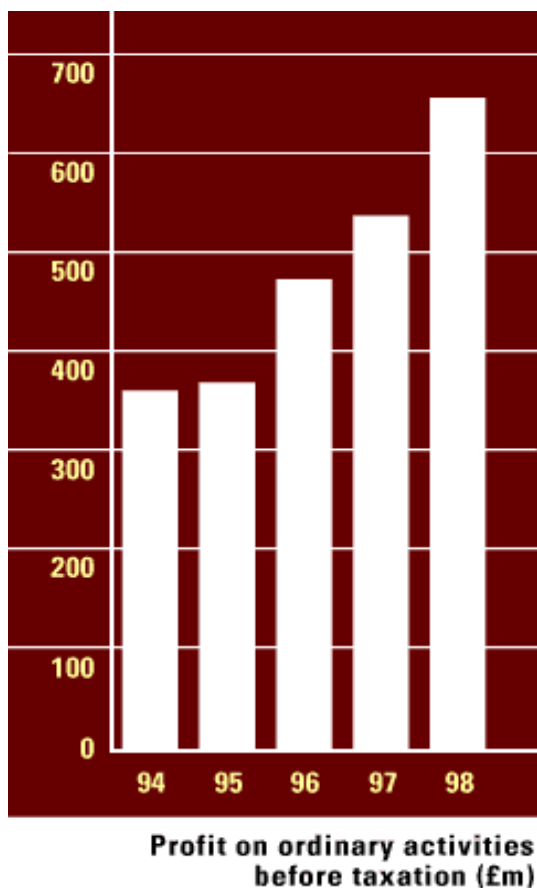
Total Group operating profit

Total Group operating profit increased by 27% to £686.4m.

In the UK, operating profit rose by 8% to £564.0m. This grew at a slower rate than turnover due to the impact of the lower margin service providers acquired in the previous financial year and exceptional costs associated with the reorganisation of the service provider businesses.

International operations made a total operating profit of £122.4m (1997 - £18.0m). The adverse impact of exchange rates on profit was £19.7m and





primarily arose as a result of the strength of sterling against the Greek drachma. The largest contribution to the advance in total operating profit was achieved in Continental Europe, which improved by £106.4m as Panafon continued to trade strongly and its results were fully consolidated for a full twelve months. Net losses in the Pacific Rim increased by £20.2m to £59.2m, primarily due to the Australian businesses. However, the network company went through break-even in January 1998 and the Australian businesses as a whole should achieve overall profitability in 1998/99. Profits increased in the Rest of the World to £43.7m as the South African businesses continued to perform strongly.

Profit on disposal of fixed assets

The profit on disposal of fixed asset investments arose from a part disposal of the Group's interest in Globalstar, the disposal of the Group's 35% stake in Pacific Link and the disposal of the Group's 16% interest in the UK service provider, Cellphones Direct.

Interest

The Group's net interest cost increased by £35.4m as borrowings increased by £436.4m to finance international acquisitions.

Taxation

The effective tax rate fell by 0.6% to 31.3% as a result of the beneficial impact of the reduction in the UK corporation tax rate from 33% to 31% offset by higher tax overseas, particularly in Greece where brought forward losses have now been fully utilised and the corporation tax rate increased by 5% to 40%. Excluding the effect of disposals, the effective tax rate fell from 33.5% to 32.5%.

Minority interests

The increase in the minority interests in profit on ordinary activities after taxation is primarily due to the impact of the inclusion of the 55% owned Greek subsidiary, Panafon, for a full twelve months.

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Future results

There are many factors which will influence the Group's future performance. These include the growth of mobile telecommunications markets, the [Group's market share](#), revenue per customer, the costs of providing and selling existing services and start up costs of new businesses. In many of the international markets where the Group operates, [cellular penetration continues to be low](#), which should enable the international businesses to grow more rapidly than the UK and make a larger contribution to Group profits.

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Balance Sheet

Fixed assets

Total fixed assets decreased by £15.1m, primarily due to the effect of increased capital expenditure being offset by goodwill written-off on acquisitions. Intangible fixed assets, which are capitalised in accordance with the Group's accounting policy, decreased by £9.8m as the cost of spectrum purchases in the Netherlands were offset by the impact of exchange rates and amortisation. Tangible fixed assets increased by £311.4m, primarily as a result of capital expenditure on digital networks in the UK, Australia and Greece together with the inclusion of the fixed assets of Libertel, the Dutch network operator, acquired in the year. The movement in investments, which includes equity investments and loans advanced to associates and other investments, is analysed [here](#).

Working capital

Working capital (excluding amounts contained within Group net debt) decreased by 2.1%, primarily as a result of an increase in creditors due within one year of £129.5m offset by a £112.9m increase in debtors. The increases are due to the growth in the business and the inclusion of working capital balances of subsidiaries acquired in the year.

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 customers.

Equity shareholders' funds decreased by £487.5m to £282.5m as retained profits of £248.5m and £74.5m of goodwill written back on the disposal of businesses were more than offset by [goodwill written-off](#) of £709.7m in respect of acquisitions made during the year and £147.2m of [currency translation adjustments](#) to the carrying value of overseas investments reflecting the strength of sterling at the year end.



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Cash flows and net borrowings

Net cash flow generated from operating activities increased by £258.5m to £886.4m and was used mainly to fund capital expenditure of £491.5m primarily to enhance and expand the digital networks in the UK, Australia and Greece, pay tax of £162.9m and finance interest and dividends of £43.4m and £124.1m respectively. Net [new investments](#) of £364.4m comprised a cash outflow of £463.6m in respect of acquisitions offset by a cash inflow of £99.2m from business disposals. Acquisitions comprise international equity investments and shareholder loans advanced and were financed principally by debt. As a result, net borrowings increased by £436.4m to £1,117.0m.

Proportionate operating cash flow, defined as operating profit plus depreciation and adjusted for working capital movements, increased to £972m, up 22%, with more than 80% of the growth being generated organically. This includes the proportional results of SFR and E-Plus as trade investments.

Future investment

The Group expects to spend approximately £700m on capital expenditure in 1998/99. About half of this expenditure will be in the UK, where capacity continues to be added to the digital network to accommodate growth in customer numbers and traffic generated by visitors. The balance will be expended on the digital networks in the Netherlands, Australia and Greece to enhance capacity and maintain a high quality of service. Investment expenditure will be in the order of £100m mainly in respect of the Egyptian consortium, Misrfone. Investments could be higher if suitable acquisition opportunities arise.

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Treasury management and policy

The Group's treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk management.

Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by the Board and are reported regularly to the Board. The Group uses a number of derivative instruments which are transacted, for risk management purposes only by specialist treasury personnel.

There has been no change during the year, or since the year end, to the major financial risks faced by the Group or to the Group's approach to the management of those risks.

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, which enables the Group to access a wide range of debt finance including Eurobonds, commercial paper and committed bank facilities. The maturities of the committed facilities available to the Group at 31 March 1998 are shown [here](#):

The Group's policy is to borrow centrally using a mixture of long term and short term loans to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are lent or contributed as equity to subsidiaries.

The Board has approved ratios consistent with those used by companies with high credit ratings for net interest cover, market capitalisation to [net debt](#) and gross cash flow to net debt, which establish internal limits for the maximum level of debt that the Group may have outstanding. Total Group interest, including that of associates, is covered 11.6 times by profits before interest and tax.

A substantial proportion of the debt maturing within one year is commercial paper, issued under the Group's £500m multi-currency Euro commercial

paper programme. The programme is fully supported by committed bank facilities that expire between 31 March 2000 and 31 March 2003.

Foreign exchange management

Foreign currency exposures on known future transactions are hedged, including those resulting from the repatriation of international dividends and loans. Forward foreign exchange contracts are the derivative instrument most used for this purpose.

The Group's policy is not to hedge its international net assets with respect to foreign currency balance sheet translation exposure since net assets represent a small proportion of the market value of the Group and international operations provide risk diversity. However, 23% of gross borrowings were denominated in currencies other than sterling in anticipation of dividend streams from profitable international operations and this provides a partial hedge against profit and loss account translation exposure.

Interest rate management

The Group's main interest rate exposure is to sterling interest rates, although there is a smaller exposure to Dutch guilders interest rates.

Under the Group's interest rate management policy, interest rates are fixed when net interest is forecast to have a significant impact on profits. Therefore, the term structure of interest rates are managed within limits approved by the Board, using derivative financial instruments such as interest rate swaps, futures and forward rate agreements.

At the end of the year, 55% of the Group's gross borrowings were fixed for a period of at least one year. A one percentage rise in market interest rates would affect profits before tax by less than one percent.

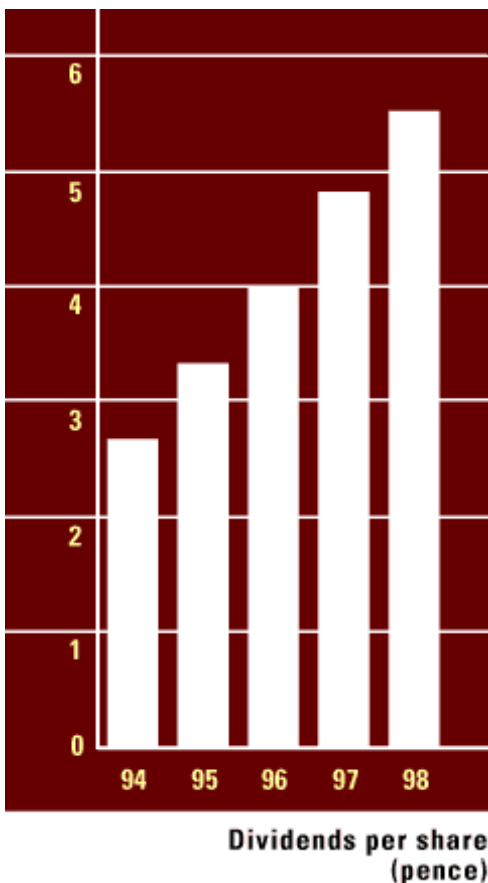
Counterparty risk management

Cash deposits and other financial instrument transactions give rise to credit risk on the amounts due from counterparties. The Group regularly monitors these risks and the credit ratings of its counterparties and, by policy, limits the aggregate credit and settlement risk it may have with any one counterparty. Whilst the Group may be exposed to credit losses in the event of non performance by these counterparties, it considers the possibility of material loss to be minimal because of these control procedures.

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Shareholder returns

Earnings per share

Earnings per share increased from 11.89p to 13.63p.

Dividends

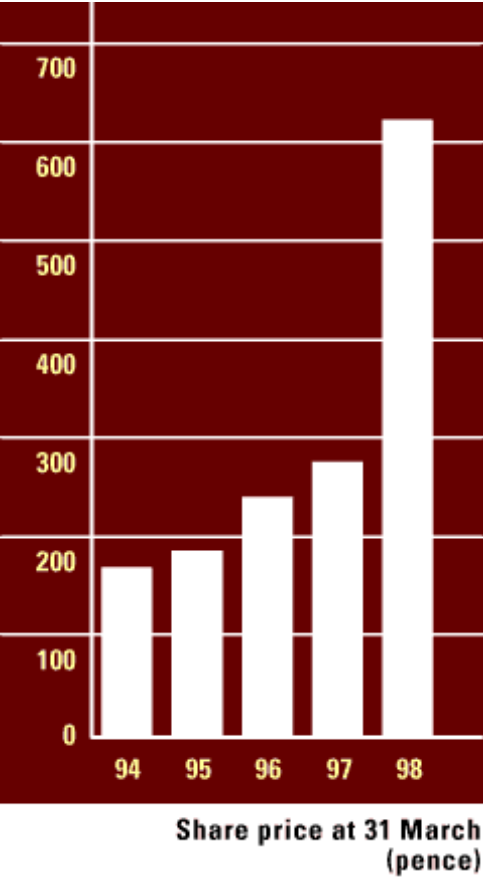
The proposed final dividend of 2.82p produces a total for the year of 5.53p, an increase of 15%, and reflects the Group's underlying profitability and liquidity. Dividend cover of 2.5 times has been maintained.

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. Annual compound growth in the share price over the five year period to 31 March 1998 was 38%.

The growth in the share price accelerated in the year to 31 March 1998, more than doubling to 624.5p. This increase reflected the general rise in equity prices, investors' re-rating of the mobile telecommunications sector and confidence in the Group's prospects

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Year 2000

The Year 2000 issue, relating to date sensitive calculations, is one which affects all companies which are reliant on computer based technologies. The Group is giving high priority to the impact of the millennium and is taking significant and positive steps to minimise the effect of the Year 2000 date change on the Group's ability to maintain its networks and to continue to provide services to customers.

Each subsidiary within the Group has implemented a Year 2000 programme which is managed through an executive steering group chaired by a director of that company and progress is regularly monitored by the Executive Committee of Vodafone Group Plc.

The Vodafone Group is operating to policies which seek to ensure that the businesses and all operations of the Vodafone Group meet the definition of Year 2000 conformity, as set out in DISC PD2000-1 "A Definition of Year 2000 Conformity Requirements" issued by the British Standards Institution, by 31 December 1998, although compliance is dependent upon suppliers meeting their targets.

The Group has incurred costs of approximately £4m in the current financial year in relation to Year 2000 compliance and is satisfied that the total future amount will not be material to the future profitability or liquidity of the Group. However, an element of the cost of Year 2000 compliance is not separately identifiable, as millennium modifications are often embodied in software purchased and developed in the normal course of business.

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Financial review

Introduction of the single European currency

The Group recognises the importance of European Monetary Union (EMU), particularly for its businesses operating in countries which are now committed to the introduction of a single European currency, the Euro. Implementation plans are in place where required and the Executive Committee of Vodafone Group Plc reviews the impact of EMU where strategic and operational matters are considered. The financial cost of preparations for EMU are not material to the Group.

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Financial review

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 Financial Reporting Standard 9 - 'Associates and Joint Ventures'. This new standard has been adopted in these financial statements and has necessitated the restatement of comparative amounts.

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

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Financial review

Going concern

After reviewing the Group's and Company's budget for 1998/99 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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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 on the [Statement of Directors](#) 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.

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.

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 1998 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
2 June 1998

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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 within the [Financial Review](#) and [Report of the Directors](#) sections 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.

Opinion

With respect to the directors' statements on [internal financial control](#) and [going concern](#), 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 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
2 June 1998

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CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 March 1998

	Note	1998 £m	1997 Restated £m
Turnover			
Continuing operations		2,408.0	1,749.0
Acquisitions		62.8	-
	1	2,470.8	1,749.0
Operating profit			
Continuing operations		620.2	495.3
Acquisitions		6.6	-
	2	626.8	495.3
Share of operating profit in associated undertakings		59.6	43.6
Total Group operating profit:			
Group and share of associated undertakings		686.4	538.9
Disposal of fixed asset investments	3	24.9	25.9
Profit on ordinary activities before interest	1	711.3	564.8
Net interest payable	4		
Group		(49.4)	(16.4)
Associated undertakings		(11.7)	(9.3)
Profit on ordinary activities before taxation		650.2	539.1
Tax on profit on ordinary activities	5	(203.2)	(171.9)
Profit on ordinary activities after taxation		447.0	367.2
Equity minority interests		(28.2)	(3.4)

Profit for the financial year		418.8	363.8
Equity dividends	<u>6</u>	(170.3)	(147.5)
Retained profit for the Group and its share of associated undertakings	<u>18</u>	248.5	216.3
Earnings per share	<u>7</u>	13.63p	11.89p

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CONSOLIDATED BALANCE SHEET at March 31 1998

	Note	1998 £m	1997 £m
Fixed assets			
Intangible assets	8	137.6	147.4
Tangible assets	9	1,571.7	1,260.3
Investments	10	202.2	518.9
		1,911.5	1,926.6
Current assets			
Stocks	11	28.9	19.7
Debtors	12	546.6	433.7
Liquid investments		0.4	10.6
Cash at bank and in hand		14.9	31.2
		590.8	495.2
Creditors: amounts falling due within one year	13	1,432.3	1,013.2
Net current liabilities		(841.5)	(518.0)
Total assets less current liabilities		1,070.0	1,408.6
Creditors: amounts falling due after more than one year	14	685.1	572.7

Provisions for liabilities and charges	<u>16</u>	5.4	7.3
		379.5	828.6
Capital and reserves			
Called up share capital	<u>17</u>	154.3	153.3
Share premium account	<u>18</u>	78.0	54.7
Capital reserve	<u>18</u>	--	4.1
Profit and loss account	<u>18</u>	50.2	557.9
Total equity shareholders' funds		282.5	770.0
Equity minority interests		73.8	34.2
Non-equity minority interests	<u>20</u>	23.2	24.4
		379.5	828.6

The financial statements were approved by the Board of directors on 2 June 1998 and were signed on its behalf by:

CC GENT Chief Executive

KJ HYDON Financial Director

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CONSOLIDATED CASH FLOW

for the year ended 31 March 1998

	Note	1998 £m	1997 Restated £m
Net cash inflow from operating activities	24	886.4	627.9
Dividends received from associated undertakings		2.9	6.0
Returns on investment and servicing of finance			
Interest received		19.2	28.8
Interest paid		(62.6)	(21.3)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(43.4)	7.5
Taxation		(162.9)	(150.1)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		(24.9)	(0.8)
Purchase of tangible fixed assets		(491.5)	(350.4)
Purchase of trade investments		-	(240.4)
Disposal of trade investment		-	4.7
Disposal of tangible fixed assets		6.7	2.8
Loans to associated undertakings		(1.3)	(46.1)
Loans repaid by associated undertakings		1.4	4.2
Net cash outflow for capital expenditure and financial investment		(509.6)	(626.0)

Acquisitions and disposals

Purchase of subsidiary undertakings	(354.0)	(122.6)
Net cash/(overdrafts) acquired with subsidiary undertakings	25.2	(77.5)
Disposal of interest in subsidiary undertaking	-	22.7
Purchase of interests in associated undertakings	(131.3)	(11.1)
Purchase of customer bases	(3.5)	(30.3)
Disposal of interests in associated undertakings	99.2	26.8

Net cash outflow for acquisitions and disposals

(364.4) (192.0)

Equity dividends paid

(124.1) (130.0)

Cash outflow before use of liquid resources and financing

(315.1) (456.7)

Management of liquid resources

Short term deposits 10.2 (7.0)

Net cash inflow/(outflow) from management of liquid resources

10.2 (7.0)

Financing

Issue of ordinary share capital	11.7	9.9
Issue of shares to minorities	3.2	5.7
Purchase of shares from minorities	(1.1)	-
Debt due within a year:		
Increase in commercial paper programme	207.8	122.1
increase/(decrease) uncommitted bank facilities	87.1	(22.3)
Debt due beyond a year:		
Increase/(decrease) in bank loans	98.8	(120.1)
Repayment of debt acquired	(114.6)	-
Issue of bond repayable in 2001	-	244.9
Issue of bond repayable in 2004	-	247.2

Net cash inflow from financing

292.9 487.4

(Decrease)/increase in cash in the year

(12.0) 23.7

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash in the year	(12.0)	23.7
Cash inflow from increase in debt	(279.1)	(471.8)
Cash (inflow)/outflow from movement in liquid resources	(10.2)	7.0

Increase in net debt resulting from cash flows

(301.3) (441.1)

Debt acquired on acquisition of subsidiary undertaking	(119.8)	-
Deferred consideration on acquisition of associated undertaking	(21.4)	-
Bond issued on acquisition of trade investment	-	(12.9)
Loan notes issued on acquisition of subsidiary undertaking	-	(20.2)
Accrued interest on discontinued financial instruments	(3.0)	(2.9)
Translation difference	9.1	4.0
<hr/>		
Increase in net debt in the year	(436.4)	(473.1)
Opening net debt	(680.6)	(207.5)
<hr/>		
Closing net debt	<u>25</u> (1,117.0)	(680.6)



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CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 1998

	1998 £m	1997 £m
Profit for the financial year	418.8	363.8
Currency translation	(147.2)	(123.2)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	271.6	240.6
	<hr/>	<hr/>

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MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

for the year ended 31 March 1998

	1998 £m	1997 £m
Profit for the financial year	418.8	363.8
Equity dividends	(170.3)	(147.5)
	248.5	216.3
Currency translation	(147.2)	(123.2)
New share capital subscribed	24.3	9.9
Goodwill written-off	(709.7)	(360.0)
Goodwill transferred to the profit and loss account in respect of business disposals	74.5	-
Scrip dividends	34.7	4.6
Other	(12.6)	0.3
	(487.5)	(252.1)
Net movement in equity shareholders' funds	(487.5)	(252.1)
Opening equity shareholders' funds	770.0	1,022.1
Closing equity shareholders' funds	282.5	770.0

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STATEMENT OF ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards, including FRS9, "Associates and Joint Ventures", which was issued by the Accounting Standards Board in November 1997. Adoption of FRS9 has necessitated the restatement of comparative data.

The particular accounting policies adopted are described below.

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 1998.

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.

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 associated undertakings, are translated into sterling at year end rates.

The results of the international 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 international 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.

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 customer 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.

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 operating profit or loss, exceptional items, interest income or expense 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. Dividend income is recognised upon receipt and interest when receivable.

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 international subsidiary and associated undertakings are remitted to the UK, except in respect of planned remittances.

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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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

	1998 £m	1997 £m
Net income as reported in accordance with UK GAAP	418.8	363.8
Items (decreasing)/increasing net income:		
Goodwill amortisation	(62.0)	(23.0)
Profit on disposal of fixed asset investments	14.5	-
Deferred income taxes	3.0	2.8
Other	(0.1)	(1.4)
Net income in accordance with US GAAP	374.2	342.2
Basic earnings per ordinary share in accordance with US GAAP	12.18p	11.18p

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Shareholders' equity

	1998 £m	1997 £m
Shareholders' equity as reported in accordance with UK GAAP	282.5	770.0
Items increasing/(decreasing) shareholders' equity:		
Goodwill - net of amortisation	1,136.7	582.5
Licence fee amortisation	(10.7)	(13.9)
Cumulative deferred income taxes	(43.3)	(72.7)
Proposed dividends	86.9	75.3
Minority interest	(7.9)	-
Other	(4.7)	(4.3)

Shareholders' equity in accordance with US GAAP	1,439.5	1,336.9
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Total assets

	1998	1997
	£m	£m
Total assets as reported in accordance with UK GAAP	2,502.3	2,421.8
Items increasing/(decreasing) total assets:		
Goodwill - net of amortisation	1,136.7	582.5
Defeased - liabilities	340.5	-
Deferred tax asset	57.0	30.9
Licence fee amortisation	(10.7)	(13.9)
Other	0.2	(2.1)
Total assets in accordance with US GAAP	4,026.0	3,019.2

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

Under UK GAAP, 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. Accordingly, goodwill is amortised over a period not exceeding 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 capitalises and amortises goodwill over the estimated period of benefit. The Group's equity in earnings of the associated undertakings for US GAAP purposes is reduced by the amortisation of such goodwill.

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 tax rates applicable to the relevant future year.

Capitalisation of interest costs

Under UK GAAP, interest on borrowing 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 accrued 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.

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.

Defeasance of liabilities

Under UK GAAP, liabilities which have been unconditionally satisfied by monetary assets placed in trust and other set off arrangements are considered to be extinguished.

Under US GAAP, non recognition of a liability is allowed only if the liability has been legally extinguished.

Earnings per ordinary share

Earnings per ordinary share are calculated by dividing net income of £374.2m and £342.2m for the years ended 31 March 1998 and 1997 respectively, by 3,073,032,493 and 3,060,400,713 which are the approximate weighted average number of ordinary shares outstanding for the years ended 31 March 1998 and 1997 respectively.

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COMPANY BALANCE SHEET at 31 March 1998

	Note	1998 £m	1997 £m
Fixed assets			
Investments	29	3,210.9	2,122.5
Current assets			
Debtors	30	529.2	24.4
Creditors: amounts falling due within one year	31	1,611.8	360.1
Net current liabilities		(1,082.6)	(335.7)
Total assets less current liabilities		2,128.3	1,786.8
Creditors: amounts falling due after more than one year	32	626.8	504.2
		1,501.5	1,282.6
Capital and reserves			
Called up share capital	17	154.3	153.3
Share premium account	18	78.0	54.7
Capital reserve		87.9	87.9
Profit and loss account	34	1,181.3	986.7

Total equity shareholders' funds	1,501.5	1,282.6
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CC GENT	Chief Executive
K J HYDON	Financial Director

2 June 1998